INDIVIDUAL STYLE, TEAM MENTALITY

Boards are powerful institutions, but they can be hampered or hindered quite easily if their members do not work together constructively, says **Gerry Brown**

For a long time I have advocated the importance of independent directors and the vital role they play in ensuring that boards function effectively. But the directors on an executive board need to know how best to come together if they are to provide a worthy function for the businesses they work with.

WHAT COULD GO WRONG?

The worst things that can happen to an executive board - assuming no criminality - are either a breakdown in relationships that leads to the board fragmenting into factions, or a descent into collective complacency and inaction. Either can be equally disastrous, leading the board to take its eye off the ball and make mistakes.

Failures of this sort are usually the result of some sort of underlying tension or pressure. Breakdowns in relationships often stem from tensions between members of the board. In *The Future of Boards* Jay Lorsch describes six tensions and how they arise:

1. Social cohesion: all boards need some social cohesion to enable them to work together, but too much is definitely a bad thing. Social cohesion can pressure people into conforming with the majority point of view. Some non-conformity, usually some degree of irritant, is still required.

2. Dissension: on the other side of the coin, if there is too much dissension, the board can quickly disintegrate into infighting and chaos.

3. Psychological safety: too much safety and there is a tendency to forget the need for accountability. Boards should be encouraged towards creative thinking, albeit with the important caveat that an element of realism is still needed too.

4. Collectivist-feelings: it is critical to create a balance between operating and feeling that you function as an effective, cohesive group while still valuing individual contributions.

5. Diversity of thought: boards need diversity in order to help them overcome the tendency towards excessive social cohesion. It can be of real benefit for a board to have people from different backgrounds offering different points of view. However, diversity cannot get in the way of effective decision-making. There must be a mechanism for reconciling different points of view and achieving a rational consensus.

6. Strong leader: the board is a team, and every member of the team must be encouraged to contribute. Encouraging people to speak up and make contributions is one of the important roles of the chairman. However, it can be difficult for some executive directors to speak freely in front of the CEO – especially if their honest view clashes with that of their boss. Leaders, especially CEOs, need to sublimate their own egos to a degree if the board is to be properly effective.

Many, if not all, of these tensions are present, or potentially present, in most board relationships and need to be managed. There is no perfect solution, and the balance will change depending once again on the composition of the board and the pressures the business faces. Board members need to manage a series of trade-offs in order to keep the

right balance in all six cases. If they fail, the board runs the risk of one or more of the following eight pathologies manifesting itself:

- excessive conformity, or groupthink;
- negative group conflict, or factionalism based on differences either in basic values and beliefs, or in personalities;
- politicking, or people manipulating others in order to acquire more personal power. This can be a defensive mechanism if the power-seekers perceive that their own position is under threat;
- habitual routines, or "that's the way we do things around here". People become ingrained in certain practices and actions, and cannot or will not change, even if a threat emerges;
- shared information bias, or "we know what we need to know". This concentrates on knowledge that is already known and shared among the

group, and does not seek to look any further and find out if anyone else has any further information to bring to the table;
- pluralistic ignorance, where people have important opinions and views but will not voice them because they fear to be seen differing from their colleagues – the "ignorance" results once again from a failure to share knowledge;
- social loafing, where people work less hard when part of a team than when on their own. On boards this manifests itself in a "why should I get involved? Someone else will do it" mentality; and
- group polarisation, where members of the group encourage each other towards more extreme thinking. Those members who have doubts are encouraged to set them to one side. The collective decision, which is finally reached, is thus more risky than any of

the group's members would have made if left on their own. When boards fail, corporate governance breaks down and the company is at risk.

BEST PRACTICE FOR BOARDS

I have some simple best practice rules I believe are essential to follow if boards are to function effectively.

Boards must be of a suitable size and diversity. Asking how large a board should be is a bit like asking how long is a piece of string – but there are some rules to follow. First, the board should not be too large; it needs enough members to cover all the tasks that the board faces, but there should not be any supernumeraries. Secondly, there needs to be a balance of executive and independent directors. Executive directors need the advice, contacts, scrutiny and questions that independent directors bring, but

they should not feel swamped by these.

On diversity, the issue is much more clear-cut. Boards should be diverse. This is partly to avoid the drift towards groupthink and conformity, but it is also a matter of common sense. Vastly experienced headhunter Peter Waine maintains that "three-quarters of the useful experience of a good independent director is generalist skills; sector experience is only the bottom quarter". A diverse board, a team of all the talents, can work together in a much more creative and exciting fashion to create and deliver a sound strategy. Diversity is essential.

Board members must contribute to every aspect of the board's work. Board members should be energetic, inquisitive and attentive. They should be prepared to devote sufficient time to carrying out their duties, not just attending board meetings. They should be well informed about developments in their sector. Their ability to contribute depends on the culture of the board itself and whether the executive and independent directors work well together. "It is easy for executives to keep non-executives in the dark if they want to," warns Waine. "It is up to the chairman to create a climate where everyone can make a contribution."

Boards must have strong leadership. In the UK, this means a strong independent chairman who is both an able diplomat and a superb organiser. He or she should also know the business very thoroughly. There is some discussion as to whether the chairman should be a sector specialist, especially in very technical and complex industries. There are arguments both ways, but I would add that what matters is the ability to learn quickly what the company is/was and how it worked. Crispin Simon, ex-CEO at Biocompatibles, agrees. "I take the view that the chairman should be more detached and work to bring out other people's views rather than expressing their own," he says. "You could even argue that sector experience is a disadvantage, because you cannot help yourself from having views."

Boards must have effective and functioning committees. Committees take the strain off the main board by dealing with specialised issues such as audit, remuneration, quality, safety and so on. Their members must have at least a certain level of technical expertise in their particular subject; for example, it is mandatory that the chairman of the

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audit committee should be a qualified accountant.

Directors must be clear about their roles. Board members need to be clear about their individual roles and responsibilities. They need to be aware of the areas of expertise that they bring to the board, but also of the areas that others bring. Importantly, too, independent directors need to understand the roles and responsibilities of executive directors.

The board should evaluate its own performance. Evaluation of the board as a whole and its individual members should be undertaken on a regular basis using individual consultants, and feedback should be used to improve performance. Board evaluation shouldn't just be a box-ticking exercise designed to result in little real change - it should always result in an action plan to improve board effectiveness. ●
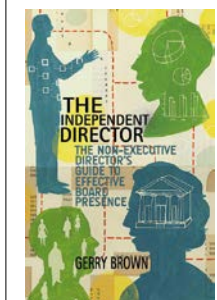
Gerry Brown,
author of *The Independent Director: The Non-Executive Director's Guide to Effective Board Presence*