in the boardroom
culture counts

Board culture reflects the human side of association governance: the written and unwritten rules that influence how the board operates.

The best association CEOs and board leaders grasp the paradox of assembling a number of highly competent individuals only to find that, contrary to preconceived notions of Òthe best minds in the best place,Ó they can form an incompetent group. These leaders actively monitor how the board operates as a social system. Others dismiss the stuff of relationships and social dynamics as either a skill that individuals inherently will bring (or not bring) to their board service or just too Òtouchy-feelyÓ or ÒsoftÓ to tackle. Four thoughtful Òculture observersÓ offer some new insights on this key dimension of board building that the growing governance cottage industry has neglected.

Assessing the BoardÕs Competencies

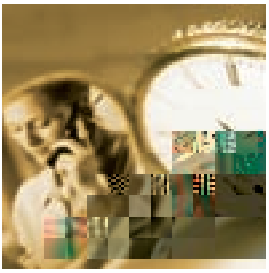
In the Exceptional Governance Programs offered for board chairs and CEOs by The Center for Association Leadership, teams are invited to assess the strengths and weaknesses of their boards well before they design their board-building action plans. The program often draws on the work of the research team of Chait, Holland, and Taylor, who found that without an intentional effort to develop the capacity of the individuals on a board to work as a group, their natural inclinations pull them toward the very things we wring our hands about Ð away from long-term challenges to immediate concerns, away behalf of the welfare of the entire organization.

Teamwork often demands substantial behavioral changes from strong individual board members who may be set in their ways, used to calling the shots, and more skilled at muffling conflict rather than voicing differences. The tendency of some CEOs and board members to suppress criticism and conflict can undermine decision making. ÒDysfunctional harmonyÓ can create a petri dish in which problems can fester, often leading board members to air their differences outside of the boardroom in a manner that sends confusing signals to members.

Such discord also can lead to faulty assumptions in formulating strategy. The investigation that followed the Columbiaspace shuttle crash in 2003 uncovered a number of technical and economic problems at NASA that led managers and engineers to conclude erroneously that a piece of foam debris that struck the craft after liftoff was not a significant risk. But internal and external analysts have pinpointed a decision-making culture at NASA (at that time and preceding the Challengershuttle accident in 1986) in which striving for unanimity along with unspoken fear of reprisals for criticism trumped the realistic appraisal of alternative courses of action.

Association governance is like rocket science in at least one way: Decisions must be made in real time. But decision makers place their organizations at risk when they have a low tolerance for differing viewpoints. The capacity to test options regarding high-stakes decisions against the practical wisdom of frontline staff is a precious leadership competency.

The clarity of hindsight usually confirms that any delay or temporary anxiety leaders experience as a result of Òdisconfirming Óinformation is more than offset by acquiring the information needed to assess the impact of potential actions. Planning for the worst case rather than the best is what we should expect of fiduciaries.



What Makes a Great Board?

Thanks to the colossal governance breakdowns at companies such as Enron, WorldCom, and Tyco, the correlation between the boardÕs ability to work as a robust group and its performance is now emerging in the for-profit sector. When corporate governance expert Jeffrey Sonnenfeld examined these meltdowns, he found no broad patterns of corruption or incompetence among the boards of these failed companies. Actually, these boards demonstrated some of the best governance practices regarding meeting attendance, board size, committee structure, the financial literacy of individual board members, accountability mechanisms (e.g., codes of ethics and conflict of interest policies), and even the ratio of inside to outside directors.

When Sonnenfeld compared boards of high-profile companies that failed with corporate boards considered the best in the field, he isolated the degree to which the board was performing as a Òhigh-functioning work groupÓ as the most salient difference. What makes Ògreat boards greatÓ in the corporate sector, concludes Sonnenfeld, has little to do with the new requirements of the Sarbanes-Oxley Act.

