in the boardroom
culture counts

Board culture reflects the human side of association governance: the written and unwritten rules that influence how the board operates.

By Nancy R. Axelrod

How can a group of intelligent individuals sometimes act so foolishly when they join together as a board? Or a group with varying degrees of talent become an exceptional board? Association governance consultant Nancy Axelrod explores the relationship between board performance and board cultures that promote trust, teamwork, candor, and constructive conflict, while urging CEOs and chairs to become "chief board development officers."

What major company included the following values in its 2000 annual report: communication, respect, integrity, and excellence? Read on to find the answer – you may be surprised.

Corporate governance scandals of the last few years have lowered public trust and heightened public scrutiny of all governing boards. Congressional leaders are calling for better oversight and regulation. State and federal officials who oversee tax-exempt organizations are considering new legislation to enhance accountability. These days, the press sends its investigative journalists to cover not only the Enrons of the world but nonprofit organizations as well. And association leaders are adopting provisions of the Sarbanes-Oxley Act of 2002, the federal legislation that requires primarily public companies to enact stricter, more transparent governance, financial, and management practices.

These measures may contribute to better governance, but all the accountability checks and procedures in the world ultimately won't prevent your board from making lousy decisions with potentially disastrous consequences. If association leaders become ensnared in the thicket of requirements prescribed as fixes without also looking at how the phenomenon of culture shapes the way their boards behave as a group, they will miss the forest for the trees.

Board culture reflects the human side of association governance: the written and unwritten rules that influence how the board operates, the chemistry between board members and professional staff, and the basic assumptions that individuals bring to their work. The tone at the top – or the values that the CEO and board chair bring to their role as "chief board development officers" – has a major effect on the board's culture. But the steady turnover of board members and officers creates a "rolling culture" that keeps boards in flux. Building a healthy governance culture is an ongoing process, not an intermittent task to rescue you if you inherit the "board from hell."

The best association CEOs and board leaders grasp the paradox of assembling a number of highly competent individuals only to find that, contrary to preconceived notions of "the best minds in the best place," they can form an incompetent group. These leaders actively monitor how the board operates as a social system. Others dismiss the stuff of relationships and social dynamics as either a skill that individuals inherently will bring (or not bring) to their board service or just too "touchy-feely" or "soft" to tackle. Four thoughtful "culture observers" offer some new insights on this key dimension of board building that the growing governance cottage industry has neglected.

Assessing the Board's Competencies

The leaders of the most effective boards take deliberate steps to transform an assembly of talented individuals into a well-integrated group.

In the Exceptional Governance Programs offered for board chairs and CEOs by The Center for Association Leadership, teams are invited to assess the strengths and weaknesses of their boards well before they design their board-building action plans. The program often draws on the work of the research team of Chait, Holland, and Taylor, who found that without an *intentional* effort to develop the capacity of the individuals on a board to work as a group, their natural inclinations pull them toward the very things we wring our hands about – away from long-term challenges to immediate concerns, away from strategy to operations, and away from collective actions to individual actions.

The leaders of the most effective boards, according to Chait, take deliberate steps to transform an assembly of talented individuals into a well-integrated group. As a result, their boards demonstrate interpersonal and analytical competencies. These boards recognize that an inclusive and cohesive board makes better decisions than do individuals, but they continuously draw upon members' multiple perspectives to avoid the trap of "group think." They foster inclusive relationships from the time a new board member is recruited, and they build in regular opportunities for board development, gathering feedback on their performance and learning from their mistakes.

Cultivating the Board's Team Muscle

Team expert Patrick Lencioni observes that genuine teamwork in most organizations remains about as elusive as it is touted. In a study of what makes teams effective, he notes that groups stumble on five natural pitfalls that can easily occur in boards: absence of trust, fear of conflict, lack of commitment, avoidance of accountability, and inattention to results.

