



# Finding the Formula

## Understanding and optimising the 'people equation' of a board of directors

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A wise board chair once said to me while reflecting on 45 years of board and executive roles; "While the calibre and experience of your board directors will always be important for your board, the most important lesson for me over many years as a board chair is the critical importance of the 'people factors' and how they can ultimately shape the value and leadership the board delivers for the organisation, shareholders and stakeholders". In evaluating and supporting board teams over the years, I see this playing out on a daily basis and my experience has been that 90% of the most serious board and governance problems are 'people problems'. Irrespective of the sophistication of the

governance framework, codes and the experience level of the board directors, collapses, scandals and crises in boards all have their roots in people's behaviours, where they lose sight of their core responsibilities and ultimately fail to honour the trust their shareholders and stakeholders placed in them to 'do the right thing at all times' to protect the best interests of the organisation, stakeholders and shareholders and contribute to a long-term sustainable successful future for the organisation.

When I see the very best boards in action who truly excel for their organisation, stakeholders and shareholders, they not only have the right board composition in terms of calibre, diversity and experience but they have optimised the people equation of the board. The board chair will always have the key leadership role in this but in progressive



boards, I find the CEO and company secretary have a crucial role in supporting the board chair in continually nurturing, monitoring and optimising the people equation of the board. We will now examine eight key areas which form this equation.

#### Motivation and Work Ethic

Whether you are a highly paid PLC company director or a volunteer board trustee for a charity board, your motivation and reasons for being a board member have a key bearing on your overall engagement and contribution to the board. While it can be far easier to see the motivations for a voluntary unpaid charity trustee, I find the vast majority of company directors and remunerated directors in other sectors are motivated to want to add genuine value to their board, their organisation, and be recognised for this by their board and executive colleagues, shareholders and stakeholders. This motivation closely relates to the work ethic of the board member in going the extra mile in terms of high-quality preparation for the board/committee meetings, engagement

at the board, being available 24/7 to help their CEO/executive team and in times of crisis like the last 12 months of the pandemic, to stand up and be counted in terms of a lot of additional board/committee meetings.

#### Service and Commitment

When I see an experienced board of directors struggling with either factions on the board or pernicious distrust and second-guessing of each other's motives and viewpoints, I often find that the board collectively and individually have lost sight of why exactly they are there in the first place i.e., to serve on behalf of their organisation, their stakeholders, employees and shareholders and to demonstrate unstinting commitment to discharge their duties to the very best of their ability. In studying the root causes of many corporate collapses and board scandals across the world, there is an incredibly common pattern of self-serving board members losing complete sight of who exactly they are supposed to serve and the commitments they

## The People Equation of a Board of Directors



made, both legal, fiduciary and morally to their stakeholders and shareholders. I have seen some exceptional board chairs who are not afraid to instill humility within their boards and through their own servant-leadership are setting the example for their board in terms of the board's *raison d'être* and 'who we are serving'.

### Respect

While it is a short word, respect is quite a complex term in the context of boards and has a major impact on board dynamics and board effectiveness. Respect, at an individual board director level, starts with their level of respect for their board member and executive colleagues both in terms of respect at a personal level and at a professional level. At a board of directors' level, respect underpins all engagement with the organisation's executive team, employees, shareholders, customers and broader stakeholders. Some of the most dysfunctional boards I have seen have involved huge respect problems. Sometimes it is a serious lack of respect by the CEO for the board overall or for individual board members who they do not rate in calibre terms. Respect at all levels has to be the bedrock of a board and the board chair has a critical role in setting the bar high in this area and having zero tolerance of disrespectful behaviours.

### Trust

Some years ago, I wrote an article on the 'Trust Equation of a board' in which I gave some guidance on recognising and addressing trust problems within a board. I was truly overwhelmed by the reaction to this article with so many board members from around the world writing to me sharing their experiences of how trust had eroded in their board and led to very serious problems which crippled many boards. I regularly mediate board disputes

and I have been truly taken aback by how small trust fractures deepen over time and can end up paralysing a board. There are many factors that characterize exceptional board teams such as an outstanding board chair, strategic focus, intelligent robust challenge and debate but the most striking I find is that there is an exceptional level of trust flowing through the veins of these high-performing board teams. This trust not only enables the highest levels of robust challenge and debate to optimise the major decision-making and oversight of the board, but it represents the glue that binds all the board members and executive team together in terms of excelling for their shareholders and stakeholders. The most important trust component in a board of directors is between the board chair/NEDs and the CEO/executive team and every other component builds on this.

