

# Boardroom Behaviour and Governance

It is often said that common sense is not all that common. In this issue of *Governance Matters* we will be addressing the challenging area of boardroom behaviours, where common sense is expected in principle but at times may be difficult to discern in practice. I have often said, “An organization can have the world’s best governance in terms of structure and documentation, yet the board can be utterly dysfunctional in how it operates.”

And so, in this issue we will explore these main questions:

1. What are the symptoms of good and bad boardroom behaviour?
2. What are some causes of dysfunction in the boardroom?
3. What can be done about improving behaviour in the boardroom?
4. What can co-ops and credit unions do to attract the optimal mix of directors at board elections?
5. What are some tools and resources that can help boards improve boardroom behaviours?

Strong behavioural governance can make all the difference. For example, when a CEO and Board Chair have a high level of trust and mutual confidence, they are more likely to share “clouds on the horizon” with each other sooner and more openly, and to work together to avoid performance lapses. And when individual board members are able to speak out forthrightly and constructively, yet in a healthy skeptical and challenging way without fear of retribution or emotional reactions, better decisions are made in the long-term interests of the co-operative.

## Boardroom Behaviour and Governance

Boardroom dynamics can be viewed as the interplay between three aspects of governance: structure, culture, and behaviours.

1. Governance **structure** is concerned primarily with the process and task of the board — the system of direction and control of the organization. A lot of focus has been placed here in this era of governance reformation. And, a good governance structure is a necessary foundation to excellence in the boardroom.

2. Governance **culture** deals with the context of the boardroom power structures. Every board has a set of unspoken and unwritten norms — and this cultural context is king. These norms may not be articulated but they exist none-the-less. For example, some are highly bureaucratic in the way they approach decision making — driven by rules and policy. Others may be quite relaxed and casual and driven by relational dynamics between directors. Some boards have a strong leader who sets a hierarchical tone. Some may focus heavily on process, while others may place primarily focus on results over process. Some may behave very much like a family while others could be highly business-like. Every director on the board knows what the cultural expectations of them are, and if they don’t, they will soon learn. After just a meeting or two the new director will understand how to “fit in” with the culture.

It is in the cultural context that a board must take care not to fall into a pattern of “groupthink.” Groupthink means following a herd mentality: when a critical mass of vocal leaders on the board decide on something, the rest of the group follows for the sake of being accepted as part of the group. A good example of this is the recent crisis in mortgage lending (sub-prime market) — a small number of vocal lenders managed to “sell” the market on what was clearly imprudent lending practices, without being challenged sufficiently by those responsible for governance. The longer directors work together on the same board, the more likely they are to engage in groupthink. This means they will be less likely to generate questions that could risk breaking the cohesiveness of the group. It is not a bad thing to have cultural norms in your boardroom (see Figure 1) it is only a negative if those norms keep directors from exercising their direction and control responsibilities.

3. Governance **behaviour**, including director competence, is the third governance dynamic at play in the boardroom. This has to do with:

- who is on the board,
- the skills and experience sets of the directors as a collective and individually,
- the character and personal behavioural style of directors, and
- the character and competence match of those directors with the strategic direction of the organization.

While many label personality traits, attitude, social graces, and other issues surrounding personal behaviour as the “soft skills,” in our experience these are by far the “harder skills” when it comes to trying to improve them. As directors fulfill their roles and responsibilities there is a constant “bumping up” against the “bright line” between board and management. By “bright line”, we mean that governance reform argues that boards and management should agree on who is responsible for what, and draw a clear delineation between the two of them, ensuring that critical matters neither “fall between the cracks” nor are the subject of conflict/overlap. And it is on these edges where we see most of the friction. When governance structure fails and the bright line is breached (either by the board or by management) this is where behavioural strengths and weaknesses show.

For example, if directors constantly get into micro-management, managers usually either will get discouraged and disempowered, or will begin to withhold critical information from the directors to keep them out of operations (this is sometimes referred to as “agenda management.”)

