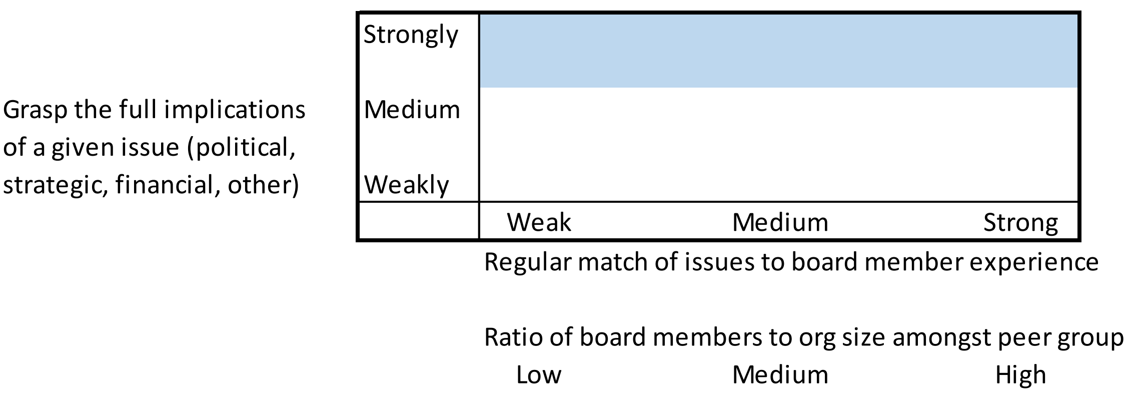
Board size and Business Flexibility (BFL)

Boards represent the strategic decision-making authority of an organisation and are ultimately accountable when things go wrong for the organisation. Effective boards have voting rights and clear lines of delegation to the executive - the senior management team running the organisation on a daily basis, typically headed up by the chief executive.

In terms of scope of responsibility, boards may range from a board of one (the reigning monarch in a nation's monarchy), to an elected parliamentary cabinet (with political party affiliation and departmental responsibility), board of directors at a company, board of trustees at a not for profit organisation. Or the board might be a simple residents association or club, with equal representation and voting rights amongst its members.

<u>Optimal Board Size?</u>
Is there an optimal size for any board? One that combines the best of all things:

- critical mass to represent a variety of views and experiences,
- commitment to actually making a collective decision,
- unity to act in the best interests of the entity being governed - avoid enduring board factions that work at cross purposes.



The impact on organisational flexibility is greatest if remain in the blue zone.
Can preserve real options, exercise options to best effect and
create flexibility for the organisation to benefit stakeholders.

Firstly, regardless of the organisational size, a voting board might be small in number (a nation's monarchy is an extreme example). But rely heavily on external/internal analysis and advice.

Alternatively, the board might be relatively large in number and turn to peer board members for their assessment. Or views, representing a stakeholder group represented. Instead of relying on external/internal analysis and advice.

Board size may be heavily influenced by **board workload**. It follows that if more organisational resources can be outsourced or automated, fewer resource decisions are needed at board level.

Likewise if the board raises the threshold for investment decisions coming to it for approval, there will be fewer decisions required. For example not every investment opportunity needs board review.

Also, if board member time becomes remunerated, it's possible to engage fewer board members doing more work without constraint.

Board size may be driven by **other factors** than board workload. For example, the types of board member background required, success planning (overlaps for a limited period). Or if some kind of regional or stakeholder group representation is needed.

In practice, boards experiment with size, growing or shrinking to find the optimal size, given the demonstrated talents of the various board members.

<u>Cognition</u>

Whether the number of board members is light or heavy, the board members need to **grasp the full implications of an issue**, in order to make a good decision, regardless of the input channels. An analogy might be the human body. Cognition and decision making are required. Regardless of the combination of five senses that are the stimulus input channels.

<u>Decision Inputs</u>

Where does the board typically get their inputs to help them grasp the implications needed to make an informed decision?

Stakeholder input is one input. This includes representing and trading off predictable stakeholder interests. It also includes studying the board papers and board presentations, with their summaries, assumptions & analysis.

Network information is another. This includes actively sourcing input from their external network on those issues, And various changes likely to impact the organisation at some future time. One example is when directors talk about 'what is the smart money doing?'

Stakeholder input and network information are frequently time critical. To elaborate, stakeholders grow impatient in their expectations. While network information dates quickly in many cases.

<u>Other Factors</u>

Apart from those inputs, what else is needed to improve cognition. And enable the board members to grasp the full implications of an issue?

A flexibility perspective. This includes both **thinking flexibly** and **considering flexibility** in the broader assessment.

Considering flexibility might include having an awareness of Plan, Options and Pace (time) flexibility. Flexiscribes and flexitypes relating to their business. And Riskflex as it applies to the organisation. It also includes considering whether one type of organisational flexibility should be converted into another.

<u>Flexibility and Optimal Board Size</u>

Lastly, is there a link between optimal flexibility for the organisation and optimal board size?

Having a strong set of flexibility measures in place and a good knowledge of how to use them may limit the need for growing the size of the board in the first place. It’s worth noting that decision making is very different under the extremes of zero flexibility, or massive flexibility. Therefore, so a smart organisation is careful to design flexibility onto its fabric from an early stage in its journey. This can involve investing flexibility in all 14 flexitypes present.

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