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Boardroom blunders

How dynamics can bring your board unstuck and
how you can deal with it



“What brings boards and companies down is dysfunction in their social system.”

Source: Cairnes, 2003, *Boardrooms that Work*, p. 8

Topics

- Understanding of board dynamics and the signs to look for that a board is becoming dysfunctional
- The importance of board composition and leadership to a board's ability to carry out its responsibilities
- Tools that boards can use to improve boardroom dynamics

What do these organisations have in common?

Commonwealth Bank



National Australia Bank



TOSHIBA

LEHMAN BROTHERS

AMP



tyco





What the Banking Royal Commission can teach us

Board dynamics

- Although each board will have its own dynamics, the Royal Commission has highlighted the need for each director to bring their own inquiring mind to the issues before them
- While the chair's role is pivotal in allowing the board to operate effectively, other directors should not stay silent where they have concerns
- All directors can potentially incur legal liability, and so must feel empowered to speak up, even when doing so might be uncomfortable
 - To mitigate against the risk of 'group-think' and
 - To prevent the chair or any other directors from dominating the discussion



Board dynamics

What makes up a high performance team?

- They share a common purpose/goals
- Relationships are based on trust and respect
- Members are involved in clear problem-solving and decision-making procedures
- They respect and understand each others' diversity
- Team goals are emphasised and supported
- They communicate effectively
- They practice effective dialogue instead of debate
- They identify and resolve group conflicts
- They practice continuous improvement



The board as a team

- Boards may not automatically be thought of as ‘teams’, but
 - A team is any group of individuals who must interact with each other to accomplish common goals
- All teams are groups, but not all groups are teams
 - Team members have to depend on and support one another to accomplish shared objectives
- Ideally, the board and senior management combined form the organisation’s leadership team
 - The board governs
 - The management team runs the organisation on a day-to-day basis

Research findings

- Findings indicate strong evidence that:
 - The ‘cultural intelligence’ of individual directors, or their predisposition to working well in teams, is critical in generating high-quality team dynamics
 - The quality of board-level team dynamics is highly correlated with firm profitability
 - Boards that are able to function effectively as a team have 800% greater impact on firm profitability than any one well-qualified board director – in other words, the whole is greater than the sum of its parts

Source: Charas, 2014, ‘The Key to a Better Board: Team Dynamics’,
Harvard Business Review



A dramatic landscape with a dark, stormy sky and a golden field. The sky is filled with heavy, dark clouds, and the field is a mix of golden and brown tones, suggesting a late autumn or winter scene. The overall mood is somber and intense.

What are some of signs of
boardroom dysfunction?

Group and individual behaviours



Common group behaviours

Groupthink
Abilene paradox
Social loafing
Impression management



Individual behaviours

Cognitive biases

- Anchoring
- Maintaining the status quo
- Overconfidence
- Sunk costs
- Confirming evidence
- Framing
- Non-rational escalation of commitment

Motivational biases

- Satisficing

We know what we are doing...

They think it's a good idea...

I'm with the chair...

I am not saying a thing...

Go for it...

Worth the risk...

All for one...

I wonder if they know about...

'All those in favour say aye.' 'Aye' 'Aye' 'Aye' 'Aye' 'Aye'

10 questions to ask

1. Is the chair's leadership style effective?

2. Do the chair and CEO have a good working relationship?

3. Do the chair and CEO understand their respective roles?

4. Does the CEO encourage contribution from the board?

5. Is the relationship between directors and managers a constructive one?

6. Are there agreed procedures for contact between management and directors outside board meetings?

7. Can individual directors raise issues for discussion without difficulty – in other words, is dissent allowed?

8. Do directors express their views to each other and to management in ways that are constructive?

9. Having reached decisions, are directors cohesive in supporting the board's decisions?

10. Is bad news communicated quickly and openly by management to the board?

What makes a great board?



The importance of a good chair

- The chair's style and leadership within the boardroom plays a crucial role in establishing board behavioural dynamics
- Positive chair leadership behaviours include:
 - Stimulating discussion by
 - Encouraging involvement
 - Searching out different points of view
 - Ensuring there is no such thing as 'a dumb question'
 - Ensuring the board's culture encourages follow-up questions
 - Encouraging dissenting views within a framework of constructive debate
 - Building real consensus while avoiding the pressures towards groupthink



Change agents

- Depending on the issue, the change agent may be:
 - Chair
 - Board member(s)
 - CEO and senior management
 - Governance professional

What can directors do?