Examples of “Soft Skills”

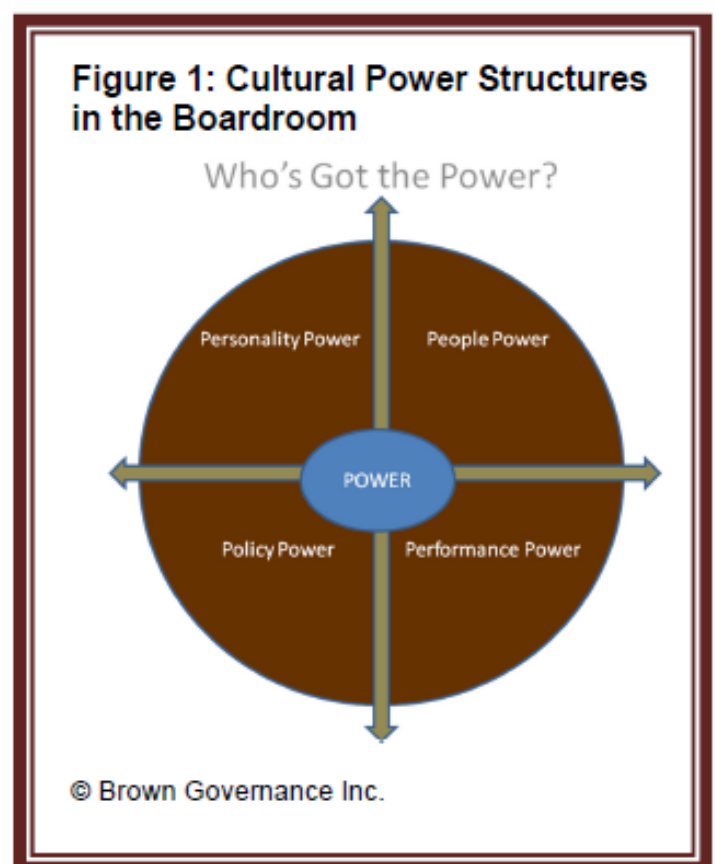
- Sense of personal responsibility and self-management
- Self-esteem
- Integrity and honesty
- Sociability and interpersonal skills
- Emotional maturity
- Team player
- Servant leadership
- Personal habits
- Attitude
- Ability to work with other genders and cultures

In the boardroom strength in the soft skills is a necessary complement to the hard skills of directorship — the technical requirements of the job.

### What are the symptoms of good and bad boardroom behaviour?

Good behaviour in the board room is fairly easy to recognize. Directors will exhibit the behaviours outlined in the text box above and below. For example, they will:

- take personal responsibility for their actions and decisions,
- have a strong sense of self-esteem and confidence while remaining humble,
- interact with others and make decisions with integrity and honesty,
- be in control of their emotions and personal habits,
- have attitudes that are helpful, productive and constructive,
- champion board decisions, whether originally in favour or not,
- consistently demonstrate discretion, confidentiality, unity and responsibility,



- will not fail to challenge management, but will do so in a way that is constructive and respectful
- be trustworthy ... and they will ...
- trust — but verify.

Bad behaviour in the boardroom is just as easy to recognize as the good. The following are examples of behaviours that often raise their ugly head in the boardroom. Directors will:

- make excuses for a myriad of things (missing meetings or being late, not being prepared, going over the board/management line, behaving badly, losing their temper, etc.),
- be preoccupied with themselves, their compensation, their pet peeves and interests, their perspective
- easily take offense,
- become defensive if their position, point of view, perspective is challenged in any way,
- attempt to manipulate others in order to get their way,
- keep score in order for them to “win,” rather than ensuring a “win” for the organization,
- blame others for their own failures,
- deal poorly with conflict by acting out emotionally (anger, frustration, crying, threatening, accusing, blaming, etc.),
- criticizing anything that is not what they want,
- act differently outside the boardroom than inside (e.g. speaking against board or management decisions and strategies with members, delegates, or in the community),
- become easily stressed by the small things and be unable to see the bigger picture, and they will ...
- experience difficulty listening to others, preferring to hear their own voice above all others.

### What are some of the causes of dysfunction?

There are many causes of dysfunction in the boardroom. In our experience, the top five are:

**1. Boards are often comprised of senior leaders and entrepreneurs.** Herein lies the challenge — senior leaders and entrepreneurs are used to leading the team — not being an equal member of it. In their day jobs they make the decisions and call the shots — and, they have access to a very granular amount of information in order to inform those decisions. Boards however make decisions as a collective — with a higher level of information. It is a little like the difference between being a parent and a grandparent. As a parent we are responsible for the day-to-day, hands-on raising of our children. Grandparents however provide a higher level of oversight and interaction. Ensuring a very clear, agreed upon line between board and management responsibilities will go a long way to solving this type of problem.

