


# BOARD CULTURE

Its role in achieving sustainable success





“ Board culture plays a key role in determining the effectiveness of the board in leading and directing the business and in its ability to achieve its full potential. ”

# INTRODUCTION

**Board culture plays a key role in determining the effectiveness of the board in leading and directing the business and in its ability to achieve its full potential.**

**It is a wide-ranging concept which defies precise definition but which, nonetheless, has a tremendous impact on outcomes in the boardroom and through the effect of the 'tone from the top' on those throughout the business.**

**It covers the set of values, beliefs, thinking and norms for behaviour adopted by a board – essentially, 'the way we do things around here'. It is, in some ways, an elusive concept impacted by a wide range of factors interacting with each other and is often implied rather than explicitly expressed.**

Board culture will be influenced both by 'hard' factors such as formal structures and processes linked to board composition and the organisation of board meetings and by 'soft' factors. These cover, for example, the personal attributes of board members, boardroom relationships and the way in which board members work together which in turn will be affected by the values of those involved and accepted norms. Traditionally corporate governance tends to have focused primarily on the 'hard' issues and whilst these have an important role to play in ensuring there is a 'healthy' board culture the 'soft' issues are equally important.

In this publication we explore four different types of board culture and practical steps that can be taken to help move towards a positive 'healthy' board culture when changes are needed. In doing so, we build on the board polarities approach which we have co-developed and on our Board Charter. For Sustainable Success®. The polarities model considers both behaviours and outcomes and looks at how boards balance in practice what often turn out to be competing priorities for time and focus. Meanwhile, the Board Charter highlights the role of effective boardroom leadership in creating enduring businesses that build lasting value for their stakeholders and wider society.

# DIFFERENT TYPES OF BOARD CULTURE

## THE BENEFITS OF AN 'ENGAGED' BOARD CULTURE

Where there is a healthy board culture, the dialogue is, in the words of the Preface to the latest edition of the UK Code on Corporate Governance, 'both constructive and challenging', ie there is a high level of both challenge and support in the boardroom. Or in other words, the right conversations take place amongst board members at the right time and in the right atmosphere. This leads to The **'Engaged'** Board (see Figure 1 below) which brings the following benefits:

1. The collective intelligence of the board with its range of perspectives will be brought to bear on key issues leading to better decision-making.
2. The executive team will feel supported, enabling it to perform to its full potential.
3. Opportunities will be fully explored leading to greater success in innovation and new ventures.
4. There will be early and rigorous discussion of challenging situations strengthening risk management.
5. The board will be cohesive with all members pulling in the same direction maximising its own performance and setting the right example for the rest of the business.

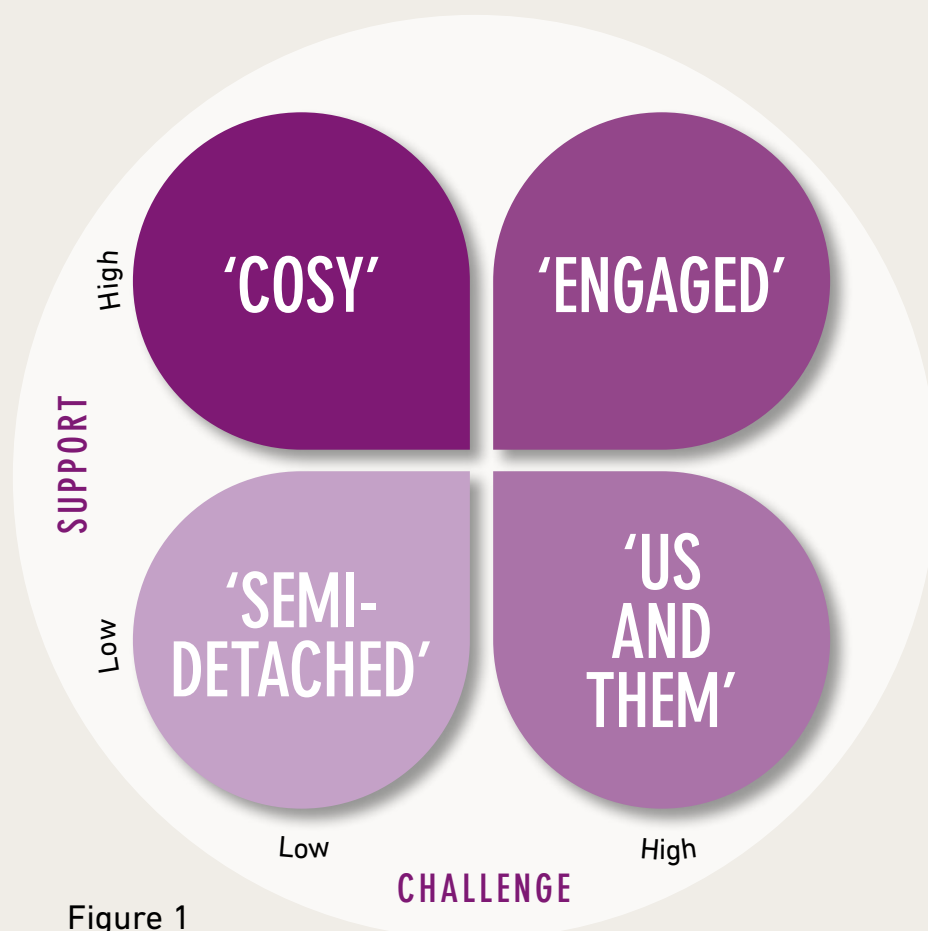


Figure 1

# DIFFERENT TYPES OF BOARD CULTURE

In addition to The **'Engaged'** Board, however, Figure 1 identifies three other types of board culture which might exist. In each instance significant problems are likely to emerge:

