

Cogitare et volvere

Thoughts & Reflections

In today's knowledge-driven economy, a company's true wealth lies not just in its physical assets, but also in its intangible *Intellectual Capital*. This four-part series, dives deep into the component parts of *Intellectual Capital* (Social, Cultural, Human and Structural) and their significance for Third-Teams and their quest to understand, identify and maximise the individual and collective characteristics and attributes of directors and executives that facilitate effective governance. This final instalment explores the concept of Social Capital – the visible and invisible capital that empowers the Third-Team and fuels organisational success.

Part 1 discussed Structural Capital. Exploring the critical role of structural capital within the Third-Team. This invisible framework – your organisation's processes, systems, and knowledge base – empowers your people and fuels success. But a strong foundation is just the beginning.

Part 2 then we explored Human Capital – the tacit and explicit knowledge, that each director brings to the table, and how within the mix of intellectual capitals this individual and collective tacit and explicit knowledge and its power to transform is often overlooked.

Part 3 explored Cultural Capital – the intangible asset, embedded in shared norms, values, and behaviours, which profoundly influences how individuals and teams interact, make decisions, influence others, and ultimately achieve goals.

Part 4:

Social Capital: The Invisible Thread Binding Board Effectiveness

In the intricate tapestry of corporate governance, social capital emerges as a crucial thread that weaves together the effectiveness of boards and their impact on organisational performance. This final article explores the concept of social capital within the context of board dynamics, drawing on its interplay with cultural, human, and structural capitals to provide a comprehensive understanding of its role in shaping high-performing boards.

Understanding Social Capital in the Boardroom

Social capital can be defined as the network of relationships and resources available to individual directors and the board as a collective. It is a multifaceted construct that operates both internally and externally, influencing the board's ability to function effectively and contribute to organisational success.

The Dual Nature of Social Capital: Internal and External

Internal Social Capital refers to the relationships and resources within the board itself and between the board and the executive team. These connections form a dense network that is specific to the organisation and plays a crucial role in shaping the board's culture. High levels of Internal Social Capital are characterised by:

1. Trust and collaboration among board members
2. Enhanced teamwork and synergy
3. Consensus-driven decision-making
4. Effective utilisation of directors' expertise

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External Social Capital:

External Social Capital encompasses the directors' connections and networks outside the organisation. This form of social capital allows directors to:

1. Facilitate beneficial relationships between the organisation and external entities.
2. Access resources and opportunities for the organisation
3. Assist in director recruitment through personal networks.
4. Provide valuable contacts, especially crucial for non-profit organisations seeking sponsorships or funding.

The Interplay with Other Forms of Capital

To fully appreciate the impact of social capital, it is essential to understand its relationship with other capitals contained in Intellectual Capital that individually and collectively contribute to board effectiveness:

Human Capital:

The knowledge, skills, and expertise of individual directors constitute the board's human capital. There is a strong interdependence between human capital and internal social capital. High Internal Social Capital creates an environment where directors' talents can be effectively utilised, allowing executives to tap into the board's collective wisdom. This synergy between human capital and Internal Social Capital is crucial for knowledge sourcing, which facilitates adaptation, innovation, and replication of the acquired knowledge within the organisation.

Cultural Capital:

The Third-Teams culture is both a reflection and a product of its internal social capital. A positive Third-Team culture, characterised by trust, collaboration, synergy and open communication, is indicative of strong Internal Social Capital. This cultural capital, in turn, reinforces the Third-Teams ability to work effectively as a team and make decisions that benefit the organisation.

Structural Capital:

While not explicitly understood by many Third-Teams, structural capital - the systems, processes, and structures that enable the board to function - plays a role in facilitating social capital. For instance, the episodic nature of board meetings, a structural aspect, can impact the development and maintenance of social capital.

Challenges in Building and Maintaining Social Capital

Despite its importance, social capital faces several challenges:

1. Episodic Nature of Board Meetings: Boards typically spend limited time together, averaging less than two weeks per year. This infrequent interaction can hinder the development of strong relationships and trust among members.
2. Virtual Interactions: The shift to online meetings, as experienced during the COVID-19 pandemic, has highlighted the importance of face-to-face interactions in building and maintaining social capital. Virtual meetings can lead to diminished concentration, connectedness, and trust among board members.

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3. Fragility of Trust: As noted by Pye (2004)¹, while social capital is built by two parties, it can be destroyed by one - and not necessarily one of the original two. This underscores the delicate nature of trust and relationships within the board.

The Impact of Social Capital on Board and Organisational Performance

High Social Capital:

Boards with strong social capital, particularly internal social capital, tend to exhibit:

1. A culture of trust and collaboration
2. Synergy among board members
3. Effective utilisation of directors' expertise
4. Consensus-driven decision-making
5. Strong relationships between within and between the Third-Team
6. Enhanced knowledge sharing, which results in adaptation, innovation, and replication of the acquired knowledge for the benefit of the organisation.