**2. Lack of appropriate governance education.** A lot of board members have no experience on other boards or running complex businesses, and have been “tagged” to serve voluntarily out of a desire to serve the community. They are elected to boards and are expected to know what to do. They receive a binder of information and are set loose. They are not given any orientation to the organization or training in the role of a director. They jump in with both feet and do the best they can with what they have. Conversely, some are sent to rigorous training programs, conferences and seminars and are hit with a fire hose of information. They assume that one size fits all and attempt to apply every “best practice” they hear about to their situation. In truth, a “best practice” in governance is only “best” if it is “best” for your situation. There are no single right answers in governance, but there are definitely some wrong ones. Governance education should be applied to the situation at hand if you want to be sure the degree and type of governance education leads to functional boardroom behaviour.

**3. Serving on the board for the wrong reasons.** Many of the reasons directors agree to sit on board are not the appropriate ones. Some examples are: no one else would do it; pride (people will think more of me if I am on a board); a desire to control the organization for personal reasons; in order to drive the agenda of one of the organization’s stakeholder groups, etc. As Anne Fawcett of Caldwell Partners International says, “The surest way NOT to get invited to sit on a board is to show an interest: in other words there are selfish reasons showing through.” In order to avoid this contributor to boardroom dysfunction, prospective

directors should be encouraged to have an honest conversation with themselves about their motives for accepting a particular board position in order to ensure they are doing it for the right reasons.

4. **A weak Chair.** The strong, competent and mature chair is central to a functional board. Without the wise guiding hand of a capable chair boards can quickly slide into dysfunction, engage in power struggles, and lose their focus on the oversight of the organization. Again, some individuals agree to chair the board for reasons other than calling and competence. This is a recipe for disaster. When appointing the board chair, boards should be sure the individual has:

- a productive relationship with the CEO,
- the competence to lead the board,
- the respect of the board and management, and
- a personal sense of calling to the role.

5. **Emotional immaturity.** Of the reasons for boardroom dysfunction, emotional immaturity is by far the hardest to do anything about. Many of the immature behaviours we see acted out in the boardroom have been with the individuals since childhood. Manipulation, anger, blame, control, selfishness, excuse-making, etc., are deeply engrained habits that are difficult to break. The most effective mechanisms for attempting to move directors up the maturity scale are candid, one-on-one conversations initiated by the chair and confidential self and peer reviews.

### **What can be done about improving behaviour in the boardroom?**

#### **WHAT CAN YOU DO PROACTIVELY?**

There are a number of strategies an organization can use to help improve the behaviour of directors as individuals and as a collective. Some of those are:

- “Recruit for character and train for competence.” Often boards approach nominating board candidates the other way around — they look for existing competence in specific skills during the nominating process, and then try to shape character once the AGM has elected them. A director can be highly skilled in a particular competence yet poor in character and behaviour. And, it is possible to train a director in the skills necessary for a board position — it is next to impossible to train for character once someone is already on your board.
- Ensure a governance structure that will facilitate behaviour and character aspects in the nominating process. This means providing prospective directors and nominating committees with clear expectations around boardroom behaviours in addition to specifics about the roles and responsibilities of a director.
- Make sure behaviour and character are incorporated in the annual evaluation process. Most boards today, including in the co-op sector undergo an annual evaluation process. Placing questions in the evaluation regarding boardroom behaviour, relationships and aspects of character will help to shine light on these problems in your boardroom and provide a mechanism for beginning a dialogue about how to resolve them.
- Make sure a portion of the board’s training budget is spent on soft skills — not just on “hard” structural and process skills.
- Educate members, delegates, prospective and existing directors on the behavioural expectations of directorship. This includes ensuring these elements are included in the terms of reference for directors.
- Determine an optimal competency and behavioural mix for your board.
- Use tools to determine the character and behaviour of prospective and existing directors. There are a variety of these types of tools available in the marketplace. (See below: What are some tools and resources that can help boards improve boardroom behaviour?)