- Admit there is a problem
- Discuss the situation with other board members
 - Be aware that the support of other directors may evaporate in the boardroom, so be sure of it before you approach the chair
- Bring it up with the chair – this is best done in a more formal setting when you have the backing of other directors, e.g. in camera session before the board meeting
- If the chair or directors are unwilling to change, resignation may be the only option

A row of six office chairs is shown against a light gray background. The chairs are arranged in a line, with the central chair being a vibrant red, while the other five chairs are black. The chairs have a modern, ergonomic design with adjustable seats and backs, and five-star bases with casters. The text "The chair" is overlaid in white, with the 'T' and 'h' of "The" partially overlapping the red chair. A vertical white line is positioned to the left of the red chair.

The chair

Ten factors that make a great chair

Works well with the CEO

Achieves openness and transparency in the boardroom

Works continuously to improve board performance

Runs a flexible process

Has an open leadership style

Was not the previous CEO

Has broadly based experience

Prepares for the role

Is personally accountable for board performance

Balances regulation and strategy



What doesn't make a great chair?

- Micro-manages, e.g. chair overruling CEO decisions, chair involvement in junior level position selection process
- Dominating boardroom discussion
- Allows meeting discussion to go on endlessly
- Not knowing the boundaries between the chair position and that of the CEO
- Allows board to be a rubber stamp for the CEO
- Demonstrates poor commitment
- Allows conflict to go unresolved
- Censors information provided to the board
- Allows board performance to go unchecked
- Demonstrates 'Do What I Say, Not What I Do Approach' to leadership

Inclusive chairing

To ensure directors remain engaged and feel valued, chairs must ensure:

- Directors know what the chair brings to the board
- Directors know what other directors bring to the board
- Directors know each others' limitations

Techniques chairs can use include:

- Calling on directors
- Polling the board
- Having pre-meeting conversations



To be effective, chairs must recognize that they are not commanders but facilitators. Their role is to create the conditions under which the directors can have productive group discussions. Good chairs recognize that they are not first among equals. They are just the people responsible for making everyone on their boards a good director.

Source: Shekshnia, 2018, 'How to Be a Good Board Chair', *Harvard Business Review*