The exceptional boards Sonnenfeld studied demonstrated critical group traits such as a climate of trust and candor among board members and between the board and management; a willingness to share information with board members openly and on time; a culture in which board members feel free to challenge one anotherÕs assumptions and conclusions and in which management encourages lively discussions of strategic issues by the board; and a commitment to assessing the performance of the board as a collective group as well as of the individual members. These kinds of boards do not spring whole from the head of Zeus. Their cultures are intentionally and meticulously shaped to reward them for performing in this manner.

> ÒIf you are unfaithfully with us, you are causing terrible damage.Ó
> Rumi

The shared beliefs and assumptions that people bring to their work often are so ingrained in an organization that they do not emerge until a dramatic changeÑa crisis, a leadership transition, or a strategic shift such as a mergerÑputs them for scrutiny. The rub is that board and staff members often are reluctant to articulate problems before they become crises. The fears of being put in a position of assigning blame, producing remedies, or bringing negative publicity to the organization Ð let alone losing oneÕs position or standing in the organization Ð are very real. Samuel Goldwyn, the former CEO of MGM, demonstrated this to his senior team after a string of box office failures incited him to demand that they tell him what was wrong with his or the companyÕs performance. In a Dilbert-like addendum, he insisted on this candid feedbackÒeven if it costs you your jobs.Ó According to reports, individual board and staff members at United Way of the National Capital Region who questioned unseemly financial practices some time ago did lose their jobs.

Few sights are grander to board anthropologists than a CEO and board chair who are in touch with the boardÕs culture. When they understand that much of their success derives from the effectiveness of the board as a team and the norms of behavior that guide its work, they are more willing to invest time in shaping the groupÕs tribal rites. If these two leaders are reluctant to identify problems or invite different viewpoints, this creates an organizational learning disability. The natural human tendency to avoid conflict becomes insidious, says leadership expert Warren Bennis, when it begins to Òinstitutionalize the suppression of honesty.Ó He cites the culture of the New York Times (before reporter Jayson Blair was

Ò

whether itÕs Enron or General Motors. Success is a much greater problem than failure.Ó In a recent interview, former Enron vice president Sherron Watkins concurs when she says, ÒKen LayÕs failure was that he just wanted to hear good newsÓ.

> ÒTo create learning organizations, we must understand the underlying agreements we have made about how we will be togetherÓ.
> Margaret Wheatley

Culture is hard to measure in ways that satisfy social science standards. Unwritten rules and patterns of behavior evolve slowly and often imperceptibly at most organizations. When it comes to board culture, however, this process is accelerated by the continuous turnover of the board chair, the designated facilitator of most board meetings. My work over the last three decades has given me ample opportunity to observe individuals who bring good group-process skills, the capacity to engage every board member, and the ability to learn and listen ÒathleticallyÓ to this role. Regrettably, others bring ideological rigidity and a fear of inviting views that donÕt accord with the inner circle.

It is much easier to diagnose a cracked culture than to fix it. Conflict is messy. It requires a strong gut and a different approach to processing information and making decisions than the way some of us prefer to work. If you canÕt relate to this, ask yourself how you as a CEO would react if a Sherron Watkins, a Colleen Rowley (FBI staff member who identified gaps in security measures before the September 11, 2001 terrorist attacks), or a Ross Dembling (former board member of United Way of the National Capital Area whose early questions were rewarded with his expulsion from the board), warned you that something did not smell right Ð well before your own nose started twitching? (No fair using hindsight to respond!)

Most of the critiques about EnronÕs demise have focused on the

It is not surprising that the practice of dialogue is missing in action board and staff members who bring these valued leadership skills.

Ideally, boards should establish performance measures that demonstrate their own effectiveness. The growing number of boards instituting practices to enlist feedback on their performance is one of the most promising trends on the governance horizon. These processes range from plenary discussions in board meetings to formal, comprehensive board self-assessments that result in concrete steps to strengthen the board (see figure 1). A well-designed questionnaire that generates a high level of board participation and a viable plan can help assess whether a gap exists between the board you have and the one you want. But more informal methods, such as inviting board members to evaluate their performance at the end of each meeting, also can help.

