BOARDROOMS THAT WORK

A guide to board dynamics

MARGOT CAIRNES

Socialisation
Processes
Success
dysfunction
Governance
respect
diversity
dialogue

GROUP OF 100

AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS

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Preface

This guide to board dynamics is published jointly by the Group of 100 (representing Chief Financial Officers) and Australian Institute of Company Directors. The Group of 100 and Australian Institute of Company Directors wish to acknowledge the work of Margot Cairnes as author and the significant contribution of members of the working party.

Directors and senior executives rely on the integrity of the information they receive from their companies. If information is flawed, there can be severe consequences for the company's credibility, the reputation of its directors and executives and its financial position. Successful processes and procedures depend upon people implementing them effectively and their behavioural relationships.

This guide explores the effect that behavioural dynamics have on effective decision making in the boardroom, in board committees and by senior executives. It is designed to raise awareness of the issues that arise in practice and to explore some of the types of behaviour that either promote or undermine good corporate governance.

This guide is an aid for those responsible for the consequences of company decisions and provides examples of the signs that precede or accompany information lacking integrity. It explores the way human behaviour, especially group behaviour, interacts with corporate governance practices and structures, an area that is often overlooked in discussions about corporate governance.

It does not add to existing literature on corporate governance "best practice" processes and procedures, but aims to raise awareness of the things people do that impair the integrity of data and of decisions based on that data.

John Stanhope
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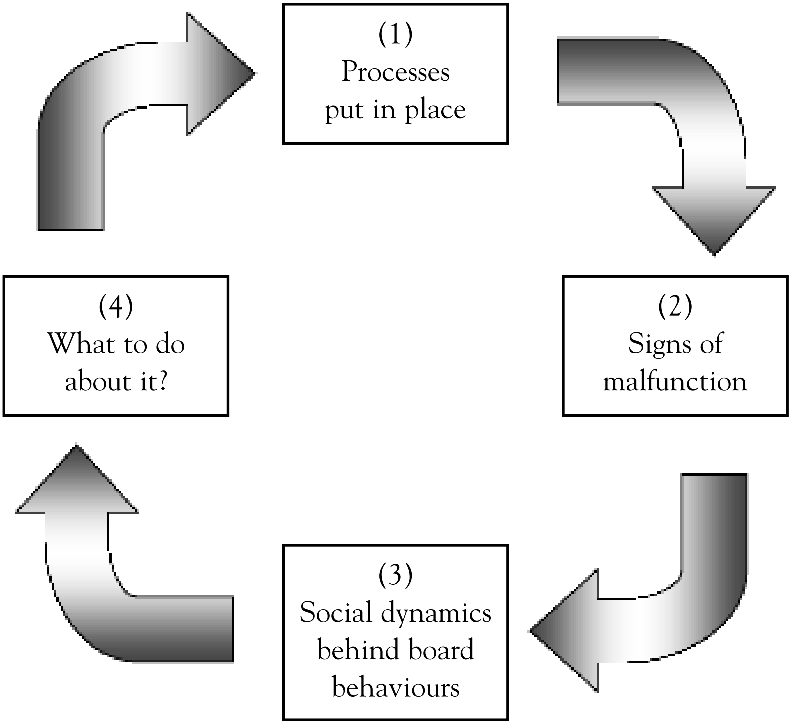
Chapter 1. Synopsis

Achieving good governance demands paying attention to four separate processes. These processes have a circular, continuous improvement connection.

- The first process recognises the requirement to implement good processes. However, even the best processes are driven by people, who are in turn driven by personal and group-based factors. Processes only work well when people operate them well.
- The second process notices the early warning signs that indicate these processes are malfunctioning and could cause problems later on.
- The third process understands the human dynamics that create these malfunctions and how these dynamics can change for better decisions.
- The fourth process puts things right, ensuring that the environment is optimal for continuing good governance. This may require modifying processes to incorporate lessons learned during the first three processes.

Finally, the cycle should be repeated at regular intervals to protect and enhance what has been gained.

Four processes of good governance



Chapter 2. Good corporate governance processes depend upon people

In a review of the governance processes underlying the collapse of Enron, Tyco and WorldCom, Jeffery A. Sonnenfeld[1] says those responsible for governance mostly concentrate on rules, procedures, and things such as the composition of committees.

