CREATING AN EFFECTIVE BOARD CULTURE

A BEST PRACTICE GUIDE

EMERGING LEADERS IN GOVERNANCE PROGRAM

THE TEAM

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THE IMPORTANCE OF AN EFFECTIVE BOARD CULTURE

The role of the board is to govern, with governance representing the internal system that directs and controls management activity. Whilst sound corporate governance is reliant on external variables such as legislation, it is also reliant on internal drivers of the system, such as an effective board culture.

Board Culture

Board culture is a broad set of traditions and habits developed over time that guide behavior. As former Southwest Airlines CEO Herb Kelleher said, "Culture is what people do when no one is looking." - Herb Kelleher, former CEO, Southwest Airlines

'Board culture' covers a number of aspects, including expectations and the behaviours of directors, the ways in which directors conduct their duties before, during and after board meetings; and the values on which the board and the organisation operate. More generally, the culture of the board itself can be described as the shared behaviours, practices, values and norms of the board in governing.

Like organisational culture, there is no definite 'one-size-fits-all' solution. What matters is that the culture is appropriate for the context in which the organisation is operating and that there is internal alignment between company purpose, values, strategy and business model. Evidence shows, however, that most boards do end up displaying a culture that share many similarities.

The impact of ineffective board culture

- **Intense cultures** - Hamper innovation and new ideas
- **Weak cultures** - Uncertainty at their core, often lack accountability
- **Disconnected cultures** - Fail to practice what they preach
- **Stale cultures** - May form narrow view, lacks curiosity

(Dailey, 2011)

ASSESSING CULTURE AND CREATING CULTURAL CHANGE

Effective evaluations provide a means for boards to identify their strengths and weaknesses and implement plans for continuous improvement. An important step in the evaluations process is comparing the desired state - where you want the board culture to be - to the current state - where the board culture currently is. This gap represents the required change- it is important to focus on improving aspects of board culture with the widest gap.

Practical guidance for assessing board culture

- Go beyond processes and controls and undertake root-cause analysis to identify cultural weaknesses.
- Monitor cultural indicators to determine the extent culture and values are represented in decision making.
- Include indicators such as recruitment practice, training, performance management, and remuneration.
- Trust individual and the teams judgment, both in the interpretation of objective information and in subjective use of intuition.