### Listening

As part of evaluating boards of directors, I often observe board and committee meetings. While I am taking lots of notes on items such as where the board is spending its time, the balance between strategic and operational discussions, quality of challenge and debate etc., one area I pay special attention to is how the various board members are listening to each other, how switched on are they in terms of listening closely and understanding the speaker's perspectives, even if the listener strongly disagrees with the speaker's viewpoint. It is a fascinating insight into the human condition to see the contrast between board members who dive in mid-sentence to disagree with the speaker when it is obvious they actually hadn't heard/interpreted properly what the speaker is saying and those thoughtful sharp board members who have listened/interpreted properly and are able to coherently respond to the speaker either in agreement or



providing an alternative viewpoint/position. The quality of listening on a board has a key bearing on the overall quality of challenge, debate and oversight.

### Valuing Diversity

The final report of the five-year Hampton-Alexander Review was published on 24 February 2021. The Hampton-Alexander Review is the successor of the five-year Davies Review on women on boards, meaning this is the culmination of ten years of additional focus on gender diversity at board and senior leadership level from government, companies and investors. 34.3% of FTSE 350 board positions are now held by women and the number of women on boards has increased by 50% over the past five years. There are no longer any all-male boards in the FTSE 350. Why has this been such a struggle when the business case and logic for female representation on boards and broader board diversity was always so strong? Why do we still have 444 AIM listed boards with no female board directors? The answer lies in individual board members' personal attitudes to diversity. A lot of board chairs and board members who have resisted board diversity will not admit to this, but it has taken a lot of institutional investor pressure, government and societal pressure to eventually force 'preservationist board chairs' to relent and do the right thing in terms of gender diversity on boards. While the larger PLC sector has improved in terms of female diversity, there are many other company board sectors with still some work to do. Attention is also now turning to improving diversity in other areas such as age, skills diversity (technology, ESG etc.) and ethnic diversity.

### Empathy and Emotional Intelligence

Emotion researchers generally define empathy as the ability to sense other people's emotions, coupled with the ability to imagine what someone else might be thinking or feeling. In the context of a board of directors, empathy is important in terms of board members and executives understanding of each other. A common scenario is where a CEO and executive team are struggling for genuine reasons and while they can fully understand the board 'hauling them over the coals' in terms of missed targets and under-performance, they really need help from experienced board members who can bring their independence of mind, years of experience and in some cases left field thinking to help them. Quite close to empathy is the whole area of emotional intelligence. Daniel Goleman, an American psychologist who popularised the concept, defines this as "The ability to understand and manage your own emotions, and those of the people around you. People with a high degree of emotional intelligence know what they're feeling, what their emotions mean, and how these emotions can affect other people". One of the characteristics of outstanding board chairs is a great level of emotional intelligence where the board chair's ability to understand each board member, sense how they are feeling etc. and

spot warning signs early, is a vital component of optimising the 'people equation' of the board and the board's overall effectiveness.

### Moral Compass

If ever an area of the boardroom intersects with the human condition, it is in the area of ethics, values, decency and fairness which all define the organisation's unique culture. I always visualise a board as having a moral, culture and values compass that guides its overall behaviours, and its 'true north' should point to a composite of all of these. The fact that on a weekly basis we continue to have scandals and dysfunctional behaviours at major PLC boards, non-profit/charity boards and boards across all sectors, is testament to the fact that the moral compass of a board cannot be taken for granted and needs to be nurtured and protected. We have all watched on as boards lost their way with catastrophic impacts at the likes of major companies such as Carillion and Wirecard. We all were fascinated to see the goings on at the YouTube viral sensation at Handforth Parish Council Zoom meeting recently. The recent focus on ESG for boards is setting new challenges for boards in terms of genuinely standing up and being counted in terms of their commitment and leadership in key areas such as climate change, employee engagement, how they treat their customers and their broader commitments to their communities and societies as a whole.

### Understand and Optimise

The first step in optimising anything is to first understand it and measure it. The areas I have highlighted are complex, often intangible and can be difficult to quantify. I find that the people equation of the board starts way back at the quality of the process to select new board members who have the right qualities/attributes in addition to their skillsets/experience. The board chair is the overall custodian of the people equation of the board and along with the CEO and company secretary has a key role in nurturing this and addressing issues which impact on it. Board evaluations (internal and external) and individual annual board chair and board member evaluations all have a key role to play here.

I would also recommend a short Kaizen-type feedback session at the end of a board meeting (Kaizen is a Japanese term meaning 'change for the better' or 'continuous improvement'). Where this is done well, it allows the board as a team to reflect on the board meeting in an open and thoughtful way, highlight the positives and address for example an area where emotions ran high, tensions and conflict developed. In many cases, thoughtful board chairs will often have one-to-one confidential discussions with board members.

In summary, the 'people equation' of the board is complex, covering the importance of how the board functions, how board members engage, challenge, debate, make decisions and ultimately impacts on the board's effectiveness and its ability to truly excel for its shareholders, employees and stakeholders. ■