Low Social Capital:

In contrast, boards with low social capital may experience:

1. Lack of synergy, trust, and confidence among members
2. Decision-making is more often settled by votes rather than consensus.
3. Conflict and distrust
4. Weak board-executive relationships
5. Underutilisation of directors' tacit knowledge
6. Diminished organisational performance.

The Unique Role of Social Capital in Non-Profit Organisations

While social capital is crucial for all types of organisations, it plays a particularly vital role in the non-profit sector. Non-profit boards often rely heavily on the external social capital of their directors to:

1. Access funding and sponsorships
2. Broaden networks and open doors to new opportunities.
3. Strengthen relationships with external organisations.
4. Obtain pro-bono professional services.

This heightened dependence on external social capital stems from the sector's reliance on charitable and government funding as primary revenue sources.

Strategies for Enhancing Social Capital

To build and maintain strong social capital, boards of both non-profit and corporate organisations may want to consider the following strategies:

¹ Pye, A. (2004). The importance of context and time for understanding board behavior. *International Studies of Management and Organisation*, 34(2), 63-89.

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1. Prioritise face-to-face interactions: While virtual meetings have their place, in-person gatherings are crucial for building trust and strengthening relationships.
2. Foster a culture of openness and trust: Encourage open dialogue, active listening, and respect for diverse perspectives.
3. Leverage directors' expertise: Create opportunities for directors to share their knowledge and skills, both within the board and with the executive team
4. Balance internal and external focus: While nurturing internal relationships, encourage directors to maintain and expand their external networks.
5. Regular behavioural governance board evaluations: Assess the board's social capital as part of regular performance evaluations to identify areas for improvement.
6. Thoughtful director selection: Consider not only the expertise but also the potential social capital contributions of any new director. Which may be either positive or negative dependent on how well the Third-Teams social capital was understood before the recruitment process began.

Conclusion

Social capital serves as an invisible yet powerful force in shaping board effectiveness and, by extension, organisational performance. Its interplay with human, cultural, and structural capitals creates a complex ecosystem that, when properly nurtured, can drive high performance and innovation within the Third-Team.

As Third-Teams navigate an increasingly complex and interconnected business landscape, the ability to build and leverage social capital will become ever more critical. By recognising the value of both internal and external social capital and implementing strategies to enhance it, Third-Teams can position themselves and their organisations for sustained success.

In the words of one CEO, the goal should be to create an environment where ideas flow freely between the board and executives, where trust is abundant, and where the collective wisdom of the board can be fully harnessed for the benefit of the organisation. Achieving this balance of social capital is not just a nice-to-have; it is a fundamental requirement for high-performing Third-Teams in today's dynamic business environment.

The concept of social capital is intrinsically linked to behavioural governance and the Third Team model, forming a triad that underpins effective board performance. Behavioural governance focuses on the human dynamics and interactions within the boardroom, which are directly influenced by and contribute to the board's social capital. The Third Team concept, which views the board and executive team as a unified entity, relies heavily on the strength of internal social capital to function effectively. By recognising the Third-Team as more than just a sum of its parts, but as a complex social system, we can better understand how social capital acts as the connective tissue that enables the Third Team to leverage its collective wisdom and expertise.

Board reviews conducted through the lens of a behavioural governance review provide a unique opportunity to assess and enhance social capital within the Third-Team. These reviews go beyond traditional evaluations of skills and experience, delving into the quality of relationships, communication patterns, and collaborative behaviours that define the board's social capital. By examining these behavioural aspects, organisations can identify gaps in their social capital and take targeted actions to strengthen it.

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Such behavioural-focused reviews can significantly impact director recruitment strategies. Instead of solely focusing on individual expertise, organisations can seek candidates who not only bring valuable skills but also possess the ability to contribute positively to the board's social capital. This might involve assessing a candidate's collaborative skills, their ability to build trust, and their potential to enhance both internal and external networks.

Furthermore, these reviews can drive Third Team performance and development by highlighting areas where social capital can be leveraged more effectively. For instance, they might reveal untapped potential in directors' external networks or identify barriers to knowledge sharing within the board. Armed with these insights, boards can implement targeted development initiatives, such as mentoring programs or network expansion strategies, to enhance their social capital.

Moreover, behavioural reviews can shed light on the dynamics between the board and executive team, a crucial aspect of the Third Team model. By assessing how social capital facilitates or hinders this relationship, organisations can take steps to foster stronger connections, improve communication, and build trust between directors and executives. This, in turn, can lead to more effective decision-making, better strategic alignment, and ultimately, improved organisational performance.

In essence, by understanding and integrating the four capitals (Social, Structural, Human and Cultural) that make up Intellectual Capital into behavioural governance practices and the Third Team model, and by utilising behaviourally focused board reviews, organisations can create a virtuous cycle. Strong Intellectual Capital enhances behavioural governance, which strengthens the Third Team, leading to more effective board reviews, which in turn informs better recruitment and development practices, further bolstering the Third-Teams Intellectual Capital. This holistic approach recognises that board effectiveness is not just about individual competencies or formal structures, but about creating a Third-Team ecosystem where trust, collaboration, and shared purpose can thrive.

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