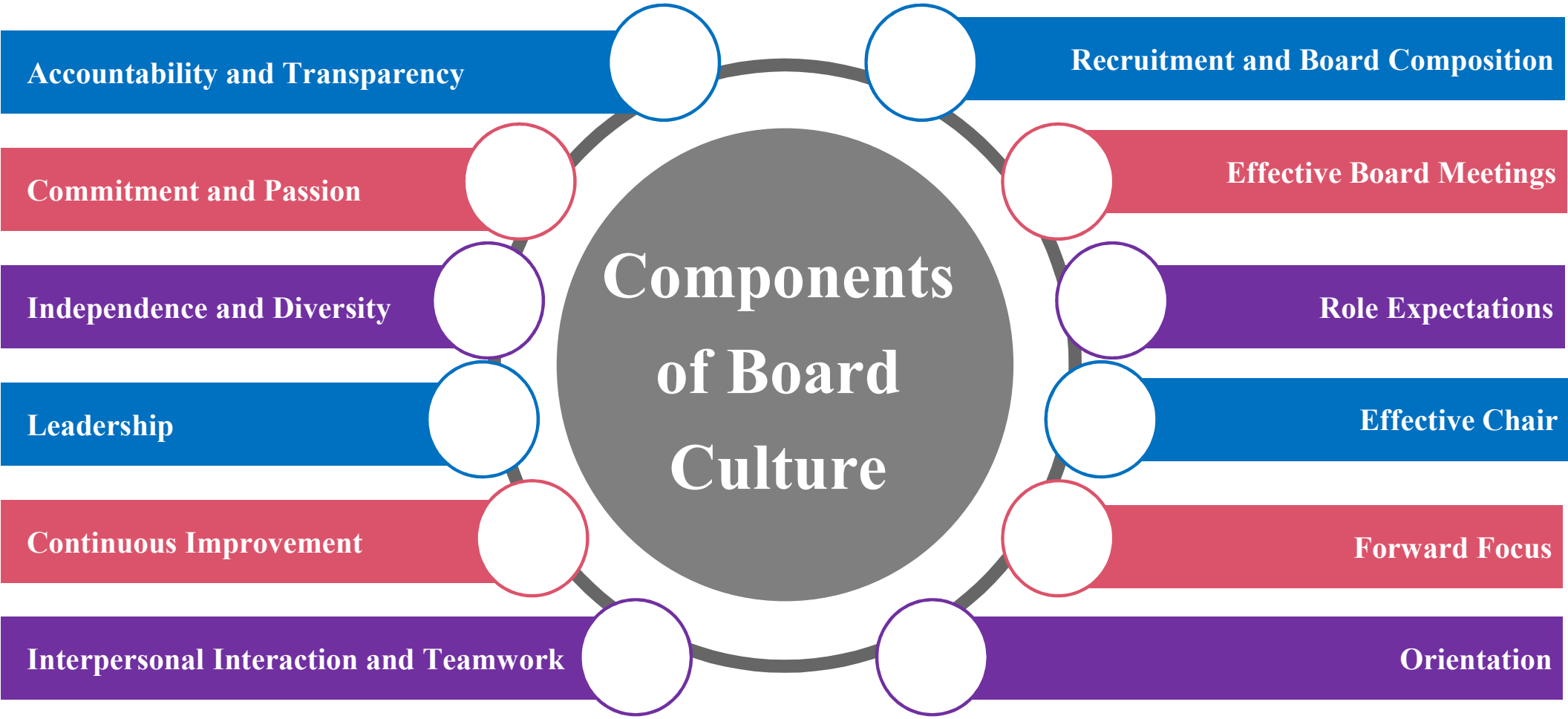
Going Further – How to take action

Provide board members with information on best practices, then have people take turns presenting one new concept or practice at each meeting. We all learn best when we have to use new information right away, so asking board members to take responsibility for the "teaching" role by assigning responsibilities or projects, will help embed new practices and also create stronger accountability and individual thinking and contribution to the board's culture.

Resources

- Enhancing Evaluations for Boards, Committees and Directors
- Tools & Insights for Effective Board and Director Evaluations

THE COMPONENTS OF BOARD CULTURE



ACCOUNTABILITY AND TRANSPARENCY

Accountability and transparency is considered good practice for directors to make sure the voice of the stakeholder is represented at the board table - acknowledging that stakeholders are numerous and varied. Directors should also engage the community in board decisions, and practice governing in an ethical, responsive and proactive manner. The impact of transparency and accountability on culture also extends to the way the board interacts with the CEO and how open the decision making process is - integrity and ethical decision making is essential for establishing trust and accountability.

"If you are building a culture where honest expectations are communicated and peer accountability is the norm, then the group will address poor performance and attitudes." (Cloud, 2014)

Questions for a Board to consider

- What does the board see as its primary purpose, and is that purpose explicitly being adhered to by directors?
- Does the board feel comfortable justifying why it has made the decisions it has made to all stakeholder?
- Does the board think stakeholders understand the decision making process? Do board members understand the rationale behind other directors decision?

Practices for improvement (how)

- Involve consumers, staff and other stakeholders in discussion about director skills and capability requirements
- Consider adding in certain stakeholders (e.g. consumers) onto the board
- Develop a Code of Conduct for both the organisation and the board, encouraging ethical practice and decision making
- Develop a Conflict of Interest Policy for the board ensuring the provision of timely and accurate disclosures on all material matters and how these are managed
- Ensure appropriate meeting minutes are kept and are sent out in a timely manner
- Limit discussions with senior management and allow the CEO to coordinate these - discussions that are relevant for others to know should be considered for presentation to the board

Resources

- PwC Annual Corporate Directors Survey 2017
- Becoming a more accountable, transparent and consultative board, Institute of Community Directors Australia

COMMITMENT AND PASSION

The organisation and its environment are fast-moving, which means that staff are experiencing continuous change—yet, the board typically operates at a slower pace, contributing to lost momentum and stagnation between board meetings. Ongoing and sustainable effort is required by all board directors in order to support board culture. Additionally, non-profit boards may also be less likely to remunerate and may rely more on passion to drive engagement and momentum. Board members must be able to dedicate adequate time to board-related matters. However, research has highlighted that increasing time is limited in driving board effectiveness. It is essential for directors to display commitment to their work and have a passion for the mission - the individual directors values must align with the organisations for effectiveness.

Questions for a Board to consider

- Do all board members make decisions with the organisation's mission in the forefront of thinking?
- Do board members feel like they belong or are invested in the organisation?
- Are board members regularly attending board and sub-committee meetings, and do they attend organisational events?