In comparing boards that failed with boards that succeeded, Sonnenfeld found that there was no significant difference in the formal aspects of governance between good and bad boards. For example, directors on boards of failed companies were as likely to attend board meetings regularly as those from successful companies. Similarly, directors of failed companies were as likely to invest their own money in their companies as those from successful companies.

Sonnenfeld found that "Fortune's most and least admired companies" had board members with the training and experience "to analyse complex financial issues and to understand what kinds of risks a company is taking on." Such things as the presence of the past chief executive on the board, the age of board members, the size of the board, or the presence or absence of board committees were not indicators of the board's capacity to perform. Nor was independence of directors a meaningful distinguisher between good and bad board performance.

What brings boards and companies down is not tangible, visible, and measurable.[2] What brings boards and companies down is dysfunction within their social system.

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1. Sonnenfeld, JA, 2002, "What Makes Great Boards Great", *Harvard Business Review*, September
2. It follows that while legislation for good governance is important, it is not sufficient. However, this issue is beyond the scope of this guide

The key Sonnenfeld insists "isn't structural, it's social…What distinguishes exemplary boards is that they have robust, effective social systems with a virtuous cycle of respect, trust and candour."

Chapter 3. Early warning signs of board malfunction

It is difficult for people inside a group to recognise and to judge when and how the group is dysfunctional, because their behaviour in the group is largely subconscious. This section of the guide gives examples of early warning signs that something might be wrong and might need further investigation. These signals are often dismissed as trivial, irrelevant to the broad sweep of good corporate governance. However, in the field of human group dynamics, small things can signal larger systemic problems.

The examples described below are not exhaustive and are not listed in any order of importance. The primary message from the examples is that human social relationships are a key determinant in the decision-making processes and procedures in any organisation.

- *Sign one—the dominant personality*

  Some examples: a chairperson or chief executive officer who dominates board proceedings and intimidates other directors, or directors who are unduly deferential to the chairperson or chief executive officer. It can involve people being ridiculed or treated dismissively for asking a question or for clarification of an issue, for example, "The audit committee looks after that", "Don't you trust the chief executive officer?", "You can't keep interrupting our managers, they have a business to run!"

  Politics is a normal part of any human social system, particularly those systems that operate within environments responsible for the allocation of economic rewards. The healthiest way to deal with political dynamics is to bring them to the surface, discuss them, observe them and deal with them openly. The more this is done the less political the environment becomes. The warning sign here is not the existence of politics, but that people are unwilling to discuss and to work openly with the political dynamic.

Directors are a testing ground for all significant information, processes, and proposals put before the board. Doing this testing can challenge human sensitivities and relationships, but is necessary to do the job of a director properly. Directors doing this testing need to approach the task in a helpful, non-destructive way and need to be willing to risk personal discomfort and to explore areas of concern without inhibition or embarrassment.

- *Sign two—hurried decisions based on inadequate data*

This can involve directors being asked to ratify rather than approve "commitments" or receiving proposals at the last minute for an urgent decision, leaving no time for proper analysis or discussion. It can involve giving directors proposals containing inadequate comparative data with the explanation that gathering the appropriate information would be too difficult, costly, or time consuming.

There are occasions where a business opportunity calls for quick and decisive action. Even if time is of the essence, an urgent board meeting should be convened and the best information given to directors so that they can make appropriate enquiries and have a full discussion.

A director who tackles this warning sign can be branded as a troublemaker, imposing additional work and cost, and wasting time. It is the director's job to insist that relevant data is available to allow an accurate assessment of the situation and for sound decision making. The executive's job is to provide timely, accurate and comprehensible data.

- *Sign three—serial restructuring and resignations of key executives*

  Repeated organisational restructures or the resignation of key executives to "pursue other interests" or to "change direction" can be early warning signs.

  The chief executive officer is responsible for organisational structure. However, the board should always be satisfied that it understands and supports the reasoning behind any restructure proposal. The board can offer constructive advice, but should not impose a different structure on an unwilling chief executive officer. This can make it difficult for a board to hold chief executive officers accountable for the performance of a structure and team they did not choose. However, because organisational change involves intangible issues and personalities, the independent views and expertise of the board can be valuable.