THE INGREDIENTS OF AN EFFECTIVE FORMAL BOARD SELF-ASSESSMENT PROCESS
A joint commitment from the CEO and board chair to learning from the results of the self-assessment process.
A small group (e.g., governance committee, executive committee, or ad hoc planning committee) charged with coordinating the process.
A customized questionnaire for eliciting information from each board member that views the board's performance against predetermined criteria that apply to the organization (such as its mission and the responsibilities of the board).
A survey form that provides opportunities for multiple-choice rankings, open-ended responses, and board members to select "don't know" or "not applicable" as options for responses.
A process that allows board members to be candid without fear

governance model du jour, boards need to decide just how much they want to be engaged in envisioning direction and shaping strategy beyond their fiduciary obligations. What constitutes a successful board culture can be determined only after the criteria of board effectiveness have been defined.

The answers to these questions are likely to change as an association goes through different stages of development in its life cycle as well as leadership transitions. In the meantime, these critical conversations are missing in too many board forums. For some, desirable board cultures are those that will simply reward the board for staying out of operations or minimizing dissent among members. For others, an effective culture will limit the board’s work to carry out its fiduciary obligations and react to management’s recommendations. Others will find superior performance only when the culture supports the board in genuinely shaping institutional character, direction, and strategy.

It’s the Culture, Stupid

Neither the intense news coverage of governance transgressions nor the heightened expectations for governing boards is likely to wane. If our boards do not provide the responsible self-regulation and proactive governance their stakeholders expect of them, external agencies are likely to step in and do it for us.

Exemplary governance practices such as mutual respect and candor among board members cannot be legislated by new policies or by exhortation. They do not suddenly show up in the boardroom after an organization has crafted elegant values that are detached from how things really work: You’ve probably already guessed that Enron is the source of those four lovely ones listed in the prelude to this article.

Too many case studies have illustrated that creating a set of values without building the culture to support them is a hallucination. The allegations of impropriety and unseemly governance practices that are jolting regulators will continue to turn associations, foundations, higher commentary

BY PAUL POMERANTZ

I enjoyed reading Nancy Axelrod's article on board culture and couldn't agree more that having an open, ethical, and curious board that works well together ensures better decisions, more satisfying board service, and ultimately a stronger organization. The challenge is how to build such a board. Changing association governance culture is tough – I might suggest even tougher than in the corporate setting. Often, we are challenged by decades of tradition, rapid turnover in elected positions, limited resources, and the culture of the professions or industries we represent. An organization representing physicians faces very different governance challenges than does an organization representing large businesses. In associations, there are CEOs and then there are CEOs. Your authority to drive change is based on many factors, including leadership culture. Depending on the association, executives can either lead change directly or lead indirectly by letting others discover.

The failures in the corporate and nonprofit settings Axelrod describes have pushed governance to the top of the public agenda. The problem is that the perceived solution, enhancing checks and balances between management and governance, is only a partial solution. Independent directors, audit committees, and whistleblower policies will not help boards understand their businesses, drive strategic direction, and evaluate new opportunities. Indeed, recent articles in *Business Week* and the *Wall Street Journal* report that many businesses are pushing back on the type of regulated approach suggested by the Sarbanes-Oxley Act.

In the May 2004 issue of *Harvard Business Review*, David Nadler writes, "the high-performance board, like the high-performance team, is competent, coordinated, collegial, and focused on an unambiguous goal. Such entities do not simply evolve; they must be constructed to an exacting blueprint." The article describes the steps that boards must undertake to understand their work and role, recruit the right people, set the right agenda and, especially, develop the right culture.

I believe that stewardship of governance is the primary responsibility of every chief executive officer. Without effective governance, CEOs lead without a mandate, strategy is uninformed, resources are not allocated properly, and politics and mistrust undermine the potential for progress. Governance is about vision and direction, but it also is about people, dealing with individual sensitivities, egos, diverse styles, and inevitable