Unlike the boards of publicly traded companies, which are perceived to be detached from their shareholders, association boards often are made up of members and customers. This situation endows individual board members with a special understanding of the needs of key groups of members. Unfortunately, it also can burden some members with allegiances to special interests, which can compromise their duty to act on

behalf of the welfare of the entire organization.

Teamwork often demands substantial behavioral changes from strong individual board members who may be set in their ways, used to calling the shots, and more skilled at muffling conflict rather than voicing differences. The tendency of some CEOs and board members to suppress criticism and conflict can undermine decision making. "Dysfunctional harmony" can create a petri dish in which problems can fester, often leading board members to air their differences outside of the boardroom in a manner that sends confusing signals to members.

Such discord also can lead to faulty assumptions in formulating strategy. The investigation that followed the *Columbia* space shuttle crash in 2003 uncovered a number of technical and economic problems at NASA that led managers and engineers to conclude erroneously that a piece of foam debris that struck the craft after liftoff was not a significant risk. But internal and external analysts have pinpointed a decision-making culture at NASA (at that time and preceding the *Challenger* shuttle accident in 1986) in which striving for unanimity along with unspoken fear of reprisals for criticism trumped the realistic appraisal of alternative courses of action.

Association governance is like rocket science in at least one way: Decisions must be made in real time. But decision makers place their organizations at risk when they have a low tolerance for differing viewpoints. The capacity to test options regarding high-stakes decisions against the practical wisdom of frontline staff is a precious leadership competency.

The clarity of hindsight usually confirms that any delay or temporary anxiety leaders experience as a result of "disconfirming" information is more than offset by acquiring the information needed to assess the impact of potential actions. Planning for the worst case rather than the best is what we should expect of fiduciaries.

What Makes a Great Board?

Thanks to the colossal governance breakdowns at companies such as Enron, WorldCom, and Tyco, the correlation between the board's ability to work as a robust group and its performance is now emerging in the for-profit sector. When corporate governance expert Jeffrey Sonnenfeld examined these meltdowns, he found no broad patterns of corruption or incompetence among the boards of these failed companies. Actually, these boards demonstrated some of the best governance practices regarding meeting attendance, board size, committee structure, the financial literacy of individual board members, accountability mechanisms (e.g., codes of ethics and conflict of interest policies), and even the ratio of inside to outside directors.

When Sonnenfeld compared boards of high-profile companies that failed with corporate boards considered the best in the field, he isolated the degree to which the board was performing as a "high-functioning work group" as the most salient difference. What makes "great boards great" in the corporate sector, concludes Sonnenfeld, has little to do with the new requirements of the Sarbanes-Oxley Act.

The exceptional boards Sonnenfeld studied demonstrated critical group traits such as a climate of trust and candor among board members and between the board and management; a willingness to share information with board members openly and on time; a culture in which board members feel free to challenge one another's assumptions and conclusions and in which management encourages lively discussions of strategic issues by the board; and a commitment to assessing the performance of the board as a collective group as well as of the individual members. These kinds of boards do not spring whole from the head of Zeus. Their cultures are intentionally and meticulously shaped to reward them for performing in this manner.

> ***"If you are unfaithfully with us, you are causing terrible damage."***
> **Rumi**

The shared beliefs and assumptions that people bring to their work often are so ingrained in an organization that they do not emerge until a dramatic change – a crisis, a leadership transition, or a strategic shift such as a merger – outs them for scrutiny. The rub is that board and staff members often are reluctant to articulate problems before they become crises. The fears of being put in a position of assigning blame, producing remedies, or bringing negative publicity to the organization – let alone losing one's position or standing in the organization – are very real. Samuel Goldwyn, the former CEO of MGM, demonstrated this to his senior team after a string of box office failures incited him to demand that they tell him what was wrong with his or the company's performance. In a Dilbert-like addendum, he insisted on this candid feedback "even if it costs you your jobs." According to reports, individual board and staff members at United Way of the National Capital Region who questioned unseemly financial practices some time ago did lose their jobs.