  Companies often announce that senior executives have resigned "to pursue other interests", to "change direction" or "for family reasons", attempting to convey the impression that the resignation is unrelated to the company or the dynamics of its decision-making processes. These resignations can be an early warning sign of systemic breakdown in the functioning of the board or of board and management relations. A board's failure to investigate the departures of effective senior executives can perpetuate the problems within that board or management team.

- *Sign four—"do as I say, not as I do"*

  Many companies preach restraint and integrity, but compromise these principles by their own decisions and actions. Effective companies set sound business rules and practices for their employees to follow. If no-one, from the board and the chief executive officer down adheres to the standards, values and rules of the company, the opportunity of promoting a corporate culture from the "top down" is lost.

Navigating this territory demands reinforcing the company's standards, values and rules by applying them consistently and communicating openly throughout the company.

- *Sign five—the cover-up*

  A board could decide not to discipline a breach of company procedures because it could adversely affect the company's image and affect staff morale, or they could conceal information considered damaging to a company's reputation, such as products produced in overseas "sweatshops". These situations are good examples of the importance of the intangible social issues that affect group decisions. The decision to keep an issue out of the "public arena" can rebound on a company. It is likely that employees, regulators, or the public, through media speculation, are already suspicious that all is not well and are waiting for a demonstration of leadership by the board or senior executives.

  Leadership is demonstrated by acknowledging the problem, administering discipline if required, and by emphasising the corrective action being taken. Covering-up usually leads to loss of respect and damage to employees and public confidence in the organisation.

  The board sets the moral tone of the company and needs to be aware of ethical issues and current public sentiment. Directors are the key upholders of the company brand name and can be personally accountable for major breaches of social and ethical practice.

- *Sign six—interfering with the information flow*

  The following tactics can be causes for concern:

  - focusing discussion and debate on possible public reaction to a problem rather than developing sound business plans to solve the problem
  - changing or amending reports or data ensuring bad news is either trivialised or withheld
  - swamping the board with a voluminous amount of material at short notice
  - using meeting time on trivial matters and rushing important matters at the end of the meeting because of lack of time
  - ensuring a project proceeds by deliberately withholding information prepared by an executive known to oppose the project
  - ensuring key employees, who have key information for major decisions, are away or "out of the way".

  Beware when these tactics occur regularly, or when they stifle debate on important issues. Even though discussing these issues and bringing the tactics to the surface can be very challenging, directors may wish to ask:

  - is there anything being hidden, covered-up, or not tabled?
  - is a specific agenda being promoted and why?
  - are there any specific interest groups that benefit?

- *Sign seven—favouring particular interests*

  This could involve the chief executive officer and the chief financial officer promoting an interpretation of accounting rules requiring judgment in a manner that favours their performance measures and benefits, or which does not disclose relevant contractual arrangements.

Applying accounting rules can require boards to exercise judgment to ensure the accounts and disclosures are full, accurate, balanced, and inform shareholders and other stakeholders of the true state of the company's affairs.

A number of recent corporate collapses[3] have shown that many interpretations have been about the application of accounting rules in a way that had less to do with integrity and more to do with underwriting short-term executive benefits. This was detrimental to the reputation of the board, the executives concerned, and the company's image.

- *Sign eight—on the defensive*

Company communications should create public, customer, and employee confidence in the integrity, relevance, and usefulness of the information provided.

The most effective company communications are honest, balanced, and written in plain English. Legalistic, defensive communications create a suspicion that something or someone is being protected. Directors should identify the facts and monitor the style of the company's communications rather than be put in a defensive position when analysts and the media investigate what is behind elliptical announcements.

- *Sign nine—forecast versus final*

Accurate data is an essential ingredient of the quality of business judgments and decisions.

A significant variance between the estimated and final audited accounts could indicate that internal accounting processes and provisioning are not recording transactions

3. Enron, HIH, Worldcom

and events in a consistent and timely manner and that the data is being manipulated. Post-implementation review of significant projects is critical to monitoring the quality and fullness of the information provided for decision making.

- *Sign ten—no-one is responsible*

  In this situation, no-one at any level of the company will accept responsibility for recommendations or decisions.

  Someone who is reluctant to accept responsibility or to be held responsible will use phrases like "my advisors and my staff tell me that …" rather than "I have investigated the key causes for… and recommend that …".