Practices for improvement (how)

- Continuously reference the organization's purpose and values at each and every meeting, re-centering the conversation on what matters keeps people inspired and focused.
- Build the agenda with the most energizing and inspiring items first, moving routine items and dry updates to the end.
- Create an annual board calendar with board meetings, committee meetings, and other organizational events so that everyone has a snapshot of the whole year and is looking beyond the next month.
- Ask about their strengths and interests and suggest roles and assignments that matched to individual directors and help keep momentum going by checking in between meetings
- Include personal stories of 'mission impact' in the CEO report for directors to read
- Presentations by operational staff at board meetings, or tours of facilities by board members
- Link remuneration or awards to achievements representative of commitment and achieving the mission

Resources

- Understanding the Behaviors that Drive Board Effectiveness, Russell Reynolds
- Beyond Fundraising: New Strategies for Nonprofit Innovation and Investment, Kay Sprinkel Grace

INDEPENDENCE AND DIVERSITY

- To fulfill their obligations, directors need to carefully scrutinize the information presented to them with the goal of gaining reasonable assurance for decision making. To achieve this, it is important that the right questions are asked, requiring sound critical analysis and interpretation. It also requires independent mindedness, which can be considered the practice of considering information from broad and varied perspectives.

"The key to good diversity is getting the mix right to achieve a shared purpose – overcoming biases and assumptions – and then, how that mix is managed" (KPMG, 2017)

Questions for a Board to consider

- Do the board members come from different professional backgrounds, contributing divergence of knowledge and skills in decision-making?
- Does the boardroom often play host to robust discussion containing varied perspectives?
- Do board members feel as though they as an individual bring diversity to the board?

Practices for improvement (how)

- Evaluating internal and external stakeholder diversity and compare to established references, ideally incorporating any identified gaps into recruitment and selection strategy
- Self-imposed targets on identified important diversity indicators
- directors undertake independent pre-meeting research and preparation in advance of board meetings, including gathering information over and above that supplied by management.
- This includes a board demonstrating commitment to diversity in membership (e.g. age, expertise, culture, gender, skills), and a diversity of opinions, professional backgrounds, and overall knowledge.
- Independent directors meet in person, prior to every board meeting rather than only at the end, in order to ensure a sound understanding of issues and the context required to make decisions.
- Create space at board meetings, specifically for new members, to ask questions, engage and share insights.
- Promote cognitive, or generative thinking on the board and focus less on operational tasks or activity that adds minimal value

Resources

- Does your board foster inclusivity?
- Governance as Leadership: Reframing the Work of the Nonprofit Board

LEADERSHIP

Demonstrating leadership means embodying the desired culture, embed at all levels and in every aspect of the organisation. Leadership can be demonstrated by the board as a team, but is also very importantly an essential quality of an effective board chair. As a primary leader, the board chair places the betterment of the organization at the heart of every decision, large or small.

Questions for a Board to consider

- Do the board's actions demonstrate commitment to the organization's mission?
- Does board leadership hold directors to a high standard of performance?
- Does each board member exemplify the behaviours, values and cultures that is desired?

" it is not enough to be moderator, figurehead, decision maker.... If the board...should work as an effective team, then the board chairperson must take an active role as coach and team leader in the boardroom" (Understanding the Leadership Role of the Board Chairperson through a Team Production Approach, 2007)

Practices for improvement (how)

- Ensuring the board chair is familiar with and can effectively lead and perform their required operational duties
- The board chair should identify and respectfully curtail any non-desired behaviours immediately by confronting offending directors outside of meetings.
- Where boards have an ineffective chairs, directors should provide helpful guidance to improve the chair's leadership skills, and be willing to lead the board as a team.
- Ensure that the full board provides the executive director with an annual review that is meaningful, includes staff input (not just the board's), and is regularly implemented.
- Incorporate leadership development (e.g. formal course, informal mentoring) in the continuous learning process

Resources

- 10 Great Board Chair Practices
- Leadership and Facilitation Skills Are the Hallmark of an Effective Board Chair
- Gabrielsson, J, Huse M & Minichilli A. Understanding the Leadership Role of the Board Chairperson through a Team Production Approach. Journal of Leadership Studies

CONTINUOUS IMPROVEMENT

Continuous Improvement refers to activities that support the educational development of members in order to learn for improvement. It includes the conducting of an annual board evaluation which reflects both governance tasks and board culture, and is used to inform growth towards quality governance framed around a robust board culture. Adaptability and an openness to change is key in driving an effective board. Directors should not only be flexible in their mindset and considerate of alternative perspectives on issues, but also be willing to be swayed by rational arguments away from their initial opinion.