Few sights are grander to board anthropologists than a CEO and board chair who are in touch with the board's culture. When they understand that much of their success derives from the effectiveness of the board as a team and the norms of behavior that guide its work, they are more willing to invest time in shaping the group's tribal rites. If these two leaders are reluctant to identify problems or invite different viewpoints, this creates an organizational learning disability. The natural human tendency to avoid conflict becomes insidious, says leadership expert Warren Bennis, when it begins to "institutionalize the suppression of honesty." He cites the culture of the *New York Times* (before reporter Jayson Blair was dismissed for his plagiarism and dishonest reporting) as an example:

"The hardest thing in the world is to find people to say you're wrong. Success is a much greater problem than failure."

"Is Raine's [former *New York Times* executive editor] failure so different from Ken Lay's failure at Enron? Both failed to create cultures of candor – organizations where employees know they can deliver bad news and their bosses will listen even if they don't like what they are hearing. The *Times* even had its own version of Enron whistleblower Sherron Watkins. At least one person, metropolitan editor Jonathan Landman, delivered the bad news, told the truth, and tried to expose Blair. Raines, it turns out, just wasn't much of a truth listener. If he was, how long would Blair have lasted before one of his disaffected colleagues – or a half-dozen of them – had exposed him to Raines? Speaking truth to power is essential, but it's only half of the equation. Cultures in which power welcomes truth tend to solve their problems internally. They discover and deal with their Jayson Blairs before their Jayson Blairs make headlines. A culture of candor isn't just some warm, fuzzy way to cosset employees; it's good business."

Nell Minnow, head of the Corporate Library (an independent research firm that identifies best practices and standards for the modern global corporation), recently addressed a meeting of Independent Sector's Committee on Ethics and Accountability. In addition to the duties of care and loyalty that are legal obligations of board members, she urges them to fulfill the "duty of curiosity." When you combine board members who neglect this duty with a CEO who attracts and rewards "yes men and women," it can be lethal.

And as for those CEOs of major companies who now are most familiar to us as "defendants," Minnow observes, "The hardest thing in the world is to find people to say you're wrong. It's something you see over and over,

whether it's Enron or General Motors. Success is a much greater problem than failure." In a recent interview, former Enron vice president Sherron Watkins concurs when she says, "Ken Lay's failure was that he just wanted to hear good news."

> ***"To create learning organizations, we must understand the underlying agreements we have made about how we will be together."***
> **Margaret Wheatley**

Culture is hard to measure in ways that satisfy social science standards. Unwritten rules and patterns of behavior evolve slowly and often imperceptibly at most organizations. When it comes to board culture, however, this process is accelerated by the continuous turnover of the board chair, the designated facilitator of most board meetings. My work over the last three decades has given me ample opportunity to observe individuals who bring good group-process skills, the capacity to engage every board member, and the ability to learn and listen "athletically" to this role. Regrettably, others bring ideological rigidity and a fear of inviting views that don't accord with the inner circle.

It is much easier to diagnose a cracked culture than to fix it. Conflict is messy. It requires a strong gut and a different approach to processing information and making decisions than the way some of us prefer to work. If you can't relate to this, ask yourself how you as a CEO would react if a Sherron Watkins, a Colleen Rowley (FBI staff member who identified gaps in security measures before the September 11, 2001 terrorist attacks), or a Ross Dembling (former board member of United Way of the National Capital Area whose early questions were rewarded with his expulsion from the board), warned you that something did not smell right – well before your own nose started twitching? (No fair using hindsight to respond!)

