Using Behaviours to Drive Board Performance

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High performing boards proactively manage two critical dimensions of their work: the frameworks and systems that support good governance, and the way directors interact, contribute and make decisions. These dimensions are intertwined and should be complementary to drive good performance. However, the way directors interact and make decisions is often left to chance and many boards have an opportunity to enhance their performance by focusing on that dimension of their work.

Behaviours are a critical element of the 'human' dimension of board work. They are part of HOW the board goes about performing its role. A precursor to knowing how a board discharges its role is for it to first understand exactly WHAT its role is. It's pleasing to see more and more boards proactively investing time and effort to ensure clarity as to their role, and how it differs from that of management. However, fewer boards have taken the next step and agreed on how they are to perform their role, and what behaviours they expect of directors in and outside of the boardroom.

Why are behaviours important to board work?

The first factor to consider is that boards only make decisions as a group, or a collective. How the individual directors work together as a collective is fundamentally important to a board's success. Making sure that group decision-making is as effective as possible, is an important task for any board. A critical part of that task is ensuring that desirable behaviours are exhibited in the board room – behaviours that are conducive to effective decision-making by the collective. In my view this is not something that should be ignored or left to chance.

A second factor is that directors are usually recruited for their extensive skills, experience and knowledge. They bring an enormous amount of potential value to the organisation. Non-executive directors in particular are in a unique position to add value, through their highly skilled and predominantly external perspective. It is incumbent on boards to ensure that the directors' collective skills and knowledge are put to the best possible use. One way of promoting that is to articulate how directors are expected to apply their capabilities to the work of the board. This should be done in a way that is observable so that it is clear to other directors when and how a director is applying their skill and knowledge. Behaviours are observable by others and it is useful if the behaviours that are conducive to good performance are agreed and articulated as a guide for the contributions of directors.

Third, non-executive directors spend very little time together. In that time, directors are being asked to make the most important decisions the organisation faces, often in an extremely ambiguous environment. Their roles are highly complex and they are accountable for the organisation's performance. Yet they spend only around 120 hours each year performing their role, and they do that as individual members of a collective.

For these reasons, there is a compelling case for boards to invest time and effort in first agreeing, and then fostering the desired behaviours that are conducive to the effective working of the board, both in and outside of the boardroom.

After the UK government bailed out some of the British banks, it commissioned Sir David Walker to review corporate governance in the UK banking sector. Sir David found that the "principal deficiencies in [the bank] boards related much more to patterns of behaviour than to organisation"[1]. He emphasised the inherently behavioural nature of governance, and concluded that substantive behavioural change is much more important (though much more difficult to achieve) than further regulation. His recommendations focus very much on trying to drive constructive behaviours rather than increasing regulation, which risks promoting "box-ticking conformity".

Interestingly, Sir David highlighted the asymmetry between errors of commission, which are focussed on by regulators and enforcers (with the benefit of hindsight), and errors of omission, which tend to stem from behavioural failings and are more difficult to pin down.

Sir David's recommendations were adopted by the Financial Reporting Council (FRC) in its recent review of the UK Combined Code. In doing so, the FRC reiterated that the principles of the Combined Code "are intended to encourage appropriate board behaviours."[2]

The FRC has introduced amendments to the Combined Code to encourage a greater focus on board behaviours, and renamed it the "UK Corporate Governance Code". The amendments include creating individual development plans for each director, and requiring annual board performance reviews to be externally facilitated at least every three years. Note that the UK Corporate Governance Code operates on the same "comply or explain" or "if not, why not" basis as the ASX Corporate Governance Council's Principles and Recommendations.

Eminent governance commentator, Professor Bob Tricker recently summed it up nicely: "Companies are not moral beings. They do not have consciences. The morality of companies has to be supplied by their directors."[3] Morality is only visible through the behaviours exhibited by individuals. For companies, it is up to the directors to demonstrate the behaviours that define the company's morality.

Good governance necessarily requires effective human interaction and appropriate, constructive behaviour as well as robust frameworks and systems.

We can all think of examples of inappropriate behaviour at board level being a contributor to poor outcomes. It's easy to focus on these examples because they are often publicised – almost always with the benefit of hindsight. There are also countless examples of

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[1] "A review of corporate governance in UK banks and other financial industry entities", Sir David Walker, 16 July 2009, p8

[2] "2009 review of the Combined Code: Final Report", Financial Reporting Council, December 2009, p2

[3] "Twenty practical steps to better corporate governance", Professor Bob Tricker, March 2010, p18

constructive behaviours by directors leading directly to excellent outcomes, although these are less publicised.

