

## DIRECTORS' DILEMMAS

### The Challenges to Trust Re-Shaping Governance

Take-Away Notes by John Dalla Costa



The principles and duties of governance are not static. As well as evolve continuously in response to new expectations or best practices, historical reviews show that the very structure of governance periodically undergoes more radical reconfiguration. We are in the messy-midst of another such reconstruction, as researchers, policy-makers and practitioners all over the world are trying to make governance more trustworthy in the face of today's "volatility, uncertainty, complexity and ambiguity."

- From my own work with boards I've discovered that individual directors often have quite diverse (and not always aligned) understanding of their role. Have individual board members write out their definition of governance. Compare these. Do you mean the same thing? Forge a shared meaning for governing - in the particular context of the organization, and with explicit reference to the terms of trust held by stakeholders.
- Boards are not in place to duplicate the work of executives. Of course, there are times of turmoil when directors need to intervene in operations or strategy. However, the larger (and defining) duty is for boards to create the stability for executives and plans by imagining and engaging "crisis before the crisis." Imagine in detail best-and-worst case scenarios. What purpose will the board use as its guiding star to not be overwhelmed by the unexpected? What principles will serve to orient and motivate executives and staff? What promise will you make to stakeholders to uphold your trust, and provide assurance as fiduciaries, to directly counter prevailing suspicions?
- In times (such as ours) of unsettling uncertainty, boards need the credibility from their demonstrable integrity in order to innovate new modes of assurance. Eschew codes of conduct, which tend to legalistically prescribe the minimums for avoiding malfeasance. Instead, as a board carefully write together your own "Ethics Charter." Don't delegate this to staff or consultants. The hard work fashioning such a statement together will return innumerable benefits in future debate and decisions. Define together the core principles that animate the organization's social mission, as well as the values that will come to represent the mutual commitment of directors. Study and audit how trust works or may be changing in your sector, and then set the targets for ethical culture (in the boardroom, and in the organization) to earn trust.
- Before changing structures to be more trustworthy, we need to change mindsets. Two-thirds of directors interviewed by McKinsey in a global survey reported that they spend far too much time on audits and controls, and far too little time looking to the future. Part of this imbalance is a vestige from regarding organizations as hierarchies rather than complex systems. Where hierarchies are top-down focused, and demand accountability from below, systems are much more interactive and dynamic, requiring boards and leaders to be accountable to first principles, and to stakeholders. Map your organization's structure. Is the board at service of the living system? Is it attentive to the many relationships, and interlocked responsibilities, which generate trust?

## **THE FIVE B's OF BOARD BEHAVIOUR: A Diagnostic Summary from the Governance Literature**

John Dalla Costa

Based on numerous governance studies, I'd propose a five-part typology to describe Boards and their relationship to trust. One and two are basically "trust-consuming"; three and four are "trust-circulating"; and - given today's conditions - only five qualifies as "trust-generating."

Where on this spectrum would you place your board?

1. **"Barely Hanging-On"** are boards that are stuck in what researchers call "firefighting" mode. Such boards have little capacity for strategy, and are inconsistent in following even the most basic governance processes.
  - Directors for such boards turnover quickly, and are recruited piecemeal to either fill a vacancy, or access expertise for an immediate problem.
  - Most such boards tend to have little if any training in governance. Processes are loose, with agendas usually posted at the last minute.
  - Not only is there little preparation before meetings, but attendance is sporadic.
  - And because resources are scarce, directors will often get thrust into responsibility for implementation.
2. **"Below Average"** boards are relatively more disciplined. These will have adopted generally accepted norms for governance, but stick primarily to ticking all the proper boxes to fulfill the minimums for compliance.
  - Board members are often drawn from a narrow pool of prospects – not necessarily "an old boys network" but rather from a caste of leaders, professionals, and peers.
  - Diversity is very much a work in progress.
  - Not only that, but decision-making power is often concentrated with one person, or a small clique.
  - These are often either "rubber stamp boards," or "do-the-minimum boards," which by their definitions explain why performance and culture are below average.
3. **"Basic and Dependable"** boards perform the currently expected duties of governance, with emphasis on auditing and accountability.
  - Rules and structures are in place; agendas and meetings tend to be well organized; formalities are followed; attendance is consistent, and all the regulatory filings are delivered as required, when required.
  - The diversity of board members is still developing, but in most cases not yet representative of the community being served.
  - While making contributions to strategy, researchers explain that the core competence on these boards is more oriented to approvals and to compliance.
  - Focused on technical proficiency, compliance-driven boards focus on fulfilling fiduciary duties as only (or primarily) relating to performance, be it financial, short- term, or other outcomes.

4. **“Best Practices Boards”** do governance well, and are early adopters of new structures - such as dividing the role of the Board chair from that of the CEO, or establishing other-than-audit committees.
  - Trustees on such boards get recruited independently and systematically, with criteria for both the person’s qualifications, as well as for role and contribution that the board needs to have filled.
  - Formal policies and procedures are in place, along with principles for trustees, which may include a code of conduct.
  - If admirable, this rigour has a downside, in that a reliance on standards or protocols set elsewhere fosters habits of adoption or imitation.
  - Awaiting precedent to be set or approaches to be validated hampers exploration and experimentation. The Fortune 1000 directors McKinsey interviewed – two thirds of whom were concerned by the lack of forward-thinking – would mostly serve on boards already highly evolved in best governance practices.
5. **“Benchmark”** boards are the ones that originate the best practices that the early adopters imitate. These boards excel at all the technical qualities we associate with good governance, using these not as an end but as means to do creative discovery.
  - Directors are not simply demographically diverse. They instead represent diversity in thought, perspective, interpretation, and priorities.
  - Meeting locations and lengths vary, to facilitate new learning, to engage diverse stakeholders face-to-face, and to breakdown barriers that otherwise sustain “business as usual.”
  - As is true with “great” companies, great boards focus more on resilience and relationships than results. They have the “emotional intelligence” to see issues in depth, and the deep trust to disagree vociferously while remaining utterly united and focused on purpose.
  - Benchmark boards are not trying to set trends: they are trying to respond by honestly understanding the changes demanded by the uncertainties in the present operating environment, and by the new questions posed the unfolding future.
  - Valuing wisdom and inclusiveness, these boards *improvise with integrity*, fostering skills of dialogue and discovery, which enable directors to contribute their best when needed most.