Most of the critiques about Enron's demise have focused on the corruption and abuse at the top and the financial victims who worked at the bottom of the hierarchy. But the most incriminating red flags for me were the amount of time that highly qualified board members apparently devoted to either sleeping or rubber stamping on the job and the number of managers who knew for some time that things had gone awry. In the 2002 interviews *Fast Company* conducted with Enron employees, staff members who reviewed and reimbursed corporate expense accounts regularly found questionable items such as expenses for strip clubs. Others were puzzled that new business ventures had no customers and were offended by the arrogance and free-spending ways of company leaders. If vice president Sherron Watkins' claim that Enron's chief financial officer tried to fire her when she warned CEO Ken Lay about the company's accounting practices is true, should we be surprised that others did not communicate their concerns?

Learning How to Practice Constructive Conflict

As tempting as it is to provide you with another list of the features of a healthy organization, it is more illuminating to discern the signals of one that is not. A healthy culture is not present when CEOs and managers do not make it safe for their staff members and their board members to question inconsistencies, perceived improprieties, or dubious practices. It is not present when board members do not question peers who put their own interests above the interests of the entire organization or become external critics before they have shared their concerns through proper, internal channels. It is not present when board members who express intelligent doubt in a responsible manner are ignored, labeled as disruptive, or even urged to end their board service. And here's a news flash: It can be compromised by the "administrivia" we frequently feed to our board members to address at board meetings.

"Tired ears," a Middle Eastern phrase used to describe people who have stopped listening, can be found on the heads of board members who chronically and selectively filter information in a manner that jeopardizes decision making. The lack of interest in hearing opposing views and the tendency for some of us to "pronounce" our positions rather than engage intellectually on controversial issues are chronic patterns of communication within some boards. In scores of board meetings I have participated in either as a CEO, board member, or governance consultant, I have watched board members and CEOs *tell* their positions and *react* to their colleagues' views. Less evident are the communication skills of listening to hear the differences, probing for information among colleagues with other opinions, and engaging in what Lencioni calls productive ideological conflict rather than destructive fighting and interpersonal politics.

It is not surprising that the practice of dialogue is missing in action from many boardrooms, because most Americans lack the interest or practice time in learning how to use it. Just think about recent exchanges concerning U.S. presidential candidates or the war in Iraq you have had (or avoided having) with loved ones or professional colleagues with contrary political views. How many of them have been characterized by "equality and the absence of coercive influence, listening with empathy, and bringing assumptions into the open" – the three features that Daniel Yankelovich describes to distinguish dialogue from discussion?

In *The Will to Govern Well*, Glenn Tecker and his colleagues provide strategies to help association leaders grow a culture that facilitates dialogue and decision making around strategic issues. Boards that cannot engage in candid discussions of complex issues that defy quick solutions unwittingly encourage their members to channel dissent in destructive ways. Association leaders who understand that dissent does not equal disloyalty and consensus does not equal unanimity have a greater appetite for these kinds of conversations at the board level. Those who do not appreciate the differences would do well to add books on the art of facilitation and dialogue to summer reading lists.

Association leaders should ask themselves what they are doing to create a climate that embraces the board and staff members who bring these valued leadership skills.

Shaping Robust Cultures

Thinking about the lessons of Enron and determining the practices that we should voluntarily adopt from the Sarbanes-Oxley Act are helpful as long as they do not deflect attention from the root causes of malfeasance, mismanagement, or plain old nongovernance. Boards will continue to play a crucial role in organizational compliance with ethical standards. But accountability practices and safeguards designed to prevent abuse will be meaningless if they are activated without attending to the manner in which board members work together, where they decide to spend their time, and how management and the board interact with one another.

Such practices also will be toothless in organizations where leaders do not consciously examine how well they walk their talk. New regulations and codes of ethics are of questionable value when they are imposed by chief executives and board members who do not model the core values so fashionably displayed on Web sites, annual reports, and strategic plans. CEOs who lament that their boards micromanage should make sure that they are not "undermanaging" their role in helping their boards govern effectively.

