

# SETTING THE RIGHT BOARD CULTURE

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Companies today have to adhere to a list of governance and control guidelines that are either mandatory or highly recommended as they reflect best corporate practices.

When it comes to board composition, almost all ensure their boards have an appropriate number of members, good committees and structures, members with sufficiently diverse competencies, and clear terms of reference, ethics and conflict-of-interest policies.

However, a closer look at the failures of boards at companies such as Enron, Tyco and Worldcom shows that dysfunction within the board was the catalyst for failure rather than the lack of corporate governance structures or best practices.

## IMPORTANCE OF BOARD CULTURE

In other words, simply placing competent people of goodwill around a boardroom table will not necessarily result in an effective and functioning board. The hardware around which the board is built must be accompanied by an “operating system software” that ensures openness, shared values and collegiate behaviour of board members. No matter how well-composed a board is, it needs the right board culture.

A board with a bad culture appears obvious to many directors. The factors and behaviours that determine a good culture are less obvious.

The board chair is responsible for setting the direction and tone for the board and thus has overall responsibility for orchestrating a harmonious and functioning board. Promoting a healthy board culture is not high on the priorities of most board chairs, but ignoring the necessity of it will eventually cause problems to arise.

## BOARDROOM DYNAMICS

To get board culture right, the board has to pay attention to a number of inter-personal dynamics that play out among board members, the CEO and senior management.

A key issue is the power balance between the board chair and CEO, and more broadly, between the board and management.

This requires a very clear understanding of the role and duty of care that each holds, in order to reduce conflicts which may build up mistrust. Once everyone is on the same page, all members will be able to speak openly and honestly without concern of overstepping one’s turf while focusing on the best interests of the company.

It is common that one or two members will dominate the board discussion, leaving others to disengage. In local cultures where face saving is de rigueur, board members may prefer to take up matters with the board chair “offline”. A successful board chair will be able to draw as many board members out as possible, taking as much time as required, and perhaps encouraging constructive, non-adversarial challenges of opinions.

The lack of “devil advocates” may afflict any given board, especially when the board chair or the CEO exerts strong influence on the rest of the board of directors. The risks such personalities pose arise when they mislead the rest of the board from looking more closely into issues, even to the extent of covering misdeeds. A clear way to mitigate against such risks is to encourage questions to be raised, no matter how unpleasant and to document the discussions and decisions for future reference.

## BOARD FOCUS

Another feature of undesirable board culture has to do with time management.

Often, discussions are not managed well, dragged on by indecision or lack of focus. A better way will be to set an agenda and keep discussions robust within the allocated time. The board chair plays a key role in keeping everyone focused on the issue at hand and what they are meant to achieve.

As leaders of a company, the board’s primary message about their values is sent through their actions. In the case of Enron, the board was a willing conspirator in breaking the law as board directors set their sights only on financial measures of success, growth, and achievement such as rising share price, low debt levels, and high asset values.

On the other hand, a healthy board culture strikes a balance in the values that the board supports, between financial performance on one hand and other non-financial indicators over the longer term such as diversity, safety and sustainability, and finding ways for the company to measure and do better in these areas.

## QUALITIES OF DIRECTORS

At the end of the day, boards are made up of people, and their personal qualities will enable a good board culture to emerge. These qualities should include:

- Integrity to fulfil fiduciary duties, put the organisation's interests before personal interests, and act ethically;
- Curiosity to ask questions and the courage to persist in asking or to challenge management and fellow board members where necessary;
- Interpersonal skills and the ability to work in a collegial team, to listen well and be tactful when communicating a point of view frankly;
- A genuine interest in the organisation and its business;
- The instinct for business and ability to get to the crux of the issue quickly; and
- The ability to contribute actively.

It is sometimes thought that if a group of successful people are brought together, they will, by definition, become a successful board.

The truth is somewhere in between. These talented people need the right motivation, be guided by shared values and feel they can make a real contribution in order to produce a group culture that will bring the company onto a stronger corporate governance footing. ■