Foundation for Trust

Trust is essential for a board to be effective and constructive behaviours are a foundation for building trust. Many boards do a great job fostering the desired behaviours in and outside of the boardroom, without necessarily having debated, agreed and articulated those desired behaviours. Presumably, those boards have not seen the need to devote precious board time to doing so. That is a perfectly valid approach. However the risk in that approach is that there will almost certainly be differences of opinion between directors about whether certain behaviours are constructive and conducive to the effective functioning of the board.

We each see the world through our own unique lens and have our own personal values and preferences. Directors see things differently and behave in different ways in response to a particular circumstance. If the board's expected behaviours have not been agreed by all directors, it can be very difficult to challenge specific behaviour. It might be seen by some as inappropriate and others as entirely appropriate in the circumstances. Context will be a major factor, as well as each director's individual paradigm and preferences. When there is conflict, it is helpful to have an agreed anchor point for addressing differences of opinion. This enables differences to be resolved within a framework that all have subscribed to, which builds trust. If there is no anchor point, it is more likely that the differences will never be resolved, which erodes trust.

Leading practice

Leading practice involves the following elements:

1. The board analyses the behaviours that are critical to it successfully performing its role (based on a pre-existing clear understanding of its role). Directors debate these and reach a shared understanding of the behaviours that are necessary or desirable for the board to perform its role most effectively. These then become the behaviours that are expected of individual directors. Having a clear, shared understanding of what is expected is fundamentally important to maximising performance. Directors are far more likely to subscribe to, and thus display, the desired behaviours if they've contributed to the debate about which behaviours are critical to the board's success.

2. The next step is for the expected behaviours to be articulated and made clear to all using practical examples. Directors are more likely to demonstrate the expected behaviours if they have been clearly set out in a tangible way. Doing so also gives the Chairman and other directors a platform to challenge undesirable behaviour. Sir David Walker argued for greater clarity in relation to behaviours, recognising the dynamic and complex nature of governance, and the risks associated with undue specificity.

3. Third, directors regularly give each other feedback and hold each other to the expected behaviours. This could be formalised by having a director present a plus/delta critique at the end of each board meeting. Immediate 'real-time' feedback

is highly desirable because it fosters desirable behaviour and enables potentially problematic behaviour to be detected and addressed early, before it becomes entrenched.

4. Next, periodic reviews of the performance of the board as a whole and individual directors, include an assessment of the extent to which the expected behaviours have been demonstrated. A formal process is desirable to focus attention and to provide a forum for directors to comment anonymously if required.
5. In a leading board, undesirable behaviour is identified quickly and addressed, and directors are supported in their efforts to change behaviour. This will include development plans for individual directors. Discussing concrete examples may lead to an understanding of why the behaviour occurred, which potentially fosters trust and deepens awareness of the diverse paradigms that directors bring to the board.
6. Finally, and this is relatively rare, the board might invest in enabling directors to understand their different decision-making styles and behavioural preferences (both constructive and otherwise). It is not unusual for executive teams to invest a lot of time and effort in optimising the interactions between team members to enhance team effectiveness. It is far less common for boards to do the same. A key reason for this is the scarcity of time that is available for boards. However, given both the vital importance and the nature of the board's work as a collective, it is worthy of consideration, particularly if the board is not in a steady state.

The role of the chairman in fostering constructive boardroom behaviours cannot be overstated. In all probability, the chairman's views will largely determine the board's approach to behaviours. They will also have a great impact on the conduct that is expected of directors.

Examples

Some examples of desirable director behaviours include:

- Prepare beforehand – read all of the materials, consider the issues and arrive at the meeting ready to contribute
- Speak up – say what you really think about important decisions before they are taken
- Debate toward an outcome
- Allow discussion to move on when there's nothing new to add
- During meetings, avoid outside phone calls and emails and avoid 'side conversations'
- Listen to what others are saying (and not saying). If you don't understand, ask questions until you do
- Strive to understand others' points of view and paradigms
- Demonstrate respect for others' opinions, even if you don't agree with them
- Question and challenge management openly and constructively

- Express your thoughts. Articulate your chain of logic
- Display solidarity outside the boardroom once a decision has been made.

Conclusion

Taking the time to proactively agree and articulate the behaviours that are expected of directors can be a powerful tool to enhance board performance. The key challenges are to invest the necessary time, and to translate lofty concepts such as accountability, fairness and transparency into tangible boardroom practice. Boards that I have worked with that have risen to the challenge and invested the necessary time have found the investment to be worthwhile.