Tools

Tools for better boardroom dynamics

Director recruitment

Skills analysis

Policy framework



Board evaluation

Director induction
and development

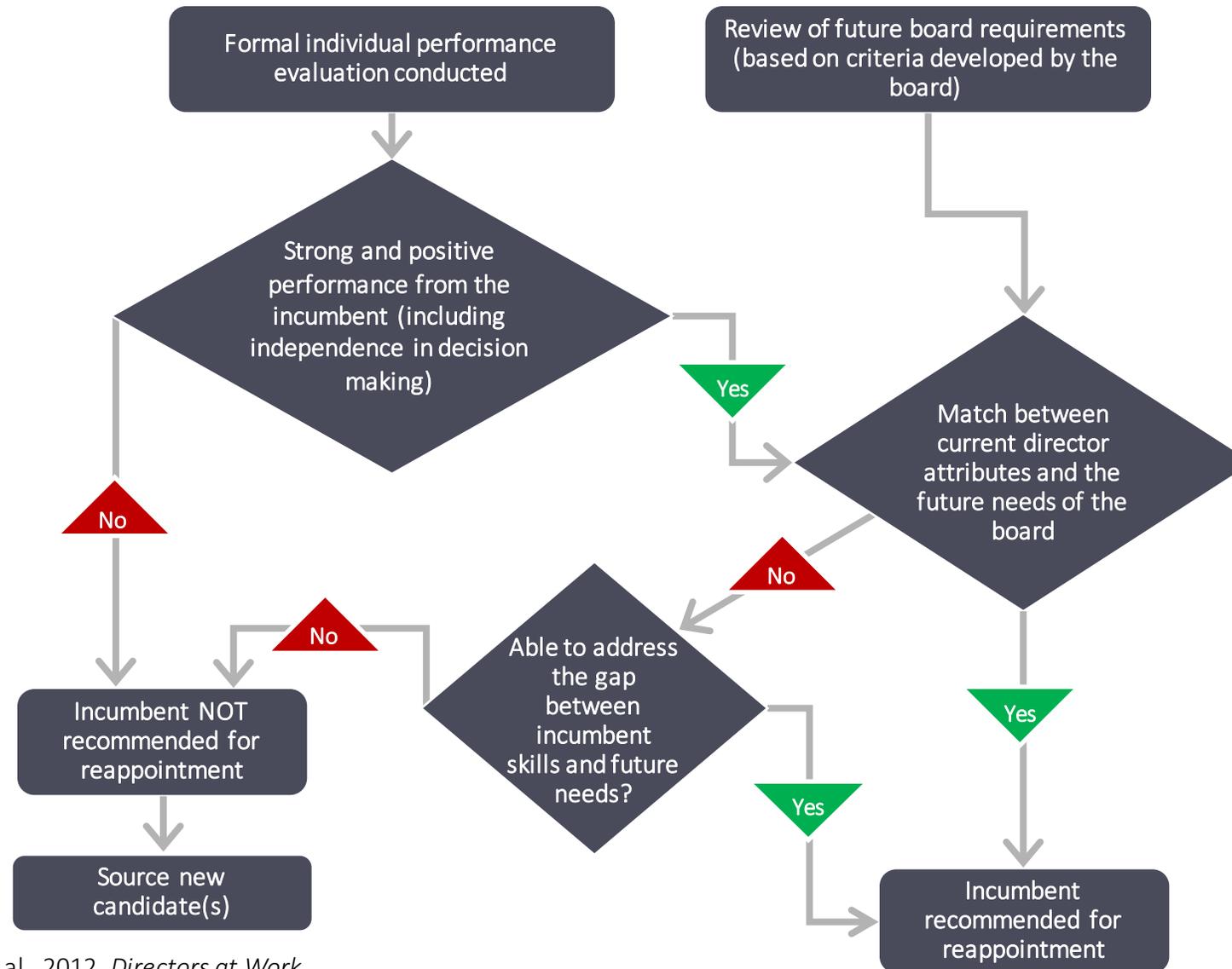
Board processes

Director recruitment

- Balancing the board:
 - Skills and competencies
 - Non-executive/executive
 - Age
 - Gender
- When recruiting directors, if possible:
 - screen for behavioural predisposition; and
 - compare to the current board profile established through skills analysis
- Behavioural profiles should be an important consideration if the board is seeking to improve its dynamics and overall performance

