Building accountable boards

KPMG Board Leadership Centre

Formal corporate governance mechanisms such as codes and regulatory frameworks alone will not guarantee accountable and effective boards. This is because governance does not occur in a social vacuum, a reality that often gets overlooked. The shared history of director interactions on a given board (characterised by behavioural norms and routines that shape the expectations and conduct of members), fundamentally affects how accountability is actually practised in and around the boardroom. How can NEDs become more conscious of the invisible effects of this history on independent mindedness and on the proper contest of ideas?

Dr. Meena Thuraisingham, Author of "Identity, Power and Influence in the boardroom" (Routledge, 2019)

Corporate Governance is the process by which corporations are made responsive to the rights and wishes of stakeholders. Accountability is the <u>process</u> by which this is practised through actual director interactions, behaviours, routines and norms. Despite this, we often think of accountability as an outcome or a goal - a set of expectations that can be enshrined in mandates, codes or regulations depicting what should be done, by whom and how.

This distinction is real. Most non-executive directors (NEDs) can attest to differences in the character of different boards they have experienced, despite those boards being governed by similar codes and regulatory frameworks. These differences have their roots in "how we do things around here": some boards are highly formal and procedural in their norms and routines around debate while others are more engaged actively challenging each other and encouraging contention of ideas and proposals. Regardless of the character of the board, this process by which accountability is practised creates an implicit understanding of the social order of things and can serve as pressure for unity. This social order then becomes the standard against which each individual NED assesses how they are doing, reassessing their value to and their place in the group and adapting their behaviour accordingly.

Despite such complexities, the post-crisis tendency of regulators is to advocate more formal rules or structural change in an effort to improve accountability.

This is misplaced effort. A more nuanced understanding is required of how accountability is accomplished through expectations, norms and relationships, not just among regulators but also across the director community.

Group effects are pervasive. When individuals get together in a group, they think and act in ways that they may not do on their own because of the effects of group membership. Directors observe, evaluate and shape their reactions to the sense they make of the prevailing boardroom dynamic. The book exposes these group effects, demystifying this informal aspect of accountability. It suggests strategies for how the gap between formal expectations and actual behaviour can be closed to develop a more effective board.

Viewing director interactions through the prism of social psychology, the research that underpins the book reveals an interesting social reality. This form of informal accountability has an unwritten value attached to convergent practices in the group and has a self-regulating effect on director behaviour. In other words, each director has a range of hidden risks to navigate and manage in order to retain their independent mindedness which is core to the NED's role.

Especially in respect of strategic decisions, when the processes of accountability are working well, director interactions are characterised by openness, robust engagement, challenging but respectful debate with mutual trust at its heart.

When these processes are not working as they should and the balance of power sits with a few, decisions can become compromised because deviant views can be easily controlled and conflict potentially suppressed by a form of *social control or social sanctioning* invisible even to those in the boardroom.

Social control or sanctioning can lead to opinion conformity, revisions of confidence and self-censoring of doubt or a divergent view in order to fit in. It can also result in those holding the balance of power in the room neglecting to ask or acknowledge another's opinion on an issue, exclude someone from important offline discussions and so on. At the other extreme it can result in a swift dismissal of a viewpoint or closing down a line of questioning perceived to not conform to the group view. Many NEDs will acknowledge having witnessed such behaviour at some stage during their board life. The material cost to the organisation of such behavioural effects is that the collective capacity and capability of NEDs is not fully engaged and the potential of the board as a strategic group is not fully realised.

The shared history of director interactions on a given board defines how accountability is practised. Any effort directed at strengthening board effectiveness must acknowledge both the formal and informal forms of accountability. By 'humanising' the process of governing public corporations, and, in particular, illuminating the effects group membership has on decision making behaviour, the on-boarding of new directors and the ongoing development of all NEDs will be strengthened.

How do we better prepare NEDs to navigate the complexities of board life while retaining their voice, their independent mindedness and their influence in and around the boardroom?

Dr. Meena Thuraisingham, Director of BoardQ, is an organisational psychologist with extensive experience consulting with and coaching top teams, directors and boards on strengthening effectiveness. This is one of a series of short pieces on the many dilemmas that directors face in navigating boardroom cultures. Meena's book, Identity, Power and Influence in the Boardroom, *a unique view of board functioning through the prism of social psychology, will be published by Routledge UK in May 2019. She will be speaking at a KPMG hosted event on the 10th June in London and participating in a panel discussion on board culture and renewal.*

Contact boardleadershipcentre@kpmg.co.uk for more details and to register your interest in attending.