Practices for improvement (how)

- Directors first need to value learning, which not only increases board member engagement but ensures an awareness of what's working and what needs to change.
- Conduct annual board evaluations. Firsty establish the purpose of an evaluation and identify objectives to enable the board to set specific goals and make decisions about the scope of the review. The expectations of high standards of performance need to be articulated to set a benchmark which the board can measure themselves against.
- Conduct competency and needs assessment of board members and supports development in these areas.
- Identify knowledge gaps and considers this when recruiting board members.
- Establish a practice of encouraging directors to ask the questions “how do I know I am right” and “how do I know the other person is wrong” prior to any decision making or voting.

Questions for a Board to consider

- Does the Board use all of the resources available to stay educated and informed?
- Do Directors demonstrate an ability to change their opinion after presenting it?
- Do members seeking information from all members ie. utilising diversity in knowledge?
- How do you define your board culture and what does it look like in action?
- What about our current culture works well to support our governance activities? What are our challenges?
- Does the Board assess lessons learned from key events?

Resources

- Good Governance Guide, Governance Institute of Australia
- Seven steps to effective board and director evaluations, Keeping Good Companies
- Keys to Success: Nurturing Effective Boardroom Culture, Ivey Business Journal

INTERPERSONAL INTERACTION AND TEAMWORK

Interpersonal interaction and teamwork occurs when board members interact and engage with each other, and the executive team, in ways that are effective and conducive towards achieving common goals. Practicing 'inoffensive courteousness' and having the courage to politely disagree with colleagues opinions and recommendations is important. The board should develop respect and trust amongst themselves and ensure that any communications either internally or external to the boardroom drive. Effective communication is paramount in creating valuable conversations in the boardroom, and for ensuring that these are contributed to by each director. The desired behaviours associated with communication should be founded in the organisations values.

Questions for a Board to consider

- Is respectful deliberation common and encouraged in the boardroom?
- Do any particular board members dominate or shy away from discussion, preventing robust preventing proper consideration of agenda items?
- Is there an atmosphere of mutual trust on the board?
- Are diverse opinions and thoughts being considered equally and respected by all directors?

Practices for improvement (how)

- Participation by all directors in discussion of agenda items and ensuring that the dialogue is not dominated by more vocal directors to support an active listening environment
- The board chair should build upon the comments of others by calling upon less vocal directors to share their opinions
- Create annual board and staff social events to encourage formal and informal communication
- Develop a 'Code of Conduct' for the board that includes interacting with each other in and out of the boardroom
- Develop a 'behavioural contact' for new board directors as part of induction processes, and ask existing board members to participate, which includes expectations of behaviour and communication that directors explicitly agree to

Resources

- 10 Practical Guidelines to Improving Board Communication
- Robles MM, Executive Perceptions of the Top 10 Soft Skills Needed in Today's Workplace, Business Communication Quarterly

EFFECTIVE CHAIR

The role of an effective chair is to create an optimised board culture that drives board outcomes, builds off the board's strengths and is inclusive. They need to engage the full board along with any governance committees and to partner with the Chief Executive. The Board chair is the leader of the board, just as the CEO is the leader of the staff. Boards that strategically place servant leaders into their chair roles perform at significantly higher levels. The Board chair seat is just as important as who the board chooses to lead the business.

Questions for a Board to consider

- How do you define your board culture?
- Does the CEO and chair meet in advance of the board meeting to identify important items for discussion?

"Chair's role is to harness the skills, qualities and resources of the board and to guarantee that issues of personality and style do not interfere with the board's works" (AICD, 2016)

Practices for improvement (how)

- Chair should lead by example. They need to inspire and empower board members to follow their lead in devoting time and effort to foster an effective board culture and value its importance.
- A chair is responsible for facilitating discussion to establish group norms to support board culture.
- Clear chair roles and responsibilities including ensuring peer and self-assessments are undertaken regularly.
- A chair needs to ensure that all board members understand their governance roles and responsibilities, and the chair is responsible for ensuring the standards of conduct are operationalised as a component of board culture.
- A chair which thanks everyone for coming and starts and ends meetings on time will help to build a positive culture.