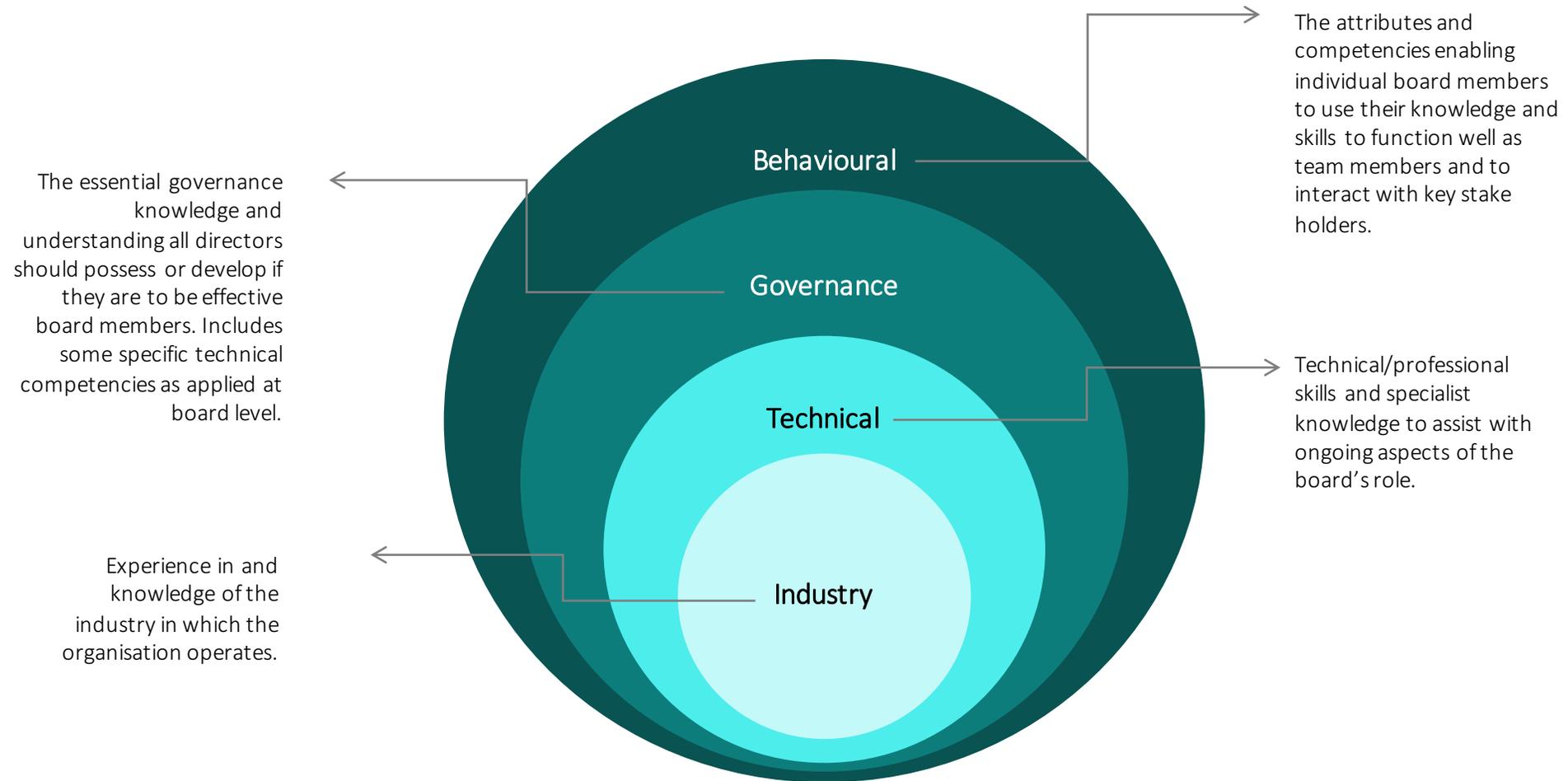


Reviewing reappointment to the board



Source: Kiel, et al., 2012, *Directors at Work*

Board competencies



Source: GC Kiel et al., 2012, *Directors at work: a practical guide for boards*, Sydney: Thomson Reuters.

Policy framework

- The board's responsibility for the policy framework enables it to shape both board and organisational behaviours
- Key policy documentation
 - Board charter
 - Code of conduct
 - Director selection policy
 - Director position description
 - Diversity policy

Codes of conduct

Organisational codes of conduct should include:

- Statement of support from the board and CEO
 - Underlying values
 - Objectives
 - Scope and application
- Legal obligations
- Responsibilities to the organisation
- Ethical behaviour
- Conflict of interest
- Company assets
- Compliance
- Conduct
- Stakeholder relationships

The board's code of conduct:

- Describes the expectations of board members in relation to behaviour, culture, values and ethical standards
- Supplements the organisational code of conduct
- Provides a reference to which directors can refer if they believe certain behaviours are dysfunctional

Benefits of board evaluations

An effective board review can:

- Improve the effectiveness of the board to achieve objectives
- Identify any issues for improvement
- Clarify individual and group roles
- Assist team building among board members
- Improve relationships between the board and management
- Improve organisational performance

Individual director assessment

Well-conducted individual director assessments can:

- make sure that every director is pulling their weight
- way to addressing any interpersonal or behavioural issues which can impact on board dynamics and effectiveness if not nipped in the bud early

Director induction

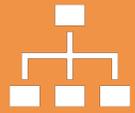


It is important for a board to establish a system of induction that familiarises the new director with both the duties of the position and the operations of the firm



The time of induction is also a good opportunity to encourage director development and introduce the idea of performance evaluation as part of board process

Director development



A commitment to ongoing director development is a commitment to the continuing improvement of the organisation as a whole



Boards can address gaps uncovered in board evaluations through targeted director development programs



Director development is enhanced by providing appropriate mentoring and support for board members when they join the board

Importance of effective meeting processes

- Unmanaged meetings result in:
 - Wasted time
 - Frustration
 - General dread of attending meetings
- Productive meetings are the responsibility of everyone, not just the chair
- Meetings will be more productive with effective processes



Some practical tips around meeting processes

- Encourage director input on board processes
- Use a strategic agenda
- Be clear about the type and format of information the board expects from management
- Keep detailed minutes



