



The Shifting Sands of Board Dynamics

CHRIS CLARKE: Reflections & Ideas

Greetings. As President & CEO of Boyden global executive search, I shall take a liberty and put forth some of my personal views and thoughts. These are personal opinions, based on my own knowledge, experience and recent research. They do not reflect those of our organization.

Like sand dunes in the desert, Boards of Directors are blown this way and that by winds of change. The bursting of the dot com bubble and the scandals of ENRON and others led to Sarbox and all its unintended consequences. Worst of all, despite the costs and restrictions imposed on corporations by the legislature, Sarbox did not prevent the problems raised by the recent financial crisis.

The resulting turmoil of the greatest recession in living memory has whipped up new sandstorms for boards. In this paper, I reflect on how recent events have led to changes in the dynamics of board member interaction with one another. This gives pointers to some clear and present dangers and areas where further research is needed.

CEOs fear the Kangaroo Court

Board members' remuneration is relatively low, when weighed against increased in risks to their reputation and careers, that have resulted from recent scandals. As a result, the importance of the Executive Session has grown immensely in recent years and months.

I have observed that CEOs, especially those that sit on other boards in executive sessions, nervously await the outcomes of what some perceive as a potential Kangaroo Court. Many CEOs identify very closely with their corporations. This is an important

driver of their success. The CEO may see the business as an extension of his or her persona. The idea that part time, less well informed outsiders might be discussing strategic issues and CEO performance, without their presence, can be deeply unsettling.

In periods of great turmoil, board risk aversion is enhanced. Boards may flip flop between being a light touch or a passive 'Governance Board' to becoming a step on the brakes, 'Strategic Board' or a 'Micro management Board'. From a CEO perspective, this may seem like a period of Board Schizophrenia or a Jekyll and Hyde approach. CEOs need to adapt to these dynamics or be replaced with those who can handle radical changes, with diplomacy and patience, as boards switch styles according to their current situation.

Boards need to be sensitive to CEOs' feelings and needs. Often the biggest and toughest-seeming leaders are the most thin-skinned and sensitive, when it comes to their own roles and how they are judged.

Should the Board Hire an Outside Consultant?

In assisting organizations to assemble their boards, one can observe that CEOs serving on other boards are often selected, partly because of relevant industry experience or contacts. They may challenge strategy, based on their wider experience. Some directors want to check management's proposed strategy, while others feel that they should be deeply involved in strategy development.

In both cases, board members may feel frustrated that their role in strategy discussions is hobbled, due to all consulting and analysis being filtered or colored by the management team. One idea is that the Executive Board may need independent advice. This is already the case in Audit and many legal matters.

Proposing to hire independent consultants such as McKinsey, Bain or BCG to advise the Board independently from the management is a radical step. The dangers include adding cost, both in fees and in duplication in the use of management time. It can set up conflict between the board and the CEO. It may even generate poor output, due to limited input from the CEO and management.

I have found that often, a better way is to allow Board access to the consultants before and after they are hired. After all, the corporation pays the fees, not the management team. The directors need to represent stockholder interests before the analysis and recommendations are in place, not afterwards.

Watch out for the 'Laundry Committee'!

In reaction to the increased risks to the corporation and to individual board members, the number of board committees and their responsibilities is burgeoning. The benefits of this are that board members who have particular expertise can spend more time delving deeply into important issues.

An apparent danger reported by many directors is that the board may defer too readily to the recommendation of a committee. Some directors admit in private that they have insufficient time to review committee reports in detail. I've often heard statements like:

"If it is good enough for our fiduciary board members, it is good enough for me."

The grave risk is that complex and important matters may be missed in committee. Committee members may be swayed by management spin, or miss a point of detail which seems trivial at the time, but that jumps up and bites the firm later. A good example is when a CEO's golden parachute can be triggered by a sale of the company. When CEO terms were agreed, maybe some years previously, this did not seem important. Now the CEO may be pushing a deal to sell the company.

Boards need to beware of management 'laundering' bad ideas through key committees. Board members need to avoid accepting committee recommendations without serious review. Committee members might suffer from Stockholm syndrome or be too close to the ball to see the wider picture.

Apes in the Boardroom

Anthropologists like Franz de Waal have developed theories and connections between the behavior of our nearest genetic cousins and humans. This leads to interesting theories regarding board dynamics. I personally recommend his books 'Chimpanzee Politics' and 'Our Inner Ape'.