  Reluctance to take ownership or a tendency to shift the blame when things go wrong can indicate:

  - that company responsibilities are not clearly defined
  - that the culture of the company punishes or humiliates individuals for mistakes or errors of judgment
  - that the individual lacks confidence or experience, or is unwilling to be accountable for the discharge of their responsibilities.

  Whatever the explanation for this reluctance to be held accountable, this behaviour should serve as a warning signal.

Chapter 4. What drives human social behaviour?

People run organisations and their processes. People oversee and program technological systems and fix them when they break down. People make all the key decisions. Even with the best quality control systems in place, major corporate fraud, accident, and collapse are possible; it all depends upon the involvement and actions of people.

Human beings are social animals, genetically programmed to live and to work in communities. Human group behaviour reflects a deep desire and a need for group acceptance. Becoming an adult involves a struggle between individuation, knowing who one is as an individual, and socialisation, becoming a functioning member of our society. Socialisation demands behaving in a way acceptable to those around us. This is core to the human psyche.

Individual and social human behaviour is complex and driven by a variety of intangible, nebulous and often non-rational forces. If these forces are not understood and badly managed, they can produce major problems.

When failure occurs in an organisation people think that one individual, or a group of individuals, is incompetent or has engaged in malevolent behaviour, for example, greed, or a lust for power. This is sometimes true. What is more troubling is that human social psychology indicates that errors often occur not through incompetence or malice, but as a natural consequence of the human social dynamic. This dynamic sees individuals agreeing to, or failing to oppose, a group decision even though they are not satisfied with the answer to the questions or the group decision.

Sound corporate governance requires understanding these needs and social dynamics so that they can be harnessed in the interest of good governance.

Chapter 5. Invisible blocks to transparency

Group think

All groups have norms, the rules about what is required to be a member of, and accepted by the group.[4] These norms will differ from group to group. However, one rule is invariable: breaking the norms can lead to group censure and ultimately to exclusion from the group. Intelligent and highly ethical people will often comply with group norms even if doing so demands from them behaviours they would normally avoid.

In a study of major military disasters such as the Bay of Pigs, Janis Irving[5] found that there were people in decision-making groups who believed that the group was making the wrong decision and had information to support this belief. The information was not tabled or, when it was tabled, was put to one side. Individuals did not fight for their point of view or even press their evidence for that view. Irving labelled the dynamics operating in these groups "group think". He found that when "group think" was present there was an *us* and *them* mentality, a view that meant that each group member was either "with *us* or against *us*".

There was also a strong belief that those not with *us* were in some way less intelligent, less moral, less worthy, or less trustworthy. Voicing an opinion that differed from the dominant *us* group opinion, meant risking exclusion from the group. Initially "group think" operated subtly, suggesting those opinions or facts were not relevant; then questioning the individual's

4. Cairnes, M, 1997, "Breaking The Rules", *Engineers Australia*, March Institute of Engineers Australia
5. Irving, J, 1971, "Group Think", *Psychology Today*, November, pp. 43–6

competence, and finally culminating in threats and ultimate expulsion from the group.

Teams where "group think" operates usually have an individual who acts as a "mind guard". They ensure that those expressing views and providing information that might unsettle the dominant group ethos are encouraged to conform or to leave.

Group dynamics that promote and respect difference, diversity, honesty, questioning, conflict, and dialogue, counteract "group think". "Group think" can be countered by:

- diversity of group membership
- conscious awareness of group dynamics
- the presence of a devil's advocate.

Subconscious collusion

When "group think" is operating, a group colludes on a subconscious level to maintain the stability of the group and to avoid change. Invisible, subconscious, collusive forces dissuade group members from asking embarrassing questions, outshining each other, or "rocking the boat".

Subconscious collusion happens in marriages, friendships, businesses, community groups, and in politics. For example, performance management systems frequently fail in business. Why? Managers avoid personal discomfort by not giving critical feedback to under-performing colleagues and subordinates.

It takes skill and personal courage to challenge the rules or norms, stated or not stated, by which the group operates. Regardless of their level of personal discomfort, board members need to create group norms that foster:

- problem solving
- critical review
- feedback
- honest, open discussion.

Dysfunctional rules of organisations

In companies, the stated rules typically consist of laws, regulations, the company constitution, values, and ethics statements. These stated rules can be undermined or negated by covert rules, such as those that support "group think". When groups collude, the covert rules dominate the functioning of the group. Functional rules aid group effectiveness and unstated dysfunctional rules undermine group effectiveness.