- **The Cosy Board** will be reluctant to engage with difficult issues and/or to challenge the executive which is likely to lead to problems building up before they are tackled.
- **The Us and Them Board** with its low level of support is likely to result in a blame culture emerging and defensive behaviour by the executive team that limits board involvement on important issues.
- **The Semi-Detached-Board** with its failure to provide either sufficient support or challenge is in effect on autopilot with the corresponding lack of checks and balances on the executive team and missed opportunities to help them develop the business successfully.

## MOVING TOWARDS AN 'ENGAGED BOARD' CULTURE

This publication is designed to encourage boards to consider with a degree of candour which type of board in Figure 1 they most resemble. This may be done through discussion at a board meeting or by means of an internally or externally facilitated board review. If board members have different views the underlying reasons for them will be worth exploring in greater detail.

Where there is no current consensus amongst board members that their board is best represented by The **'Engaged'** Board, they should explore which of the principal features that contribute to its success needs to be addressed. These are:

1. Board members are wholeheartedly united behind a common purpose and shared values.
2. Recognition that setting the right 'tone from the top' starts in the boardroom.
3. Formal structures and processes that facilitate effective boardroom dialogue.
4. A strong emphasis on the value of informal connections outside of board meetings.
5. A focus on having a balanced board with high quality recruitment and succession planning.

Each of these points is now discussed along with possible action points for boards seeking to move towards being an **'Engaged'** Board.

# BECOMING AN ENGAGED BOARD

## BOARD WHOLEHEARTEDLY ALIGNED BEHIND PURPOSE AND VALUES

Wholehearted alignment behind a compelling and durable purpose and the related corporate values are at the heart of a healthy board culture.

If the purpose and values are to provide a unifying and inspiring platform that originates in the boardroom and reaches out from there to the rest of the business, they should contain the following features:

- The purpose should focus on the lasting benefits the business will bring to all its stakeholders and wider society. This will lead to a strong, shared determination to deliver the goals of the business including in difficult times when resilience is needed. Conversely a business based principally on those involved in it acting mainly out of self-interest, especially at a senior level, is likely to run into ethical challenges.
- The values which, along with the strategy, express how the board will strive to implement its purpose in practice, should genuinely reflect the culture of the business, be determined after a full consultation process, and not be wholly aspirational in nature.
- In addition to reflecting its commitment to being an ethical business, the purpose and values should set out how the board will more broadly seek to build competitive advantage in its marketplace(s). In some instances, for example, this may be through a determined commitment to be at the forefront of transformational innovation, in others through a relentless pursuit of customer care.

The board must also ensure it has the necessary expertise to have a successful purpose-led board and organisation and decide the most appropriate structure to ensure purpose and values are given enough attention on the board, eg through a special board committee and/or by discussing related issues periodically at the full board.

## SETTING THE RIGHT 'TONE FROM THE TOP' STARTS IN THE BOARDROOM

In the Preface to the UK Code on Corporate Governance the FRC indicates that 'it is important that the board sets the correct "tone from the top." The directors should lead by example and ensure that good standards of behaviour permeate throughout all levels of the organisation. This will help prevent misconduct, unethical practices and support the delivery of long-term success.'

It is essential for boards to recognise that setting the right 'tone from the top' starts in the boardroom and not with the management team and also that it encompasses how the board deals with each of its main stakeholders such as customers and suppliers as well as employees.

In considering 'tone from the top', issues for the board to focus on in order for it to develop a healthy board culture will include:

- the degree of genuine commitment by board members to the stated purpose and values, eg the extent to which they seek to act as personal role models in promoting them;
- how frequently the purpose and values are cited in board papers and board discussions in determining the best way ahead;

# BECOMING AN ENGAGED BOARD

- whether purpose and values prevail even when doing so will adversely impact costs, revenues or the interests of the business in the short-term;
- the extent to which the board discusses how its purpose and values can be further embedded in the business;
- whether alignment with purpose and values are determining factors in the recruitment, promotion, retention and remuneration of executive and non-executive (NED) members of the board and of staff in the business generally;
- whether there is any evidence of behaviour not in line with purpose and values being tolerated at board level, or below, for short-term commercial reasons, eg because someone is seen as very important to the commercial success of the business; and
- whether or not the board receives feedback from employee surveys and other relevant information on organisational culture and behaviour and especially on whether the espoused values are lived out in practice at all times and at all levels in the organisation.