Evolutionary psychological theory postulates that apes and humans evolved together, and then separately, over millions of years. Both ape and human governance involved dominant male groups. The imperial CEO in both human and ape societies, often born of patrician parentage, dominated governance through, friendships, coalitions, rewards and punishments. A recent study indicates that 45% of members of nominating committees in large US firms have friendship ties to the CEO, from outside the business (from *A Matter of Appearances: How Corporate Leaders Manage the Impressions of Financial Analysts about the Conduct of Boards*, By James Westphal & Melissa Graebner, **Academy of Management Journal**, February 2010).

Evolution has fallen behind the pace of international business development. The natural style of male-

dominated boards became more suited to a society of hunter/gatherers, than that of modern organizations. One of the great challenges I have faced, when working with boards, are attempts to legislate or influence board dynamics, away from our fundamental natural behavior.

We need to be aware that organizations with 'designed' governance may be less successful than those of the well-developed hunting team. Much has been written about the lack of correlation between textbook board composition at ENRON and ultimate business success. The success of many corporations that do not fit the perfect board model is frustrating for legislators, regulators and academic purists. My personal view is that nominating committees should be very careful to avoid building a board composed of unconnected and risk-averse strangers, averse to teaming with the CEO.

Enter the Neuroscientists

Neuroscientists and evolutionary psychologists have allowed respectable discussion about differences in male and female brains and behaviors to take place. There is academic debate as to whether the addition of female board members positively impacts business success. It has certainly changed board dynamics.

Let me declare a personal bias in favor of adding more women to Boards. I fully acknowledge that my



statements can be considered incendiary, and I do not intend to offer stereotypical male/female roles as gospel. I do, though, subscribe to evolutionary psychology, which indicates that due to eons of socialization, females have developed a different set of coping and leadership mechanisms, which should be acknowledged and in some cases, encouraged. For example, psychologists have found that females have developed ways of dealing with male aggression. Furthermore, they may have greater concern for the feelings of others. There are studies indicating better and faster recognition of mood and veracity among females. Women are less likely to risk the security, health, reputation and safety of the firm to "bring home an elephant for lunch". These are important characteristics, which may suit the needs of the modern organization, much more than the imperial male leadership style of the hunter gatherers.

Much research is being conducted that may indicate faster and more accurate reading of human faces and veracity by females. In modern organizations, where teaming, evaluation of risk and care for the wider community are on the rise, female board members bring new skills and perspectives. Among these might be heightened perception of when executives may be dissembling.

Preliminary Observations

Seminars on boards and governance are increasingly using a case study approach. From attending these and observing the reactions of male and female board members I have developed some hypotheses on the impact of women on board dynamics.

I'd like to share my observations that I recorded while attending three recent US seminars of this type, with over 61 directors; it's as if I conducted my own focus groups. A caveat I kept in my mind and will share here: board members may be on best behavior in public or seeking to demonstrate their skills and knowledge.

Of the 61 directors, 16 were women. This is a higher percentage than female representation on US boards, which begs the question: do female directors care more about Board Education and continuous personal development?

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Male and female responses to various issues were scored. The results point to the need for more rigorous testing, but lead to interesting insights in Board Dynamics. Here are the results.



There were case situations where the CEO was being discussed in absentia, regarding inappropriate tone, integrity or sound business judgment.

13 of the 16 women showed particular care for the relationships between the Boards and the CEO and steered the conversation towards greater consideration of the issues. Only 4 men raised such issues or supported this more considered approach to dealing with the CEO. On this and many other issues, the majority of men took strong and early positions, either on the side of the CEO or wanted to move to rapid replacement.

Three of the women were more hawkish against the CEO from the start. I am definitely not saying that all women are the same and different to all men in their style and behaviors. In addition, a higher proportion of women than men made statements and opinions that tried to defuse conflict and develop a consensus position.

Implications:

1. Female board members can and in many instances do change board dynamics to help maintain a team approach. They may engender more thoughtful consideration of leadership issues and the relationship between the CEO and the Board. As social scientists might predict, women may help hold a Board together and defuse tensions.
2. On average, men may be inclined to take more extreme positions more quickly. This could be a good or a bad thing. In urgent situations, rapid reaction and decision-making may be vital. In other cases, being willing to take a tough, 'hold out' position against a forming consensus could save the Board from ignoring a critical issue and save the firm from disaster. There are also women who act in that way.
3. In selecting Board members, board dynamics and behavioral style of candidates should be seriously evaluated and considered – apart from of their X or Y chromosomes.

Let us develop a dialogue

Now that I have shared my views, I'd be interested to receive your perspectives, ideas and evidence on the various issues discussed above. The big picture is that we are all learning, as the sands of board dynamics form different shapes. Like you, I am trying to see the future through the dust clouds and subsequently plot a successful course.

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