Dysfunctional rules operate in many different groups. Family therapists, such as Robert Stubby,[6] have identified unstated, dysfunctional rules that operate in the families of addicts. These include:

- it is okay not to talk about problems
- communication is best if indirect, with one person acting as the messenger between two others
- do as I say, not as I do
- do not rock the boat.

In their book *The Addictive Organisation—Why we overwork, cover up, pick up the pieces, please the boss and perpetuate sick organisations*, authors Wilson-Schaef and Fassel[7] claim that these same rules are alive and well in most organisations.

Creating healthy board dynamics requires creating a group culture where all the dysfunctional rules are acknowledged and consciously broken. This requires issues to be aired, discussed, and solved. Functional cultures encourage people to admit their lack of understanding, concern for issues, the need for support

6. Stubby, R, 1984, "Inside the chemically dependent marriage: Denial and manipulation", *Co-Dependence: An Emerging Issue*, Health Communications, Hollywood Beach, Florida
7. Wilson-Schaef, A, and Fassel, D, 1988, *The Addictive Organisation*, HarperCollins, New York

and learning while encouraging people to be true to themselves even if doing so runs counter to group comfort and stability.

Chapter 6. Precious intangibles

Many directors and senior managers start in technical specialties, such as engineering, accounting, or law. Initially, their work concentrates on specialised aspects of their field with little emphasis on people skills and all the elements of human behaviour.

Many directors and senior managers have little formal training in dealing with the intangible areas of human behaviour and underrate its importance. While they are capable of valuing and safeguarding an intangible such as a brand name, a masthead, or a firm's professional reputation they are less capable of dealing with human behaviour.

Good corporate governance requires business leaders who are skilled at recognising and dealing with human behavioural systems. Not only do directors need to upgrade their skills in this area, but boards also need to embrace norms that make it safe for directors to use people skills and intuition when dealing with social systems and their intangible elements.

The next section of this guide explores how personal mindsets and beliefs can influence these intangible areas of human behaviour.

Mindsets and beliefs

New ways of working require new ways of seeing the world and processing what we see. Traditionally, managers attempt to change the "activities" of an organisation because these activities are visible and measurable. In human social systems, however, behaviour is symptomatic of individual functionality. Behaviours are the external reflections of how people think, feel and relate.

Mindsets and beliefs are the key internal drivers of behaviours,[8] which individuals use to make sense of reality.

If we have a mindset that good governance deals only with visible, measurable facts and a board member interrupts proceedings to ask questions because they have an intuition that something is not right, but are unable to prove their suspicions, we are likely to see them as a nuisance. If our mindset rests on a belief that emotions are uncomfortable, or even dangerous, we unconsciously punish someone who openly voices an opinion or emotion that causes us discomfort.

If the group norms support our mindsets and beliefs, "group think" is the likely result. The group is likely to collude unconsciously to silence the "devil's advocate" director and get on with the "important", tangible, comfortable things.

If we have a mindset that the world is a complex, changing place, where intuition can provide early warning signs for exploration, then the "devil's advocate" director is a valuable person who instinctively finds something that needs further investigation.

Mindsets are intellectualisations of beliefs, usually experienced as unconscious emotions, which operate simultaneously. We can argue convincingly and logically, in support of a mindset without realising that our motivations spring from an emotionally anchored belief, arising out of our own emotional history and experience.

Effective boards create social systems that encourage people to become conscious of their mindsets and beliefs so that they can be consciously reassessed and upgraded to ensure best-practice outcomes. We can control that which is conscious, but that which is unconscious controls us.

8. Cairnes, M, 1996, "The Power of Positive Thinking", *Engineers Australia*, The Institute of Engineers, Australia, August

Chapter 7. Creating an effective board culture

If strong, healthy social dynamics are what make great boards great, then boards need to create a culture in which trust, respect, candour, and open, constructive dissent are the norms.[9] This section discusses some important initiatives directed at creating an effective board culture thereby achieving more effective board performance.