## **What are the steps to take in dealing with problem directors?**

Dealing with problem directors can be both challenging and stressful. There are however, some practical steps that board can take. The following highlights the main steps:

### **1. A board can “live with it.”**

- Try to ignore bad behaviour at meetings - there are times that though the behaviour of others may not be completely appropriate, we simply need to look past the behaviour and focus on the work of the board.
- Wait until terms are up and hope certain directors don't get re-elected — in the co-operative and credit union systems where directors are elected by the membership, sometimes you “get who you get” and unless the director is having a negative impact on the organization itself, the board may have to make the most of a difficult director or situation until such time as they are not reelected.
- Set maximum term limits and ride it out — while this is not the optimal approach for dealing with difficult behavioural issues, it is an approach that is commonly cited.
- Set age (retirement) limits — again, this is not an optimal approach to board renewal, but has been used to some effect.
- Go around the director: put sensitive items on a committee agenda, or just deal with them on the management team.
- The approach of “living with it” can work if the problems are minor in nature.

### **2. A board (led by the Chair) can confront it.**

- Ensure the Chair meets with the director(s) creating the problems.
- Ensure the vice-chair steps up and confronts the Chair if he/she is the problem.
- Have other directors pressure the chair to deal with problem directors.
- This approach can work if the director is both willing and able to change — if not then more serious steps will need to be taken.

### **3. A board can embark on a process of remediation.**

- Provide training programs (structural and behavioural).
- Provide coaching (individual &/or board).
- Bring in outside help: co-op's lawyer, governance expert, experienced board member.
- This approach can work if the director(s) are willing to change but needs to learn how.

### **4. A board can seek the resignation of the problem director(s).**

- Underperforming or disruptive directors can be asked to tender their resignation.
- This can be accomplished either voluntarily (preferably), or under pressure.
- This approach can work if the director is unwilling or unable to change, but wishes to preserve their reputation.

### **5. A board can remove the problem director(s).**

- As a last resort, a board may have to remove a director “for cause.”
- The board must be able to demonstrate cause:
  - e.g. breach of fiduciary duty (conflict of interest, personal gain) or
  - duty of care (privacy, confidentiality, lack of due diligence).
- This approach can work if the director is unwilling and unable to change or resign.

### **6. A board can recruit for the optimal behaviour mix.**

- It is better to get the right directors on the board at the front end so you do not have to go through the previously mentioned steps of escalation.
- Form a nominating committee.
- Get the right people on the nominating committee — ensure the individuals have the appropriate skills suited to the work of the committee.

- Build a good foundational structure for the committee including terms of reference, annual workplans, budget and agendas.
- Constitute the nominating committee as a standing committee rather than reconfiguring it each year — this way committee members can better understand the required matrix and develop a pool of prospects. If the committee is reconstituted each year it tends to rush to find a willing member to run for the board.
- Educate members, delegates, prospective directors, existing directors on the organization, expectations of directors (including behavioural expectations) and on the needs and strategy of the co-operative.
- Determine an optimal behavioural mix for your board.
- Use tools to determine character and behaviour of prospective and existing directors.

### **What are some tools and resources that can help boards improve boardroom behaviour?**

#### **Personality analysis**

- DISC: [www.professionalchange.com](http://www.professionalchange.com)
- Myers Briggs: [www.myersbriggs.org](http://www.myersbriggs.org)
- Problem solving styles: Basadur Applied Creativity: [www.basadur.com](http://www.basadur.com)
- Moral reasoning: Centre for Creative Leadership (Greg McQueen): [www.ccl.org/leadership/index.aspx](http://www.ccl.org/leadership/index.aspx)

#### **Emotional intelligence**

- John D. Mayer: [www.unh.edu/emotional\\_intelligence](http://www.unh.edu/emotional_intelligence)
- Teal McAteer-Early: [www.business.mcmaster.ca/hrlr/profs/mcateer](http://www.business.mcmaster.ca/hrlr/profs/mcateer)

#### **Group dynamics**

- Free Management Library: [www.managementhelp.org/grp\\_skill/theory/theory.htm](http://www.managementhelp.org/grp_skill/theory/theory.htm)
- Richard LeBlanc: *Inside the Boardroom*: [www.yorku.ca/ylife/2006/04-April/04-03/leblanc-040306.htm](http://www.yorku.ca/ylife/2006/04-April/04-03/leblanc-040306.htm)
- Level 5 leadership: Jim Collins: *From Good to Great*: [www.jimcollins.com](http://www.jimcollins.com)
- Profiling the Board: [www.browngovernance.com](http://www.browngovernance.com)
- Evaluation: [www.browngovernance.com/evaluation.htm](http://www.browngovernance.com/evaluation.htm)