# Boardroom Dynamics

## Things are changing

**Slowly but surely the boardroom is becoming a more diverse environment. And with the change in the composition of boards comes a different and more challenging people dynamic. But is this altering the quality of boardroom debate and decision making? Mark Story reports.**

The boardroom is not quite the place it used to be. Gone, it seems, are the days when the "old boy" network made key board decisions even before the chairman of the board called the meeting to order.

The net effect of this changing dynamic is, according to Auckland-based professional director and corporate governance consultant Janine Smith, that boards are less populated with "yes men" and there is less "group think" and "consensus by default" at board meetings now. Smith, a former marketer and CEO turned governance expert, believes there is a different perspective resonating from around boardroom tables. And in her opinion, the less "like-minded" directors are, the less compelled they feel to "fall-in" behind the prevailing – or possibly a strong chair's – point of view.

Smith, a principal with governance consultancy The Boardroom Practice, specialises in strategic planning and organisational change and thinks a greater cross-section of directors brings with it a need for higher calibre chairs who are capable of managing the more robust and divergent debate now taking place in many boardrooms. And whether a board has the tension needed to encourage healthy, yet rigorous scrutiny and discussion comes down to the chair's ability to manage the individuals sitting around the boardroom table. Good boardroom dynamics are dependent on the chair's ability to draw the best out of individual directors, says Smith.

And with the risks associated with being a board member now greater than they were, chairs need to ensure "everyone is making a contribution", according to Smith. If there are reasons why directors aren't saying anything at board meetings it is critical to find out why, rather than watch them stew in silence.

### DEVIL'S ADVOCATE

It is equally as important for chairs to ensure domineering directors don't hijack meetings as it is for them to ensure the views of more softly spoken counterparts are heard. "A devil's advocate can be useful, but they can also distract the board from good debate, especially if there's no reason for questioning something," says Smith. "It is also the chair's job to temper any confrontation between directors by managing their speaking rights."

Seasoned director Brian Kensington thinks chairs should also keep a close eye on chief executives who make it on to the board. They have a tendency to be overly critical and aggressive toward management, he warns. The best way to bring them into line is to ensure they ask the right kinds of questions. That said, Kensington says he has never been on a board where the chair didn't encourage directors to speak out if they thought the company was going down the wrong path.

Kensington is now chair of Emerald Capital and former chair of international accounting firm Ernst & Young. "At the end of the day a director has to act in the best interests of the company, and this is where people with divergent experiences add value to the process."

Weak chairs are as potentially damaging to an organisation as chairs that are too dominant, according to executive coach Iain McCormick. He offers the collapse of Australia's HIH Insurance as a useful example of what can go wrong when the chair's personal perspective heavily influences board outcomes. The HIH collapse should, says McCormick, remind boards of the need to delay critical decision-making when there is clearly a need for more information.

The evidence now suggests the HIH Insurance board was so influenced by its chair that it became a classic victim of group-think. "Having a broad range of directors on a board should give breadth of debate rather than pure courage," says McCormick, who runs the Executive Coaching Centre. "It is important for the chair to hold back and encourage debate before expressing a view."

The HIH demise should also remind boards they should resist pressures from the market and shareholders into making decisions without having first done the necessary homework. It might, says McCormick, mean delaying key decisions – even when timing is critical – but that is not a reason to act without the information required to make the best possible decision. Without understanding the day-to-day issues, long-term strategy or risk management assessment, the HIH board was incapable of responding to the issues at hand. "Board process becomes dysfunctional when individual directors fail to look at alternatives or debate issues and reach conclusions by default," he says.

## FALSE ASSUMPTIONS

Domineering chairs or managing directors can be dangerous, says Kensington. Directors, unless they are disciplined and strong, become reluctant to speak up when they either disagree or don't fully understand what's being discussed. Kensington chaired an advisory board for a major bank on which directors struggled to grasp complicated financial issues presented by an independent consultant. The entire board was puzzled by the figures but not one director was willing to admit it by asking questions. "As chair I felt compelled to table my own queries, only to find there was a fundamental flaw in what was being presented," recalls Kensington, who now chairs the Nuplex audit committee. "If you don't understand something, chances are others don't either. Directors should never be afraid of looking silly. The only stupid question you'll ever ask is the one you ask yourself in the car on the way home."

Kensington warns individual directors to remain alert to and suspicious of comments like, "we have to deal with this now" or "we really have no alternative". Over-confident boards or those faced with consistently vexing issues, too often value cohesiveness over robust debate, he adds. And much of what constitutes good boardroom dynamics can be managed by sound process, diverse board composition, and a "no-surprises" approach to key governance issues.

McCormick's guide to best practice governance includes:

- A balanced team of directors.
- Individuals equally capable of contributing.
- Access to quality board papers a week before the board meeting.
- Agendas structured to discuss the "meaty stuff" upfront.
- Directors making minor queries prior to the board meeting.
- Management as the primary driver of board recommendations.
- Opportunities for the board to strategise outside monthly meetings.

Kensington thinks these sorts of dynamics create the "right level of boardroom tension" without the risk of fisticuffs compromising individual relationships. The Nuplex board, for example, comprises three Kiwi and three Australian directors and, according to Kensington, those from this side of the Tasman have no trouble speaking out. Contrary to speculation, the more mild-mannered approach taken by Kiwi directors is no impediment to robust scrutiny. "Directors with very aggressive attitudes don't achieve a lot," says Kensington. "But given the highly competitive nature of business these days it's more important than ever that [boards] share wide differences of opinion. And from a succession point of view, it's important for boards to represent a good spread of age groups."

## BOARDROOM BEHAVIOUR

McCormick thinks the "mild-mannered approach" that supposedly characterises Kiwi directors allows them to explore issues without having them extinguished by emotion. He reminds rookie directors that vigorous debate has nothing to do with aggressiveness or hostility. However, there are times when Kiwi directors or their more aggressive Australian counterparts must "fashion" their behaviour when sitting on a trans-Tasman board. "It's important for directors to capitalise on the window of opportunity to have their views heard. Opportunities lost seldom come again," says McCormick.

So what's the best way to gauge if individual directors are performing? Smith asks simply: is the board adding shareholder value? It is, she says, as important for the board to be reviewed collectively as it is to have individual director performance reviews.

But, according to Kensington, while most boards he has served on reviewed their own performance, getting directors to evaluate their peers remains less popular. There is, he says, merit in asking directors to write down how they believe fellow directors have fared, relative to their own performance. "The most obvious indicators include their company and industry knowledge and their ability to ask significant questions. Unless directors keep abreast of what's going on they are less able to make the required contribution." td

**Mark Story is a regular contributor to *The Director*.**