Developing a healthy functioning board culture takes effort, skill, time, and commitment. Some of the steps that can help create this type of culture include:

Creating a healthy board culture

Creating a healthy board culture includes the following steps:

- including building a healthy, functioning culture as an ongoing board agenda item, even if some directors think that the board culture needs no improvement. The more directors who think there is nothing to improve, the more likely it is that the board culture needs review
- assessing the current board culture and your progress over time, seeking outside assistance if necessary
- working out what kind of board culture you want.

Good board cultures develop consciously with contributions from all stakeholders. The board needs to understand that its culture will set the example for the whole organisation. Before seeking outside contributions, the board needs to determine:

9. Cairnes, M, 2003, *Staying Sane In A Changing World*, Simon & Schuster, Sydney

- whether it wants to be a strategic group of experts available to management, or whether it wants to play a strictly governance role
- how the board wants to relate to management and vice versa
- what the benefits and detriments are of these decisions
- what norms are required to make these relationships work for all.

Optimising relationships

The aim here is to raise directors' awareness of the unstated dynamics operating in all groups and to put in place a social system that legitimises dealing with group dynamics in a functional and constructive way. Most boards operate with stated meeting procedures, but are not aware of unstated group rules.

A way to optimise relationships and communication is to have the board, and management if appropriate, reflect upon situations where relationships and communications functioned optimally.

Features of the process could involve:

- asking everybody to write down the unwritten rules or norms operating in that environment
- writing down these rules or norms as a group list and then debating which of them the board would like to adopt
- asking everybody to agree to the list of rules and pledge to keep these rules; it becomes each individual's responsibility to adhere to the rules individually and collectively
- devising a rule that states how this might best be done.[10]

10. Cairnes, M, 1998, *Approaching The Corporate Heart*, Simon & Schuster, Sydney

Boards need to ensure that the cultural and social system rules include the following:

- listen to constructive mavericks or dissenters
- celebrate difference and diversity
- ensure directors are encouraged to participate and speak up
- be alert to those who demand unquestioned obedience
- encourage directors to examine and challenge their own roles, assumptions, and belief systems
- avoid typecasting individuals
- build-in processes that broaden directors' thinking
- develop alternative scenarios to evaluate strategic decisions
- invite presentations from outsiders with different ideas, perspectives, and information
- ensure that there is a diverse range of skills and experience on the board, which ensures a broad array of mindsets and beliefs
- ensure adequate time is available to discuss and review decisions.

Communicating effectively

For effective communication, the following three things are important:

- listening properly
- using effective communication tools
- knowing the difference between dialogue, confrontation or avoidance.

Listening

Understanding and working with group dynamics is more about listening than it is about speaking. Directors should be adept at listening, reflecting and providing a perspective derived from multiple contributions. Undertaking continuous improvement and development training to operate as a quality board should be a standing item on the board agenda. Directors need to be proficient in many different kinds of listening, for example:

- listening for meaning
- active listening
- empathic listening

Effective communication tools

Communicating views, feelings and expectations effectively is an integral element of establishing a climate of trust, respect, candour, and open discussion.

"I" statements are an effective communication tool taught in many relationship, parenting, and conflict resolution courses. Using "I" statements and listening form a sound basis for excellent communication.[11]

An "I" statement has three components:

- A factual statement, what happened or is happening
- An emotion response, without blame or judgment
- An action response, a statement of what the speaker, not someone else, is going to do about the situation.

A chairperson can ask each director for an "I" statement at the end of the discussion of each agenda item. This gives each director the opportunity to provide feedback and a statement of their position on each issue, and allows the board to understand each director's position.

Dialogue

Dialogue involves working with others to expand issues, to hear different points of view, and to explore different options, not for self-aggrandisement or power, but to contribute to the fulfilment

11. Cairnes, M, 1992, *Peaceful Chaos*, The Change Dynamic, Sydney

of all involved. Dialogue is not about agreeing with everyone and everything; that is avoidance. Dialogue is not about aggression, rudeness or point scoring; that is confrontation.

Dialogue is about discussing issues in a way that enables everybody to learn and to grow, and promotes the resolution of issues without ego, posturing, politicking, or avoidance. Outside help can be needed first, to learn the skills, and second, to create awareness of, and to release, the mindsets and beliefs that prevent each person engaging in dialogue. Effective dialogue contributes to good governance.

Creating equality in relationships

Healthy relationships are characterised by mutual respect for another's views. The "heroic rule of relationship" says we are all responsible for fifty per cent of every relationship we are in, our fifty per cent.