Resources

- Leadership of the Board Chair in Creating Board Culture, Boardsource
- Improving board effectiveness, Australian Institute of Company Directors
- How Important is Culture to you Not-for-Profit Board, Solutions for Nonprofits

FORWARD FOCUS

Forward Focus is the ability and capacity of the board to think strategically, to plan for the future and to proactively manage risk. It includes succession planning to mitigate against the risk of losing someone, and empowers the board to have difficult conversations with CEO and Executive as necessary. Boards should ask appropriate questions to ensure that information provided is sound, and to ensure that appropriate decisions are made to optimise the organisation's performance and future sustainability.

"Culture is closely linked to risk and risk appetite"
(Sir Win Bischoff, 2015)

Questions for a Board to consider

- Do you source alternative information besides that provided by management?
- Do you regularly conduct environmental scanning at the board level?
- Is there a successional plan for the CEO?
- Are you enabled to think strategically during the board meetings?

Practices for improvement (how)

Strategic Planning, Succession Planning and Risk Management

- Approve the organisation's strategic plan to enable management to use for operational planning and as a benchmark to measure success.
- Identify a Strategic Planning frameworks or model to use which ensures future is built on past learnings.
- Consider both the CEO and the chair positions in succession plans including evaluating the balance of skills, knowledge, experience, independence and diversity and, prepare a role description and capabilities required for the particular appointment.
- Develop a thorough and objective process for assessing the performance of the CEO and make decisions about terms and term limits for Directors.
- The board's role is to maintain sound risk management and internal control systems. The boards should look at the risks which might affect the company and its long-term viability. One way to manage the future risks of the organisation is to have a requirement for a business case which assesses the impact of the proposal.

Resources

- Succession planning, Australian Institute of Company Directors
- Strategic plan development, Australian Institute of Company Directors

ROLES EXPECTATIONS

- **Being clear and explicit about the respective roles** of board members and top leaders is a common attribute of effective NFP boards (Jonker & Meehan, 2014). Yet, Stanford University research shows many NFP directors are disengaged and do not understand the obligations associated with board membership (Larcker, Meehan, Donatiello & Tayan, 2015). Ensuring members understand the responsibilities of the role legally, financially and strategically is too important to leave to assumption. Well defined roles and clearly articulated expectations are important, and should be considered proactively.

Questions for a Board to consider

- Are all board members engaged in conversations?
- Does each Director have a position description? (including but not limited to those holding office bearer roles i.e chair, secretary treasurer)

"The chair's role is to harness the skills, qualities and resources of the board and to guarantee that issues of personality and style do not interfere with the board's work" (AICD, 2016)

Practices for improvement (how)

- Identify conflicts of interest proactively at the beginning of meeting proceedings and ensure they are documented in the minutes and conflict of interest register.
    - Understand conflict of interest is as much about perception and potential than reality - adopt an approach that empowers all members to critically consider the interests of those around the table and hold others accountable.
- Develop board member job descriptions that clearly outline expectations and responsibilities.
- Emphasise considered engagement in all areas and provide opportunities for members to understand the mission and core values of the organisation in practice.
- Expect a good understanding of the board's constituent documents, and discuss how board members are expected to draw on these in practice.
- As always, the chair should lead by example. Clear chair roles and responsibilities including ensuring peer and self-assessments can be undertaken regularly.

EFFECTIVE BOARD MEETINGS

Effective board meetings refers to the actions completed before, during and after meetings to ensure board member's time is used efficiently within the meetings and the board is enabled to focus their discussion on pressing and relevant topics.

"Over the past decade, the bar has been raised on board performance – it's no longer sufficient (if it ever was) for board members to simply show up to meetings, nod their heads in agreement, and go home. Your stakeholders want tangible evidence that your organization is fulfilling its mission"
(Schindlinger, 2015)

Questions for a Board to consider

- Are targets assessed appropriately?
- Are board papers distributed with sufficient time for Directors to review?
- Are individual and team deadlines being met?

Practices for improvement (how)

Before the meeting:

- Agendas and papers should be sent with enough time in advance of the meeting to enable consideration by all members.
- Group norms should be established and reviewed annually. This might include a commitment to be prepared and to be punctual.
- Apologies should be provided to the chair in advance of the meeting.

During the meeting:

- Set a culture of respecting each other's time by requesting that mobile phones be put away during the meetings.
- Focus on governance matters affecting control and direction of organisation.
- Ensure an appropriate apportionment between compliance with requirements and strategic thinking.
- Discussions at meetings should not be monopolised and all members should be encouraged to provide their ideas and thoughts.