## PAYING SUFFICIENT ATTENTION TO FORMAL BOARD PROCESSES

The appropriate blend of formal structures and processes that will contribute to a healthy board culture is perhaps the area most frequently discussed in governance codes. They help ensure the right issues are on the agenda at the right time with the right information available for discussion and decision-making. Questions for consideration will typically include:

- Are there well structured and well chaired board meetings of sufficient frequency and length that allow enough time for discussion of key issues without them becoming just a 'talking shop'?
- Does the chair determine the board agenda with NED input, with a list of items identified for inclusion in future agendas?
- Are away days used for standing back and reviewing strategy and its implementation? Are board performance and culture discussed at such events?
- Do NEDs meet on their own periodically to share areas of common thinking and, where applicable, concerns?
- Is high quality and up to date MI available at board meetings including on cultural and behavioural issues in the organisation?
- Are agendas sent out in timely fashion?
- Do minutes record discussions and decisions?
- Are externally facilitated board reviews undertaken periodically, to enable the board to consider its performance and, amongst other issues, identify ways to enhance the culture in the boardroom and throughout the business?

In addition, as discussed above, it is also important that the board is clear on the best structure to enable it to afford proper attention to how it is furthering its purpose and living out its values.

# BECOMING AN ENGAGED BOARD

## THE VITAL IMPORTANCE OF INFORMAL PROCESSES

The formal structures and processes, discussed earlier, need to be supported and supplemented by informal initiatives outside of the boardroom if the NEDs are to be able to offer the optimum blend of challenge and support and to build positive relationships with their executive board colleagues. These will normally include:

- time for board members to get to know each other away from the formality of board meetings, eg lunch/ dinner before or after board meetings. It is also helpful if such events include senior team members below board level;
- NEDs having the opportunity to get to know and discuss business matters, especially in their areas of expertise, with senior team members below board level;
- NEDs having opportunities to see different parts of the business through planned visits possibly linked with off-site board meetings; and
- NEDs discussing issues with executives, where appropriate, between meetings with either NEDs or executive team members initiating the dialogue where either considers it helpful.

Within the above framework, it would normally be expected that committee chairs would have more involvement with the executive team with regard to their areas of responsibility outside of board meetings than other NEDs. There will also be variation in the amount of contact depending on the size and complexity of the company and the normal working locations of board members.

Whilst respecting boundaries between the responsibilities of the board and those of management, it is equally important for the board not be hermetically sealed off from the business and that NEDs have a reasonable level of contact in different parts of the business in order that they can be aware of feelings in the business and emerging developments.

An investment of the time and personal commitment in building strong relationships amongst board members will generally yield substantial returns. If relationships are generally good then board members may more easily recognise when tensions arise and have the confidence to discuss the issues and resolve them.



# BECOMING AN ENGAGED BOARD

## GETTING THE RIGHT BOARD IN PLACE

The challenge of getting a balanced board in place and ensuring it remains there on an ongoing basis is a significant one given the complexity of board dynamics. The board is a team with collective responsibility which contains within it another team, namely the executive board members leading their management team. The rest of the board, the NEDs, are responsible for exercising oversight over their management of the business, whilst at the same time supporting them in their work. In addition, there are particular critical pairs of relationships such as between the chair and CEO and the FD and audit committee chair.

With the above in mind, there are a number of issues to be considered relating to board composition in ensuring that there is a healthy board culture with open positive board relationships:

1. In addition to board members having appropriate skills and experience for their functional roles at both executive and non-executive level, they need to have the personal attributes to work well together.
2. Working well together is not the same as everyone thinking alike. There needs to be sufficient diversity amongst board members to avoid 'groupthink'. Diversity in terms of gender and ethnic background is very important but so too is that in terms of industry and/or professional expertise as well as with regards to preferred approaches and working styles.
3. The overall size of the board should neither be too small such that there is insufficient expertise or range of views nor too large resulting in it becoming unwieldy to manage and limiting the contribution of board members and with them not feeling accountable for board decisions.
4. There needs to be the right balance between executive directors and NEDs to enable the board to work effectively and, most importantly, there should be no dominant individual on the board controlling its decision-making and blocking challenge.
5. Given the complexity of board dynamics, with a number of relationships being affected every time there is a board change, effective succession planning is vital. It needs to consider the future needs of the board in terms of its membership taking into account any skills gaps and cultural changes needed in the boardroom with a clear specification being drawn up and a rigorous recruitment search undertaken when vacancies arise. Succession planning is a potentially sensitive area with respect to which many boards would derive benefit from devoting increased time to it.

# CONCLUSION

## ONGOING COMMITMENT NEEDED

Building and maintaining a 'healthy' board culture is not easy and will require ongoing commitment as board members and the opportunities and challenges facing the business change. It is, however, indispensable if the business is to achieve sustainable success. As the UK Code on Corporate Governance observes, 'To run a corporate board successfully should not be underrated. Constraints on time and knowledge combine with the need to maintain mutual respect and openness between a cast of strong, able and busy directors dealing with each other across the different demands of executive and non-executive roles. To achieve good governance requires continuing and high quality effort.'

This effort is worthwhile for the benefit of the business, its stakeholders and wider society.



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