Systems theory tells us that if you change one part of any system and the system changes, all the systems to which that system relates will also change.

Trying to change the other person's fifty per cent of a relationship does not work. On the other hand, changing your fifty per cent changes the whole relationship. Change your fifty per cent and your relationships will change. Change your relationships and your world will change.[12]

Becoming accountable

Most boards have structures such as procedures and committees that deal with their areas of accountability. They need to be supported by a culture and an environment that simultaneously encourage individual accountability and support directors participating in and contributing to collective decisions.

12. The "heroic rule of relationship" was coined by Margot Cairnes in *Approaching The Corporate Heart*, Simon and Schuster, 1998

Directors need to clarify with management how the roles and responsibilities are assigned between them. This includes:

- agreeing on clearly defined accountability for the chairman, directors, chief executive officer, and management
- giving directors tasks that require them to inform the rest of the board about strategic and operational issues
- ensuring directors are exposed to perspectives and information from outside the company through meeting customers and site visits
- encouraging directors to use effective communication tools when giving information to other board members, to ensure their real feelings and opinions are heard
- agreeing with management that they too are responsible for information, governance and financial systems. Most organisations have procedures dealing with such things, but do not have procedures dealing with relationships and communication
- telling management clearly that the board wants to ensure that all relevant matters are communicated, including any subtleties or reasons why information might be impaired. For this to be effective, a board's culture needs to encourage open dialogue.

Evaluating the board's performance

Boards need to have their own performance evaluation processes, something frequently neglected. Key elements of this process would include:

- a system to measure annually how well directors discharge their responsibilities; collectively by assessing the board's effectiveness; and individually by assessing the quality of a director's contribution to general discussions and original business proposals

- regular evaluation of the directors' confidence in the integrity of the company, the quality of the discussions at board meetings, the credibility of the reports they receive, the level of interpersonal cohesion, and the degree of board knowledge
- regular assessment of how all stakeholders view the board.

The relationship between the chairperson and the chief executive officer should also be evaluated regularly. Three aspects of this type of assessment are important:

- the chairperson's command of issues before the board. A good chairperson has a significant role in the realisation of most proposals the board considers. If it emerges during the evaluation process that the chair functions poorly in the boardroom and is unable to change, it may be necessary to appoint another chair
- the chief executive officer is responsible for an appropriate organisational structure, the quality of the people in the organisation, and the quality of judgments on business matters delegated to them by the board. Their effectiveness in discharging these obligations is a key element in any assessment of their performance
- a chief executive officer who does not react positively to mentoring by the chairperson can impede good corporate governance and a good corporate culture. A strong functioning culture operating openly deals with contentious issues, for example, the replacement of a chief executive officer, an issue over which boards often procrastinate.

Using objective external expertise

External consultants with experience working with boards can bring a number of benefits to complex matters. They can:

- add another perspective to the debate by bringing different experiences and a different set of mindsets and beliefs
- alert individuals and directors, as a group, to matters they cannot see, especially collusion, factional dissent, and "group think"
- encourage directors to learn about self-awareness, relationships, and team dynamics
- work constructively with the political dynamic of the group
- encourage those unwilling to learn or to work to build the openness, trust, and candour of the social systems, to rethink their position and leave, regardless of their connections and past achievements.

Chapter 8. Conclusion

The advice, counsel and recommendations in this guide might not prevent further corporate disasters, but they will help to create an environment and culture where key issues will be noticed and dealt with promptly.

This guide is an aid for those interested in good governance, who desire to move to higher and more demanding levels of competence, leadership, and accountability and who wish to discharge their professional responsibilities more effectively.

Everyone in an organisation is responsible for good corporate governance. It is not just an issue of policy, but also an issue of attitude and commitment to implementation from the board down.

The integrity of the information that feeds into corporate governance policies and procedures is enhanced if the organisation's culture promotes full and accurate disclosure of all relevant information and open discussion of all proposals put before any management committee or board meeting.

Good corporate governance results when board social dynamics, and the social system in which the board and management interact functions effectively. The subtleties of human social systems have as much to do with directors' personal and group awareness, relationship skills and capacity for taking responsibility and being personally accountable as it does with written rules and, procedures.

The secret to good governance is not what the board says it is going to do, but what it does and how it operates.

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