After the meeting:

- Minutes need to be properly signed and recorded as evidence of the meeting to which it relates. They should be circulated and

Resources

- A Comprehensive Guide in How to Run Effective Board Meetings, Board Effect
- Effective Board Meetings for Good Governance, National Council of Nonprofits

RECRUITMENT AND BOARD COMPOSITION

Who you have around the table is important, and best practice boards don't leave it to chance. Having processes that support high quality recruitment positions your board to recruit the best candidates when you need them, even when unexpected vacancies come up.

Recruitment and Board Composition

Map the strengths you have around the boardroom table, and identify your gaps.

This isn't limited to professional skills, but the whole package. Building a diverse team – with varied professional backgrounds, different appetites for risk, distinct perspectives – strengthens the board's ability to interrogate options to arrive at the best solution. At a minimum, ensure your board has experience around the table that reflects your organisation's mission and the needs of your intended client base.

There are several approaches to recognise people bring different assets to the table. For example, in the US not-for-profits are encouraged to consider the "Three Ws: work, wisdom, wealth" (Jonker & Meehan, 2014). Rarely does one board member offer all three. By being aware of what attributes will strengthen your board and support the broader organisation to achieve its mission, you will be better placed to recruit.

Practices for improvement (how)

- Develop and maintain a skills matrix – consider it a living document that corresponds with upcoming projects and challenges, schedule in semi-regular updates on your agenda.
- Retain a database of potential candidates – this can be a simple document listing the skillsets of people who have expressed an interest, or people your board is interested in. If they are unavailable, they may be able to recommend a mentee or contact that fills your brief.
- Engage recruitment specialists where necessary
- Seek advice from beyond the board – think outside the box. Would staff or clients have people to recommend?
- Set diversity benchmarks that align with your organisation's mission and measure against them

Resources

Board responsibilities, Institute of Community Directors Australia

ORIENTATION

Orientation is more than getting to know the team - finding the right person is only the beginning. To maximise their skill set and perspective from the get-go, a solid orientation process is integral. Orientation programs can establish or reinforce the desired board culture with new and existing directors. When used effectively, they are also useful for aligning a new board member to the mission of the organisation, but without stifling innovation or inclusion of diverse thinking.

Orientation

While well-defined roles are important, conveying how these roles engage in the process of governance and strategic thinking is the focus of orientation. Encouraging a broad understanding of the work and dynamic of the board – including all of the subcommittees – provides a new recruit with the understanding they need to feel comfortable and prepared to contribute. To avoid over commitment, negotiating the process before commencement is important, and also serves to avoid a "one size fits all" approach.

Whenever you have a new board member, you have a new board (Stratton 2005). Recognise this and take the opportunity to bring all board members together, regardless of tenure, to discuss what the board culture looks like, and the behaviours individuals will adopt to support it. It might be an opportunity to renew focus in a particular area or address an ongoing issue within the team. Here, the objective is to build the understanding that there is a new team and everyone is a valued voice at the table.

Resources

Developing an effective induction process, Institute of Community Directors Australia

Practices for improvement (how)

- Ensure new directors know what is essential knowledge, and what is ideal to help them manage and prioritise their time.
- Consider assigning board room. Multiple can strengthen relationships between board members, and also provides back-up should another board member need to step back from the commitment due to competing priorities.
- Develop an orientation checklist to ensure that orientation is comprehensive and that directors know who appropriate contacts are
- Develop the orientation checklist as a board to ensure the team (new and existing) are on the same page.

SUMMARY AND RECOMMENDATIONS

EVALUATE

Assess your current board culture using robust auditing within the boardroom - this may take time, so be persistent. Maintaining continuous and transparent dialogue is important for comprehensive assessment.

RECOMMENDATION: Approach assessments from broad perspective, including reflection by individual director and the board as a team, as well as independent external auditors.

IDENTIFY

Determine scope for improvement by comparing how board culture differs from 'best-practice' and the main components of board culture they relate to.

RECOMMENDATION: Allow all board members to be involved in the evaluation and improvement process in order to develop encouragement and to support innovation.

IMPROVE

Determine relevant board behaviours, processes and characteristics to drive board culture change using the 'board culture components' and develop a plan for change.

Commitment and Passion	**Accountability and Transparency**	**Forward Focus**
Independence and Diversity	**Recruitment and Board Composition**	**Role Expectations**
Leadership	**Orientation**	**Effective Board Meetings**
Continuous Improvement	**Interpersonal Interaction and Teamwork**	**Effective Chair**

RECOMMENDATION: Drive culture change by focusing on key behaviours and processes and tailoring these to suit the particular needs of the board and organisation, developing indicators to manage and monitor improvements.