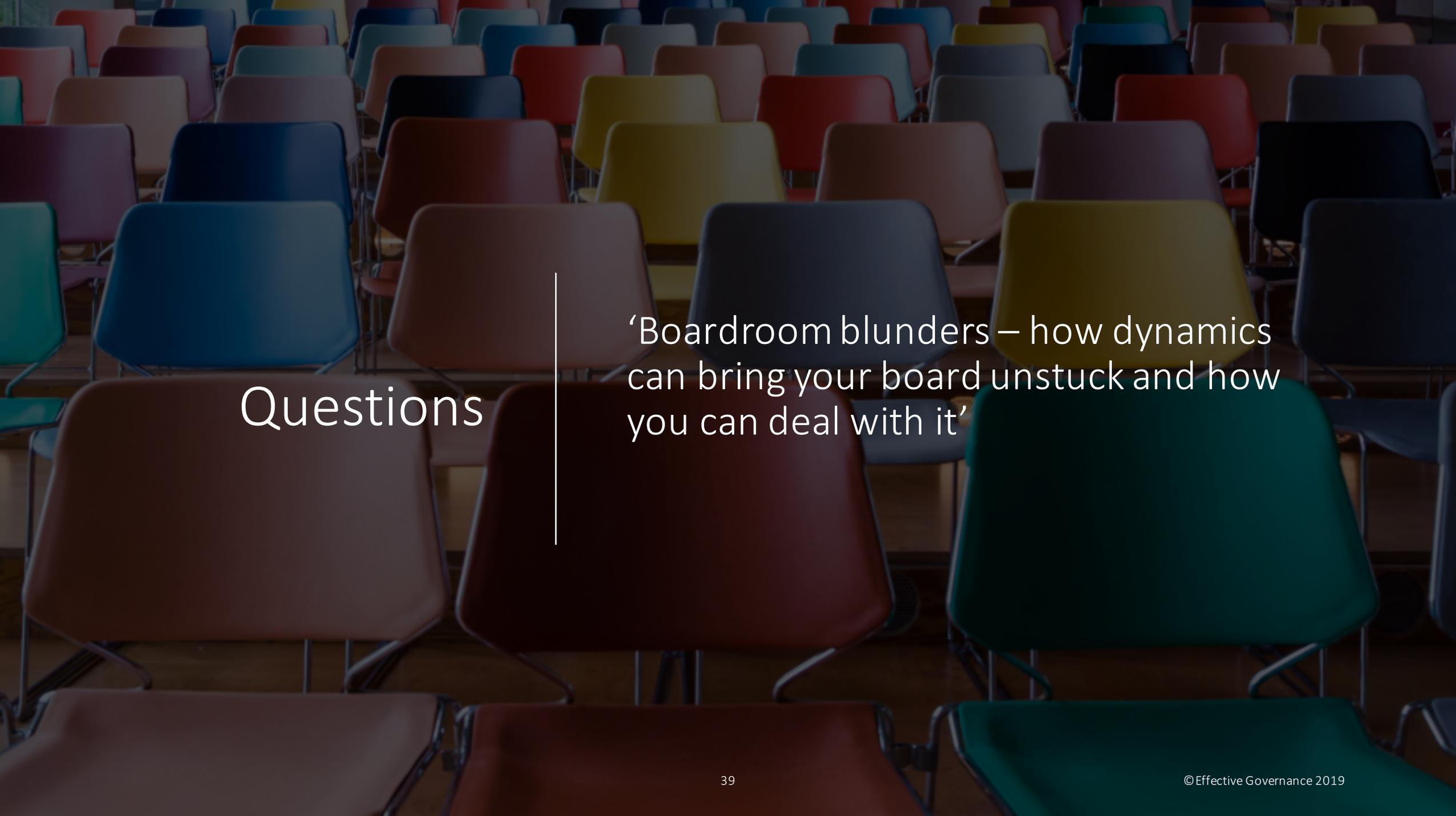


Summary



Summary: What do boards need to be successful?

- Fundamental elements that have been shown to increase the ability of boards to function most effectively:
 - Clearly articulated roles, responsibilities, and relationship to CEO
 - Consistent process to select the best person as chair
 - Process to manage internal board conflicts
 - Method to ensure board meetings are effective and productive
 - A director recruitment process that results in high quality and diverse directors
 - A method to assess the performance of the board
 - The right committees and the right board members serving on those committees
 - Clear articulation of how the board adds value to the organisation



Questions

‘Boardroom blunders – how dynamics can bring your board unstuck and how you can deal with it’

A collection of unlit incandescent light bulbs scattered on a dark blue background. The bulbs are arranged in a circular pattern around the central text. The lighting is soft, highlighting the glass and metal components of the bulbs.

Thank you

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