The State Department bestows annual awards on Foreign Service officers for "constructive dissent." These citations are given to individuals who have the courage to challenge the system from within and who "challenge conventional wisdom, intelligently and tenaciously." Perhaps we don't need to go as far as formal citations. But association leaders should ask themselves what they are doing to create a climate that embraces the board and staff members who bring these valued leadership skills.

Ideally, boards should establish performance measures that demonstrate their own effectiveness. The growing number of boards instituting practices to enlist feedback on their performance is one of the most promising trends on the governance horizon. These processes range from plenary discussions in board meetings to formal, comprehensive board self-assessments that result in concrete steps to strengthen the board (see figure 1). A well-designed questionnaire that generates a high level of board participation and a viable plan can help assess whether a gap exists between the board you have and the one you want. But more informal methods, such as inviting board members to evaluate their performance at the end of each meeting, also can help.

THE INGREDIENTS OF AN EFFECTIVE FORMAL BOARD SELF-ASSESSMENT PROCESS

Figure 1

- A joint commitment from the CEO and board chair to learning from the results of the self-assessment process.
- A small group (e.g., governance committee, executive committee, or ad hoc planning committee) charged with coordinating the process.
- A customized questionnaire for eliciting information from each board member that views the board's performance against predetermined criteria that apply to the organization (such as its mission and the responsibilities of the board).
- A survey form that provides opportunities for multiple-choice rankings, open-ended responses, and board members to select "don't know" or "not applicable" as options for responses.
- A process that allows board members to be candid without fear of awkwardness, compromising themselves, or having their questionnaire responses attributed directly to them.
- A forum for exploring the results and their consequences facilitated by an individual with good group-process skills and sufficient detachment from the governance process to help the group reach its own conclusions.
- A plan of action with concrete, assignable, and executable steps and measurable indicators to act on the results.

An association executive recently confided that her board had developed “chronic governance change fatigue.” She thinks it’s time for a “board reflection process” rather than another board restructuring. She recognizes that launching a quest for the best model in reaction to dissatisfaction with the status quo is futile. Rather than seizing the

governance model du jour, boards need to decide just how much they want to be engaged in envisioning direction and shaping strategy beyond their fiduciary obligations. What constitutes a successful board culture can be determined only after the criteria of board effectiveness have been defined.

The answers to these questions are likely to change as an association goes through different stages of development in its life cycle as well as leadership transitions. In the meantime, these critical conversations are missing in too many board forums. For some, desirable board cultures are those that will simply reward the board for staying out of operations or minimizing dissent among members. For others, an effective culture will limit the board's work to carry out its fiduciary obligations and react to management's recommendations. Others will find superior performance only when the culture supports the board in genuinely shaping institutional character, direction, and strategy.

It's the Culture, Stupid

Neither the intense news coverage of governance transgressions nor the heightened expectations for governing boards is likely to wane. If our boards do not provide the responsible self-regulation and proactive governance their stakeholders expect of them, external agencies are likely to step in and do it for us.

Exemplary governance practices such as mutual respect and candor among board members cannot be legislated by new policies or by exhortation. They do not suddenly show up in the boardroom after an organization has crafted elegant values that are detached from how things really work: You've probably already guessed that Enron is the source of those four lovely ones listed in the prelude to this article.

Too many case studies have illustrated that creating a set of values without building the culture to support them is a hallucination. The allegations of impropriety and unseemly governance practices that are jolting regulators will continue to turn associations, foundations, higher education institutions, and other nonprofit organizations to tougher practices and new policies. But what is increasingly clear from the latest governance research in both the private and nonprofit sectors is that the "soft stuff" of interpersonal skills, group dynamics, and board-management relationships matters more than ever.

In the 1992 presidential campaign, candidate Bill Clinton's campaign advisors mounted a victory by operationalizing their mantra, "It's the economy, stupid." CEOs and board chairs who apply this laserlike focus to culture – throughout the organization as well as within the boardroom – are more likely to avert a disaster. But the real prize to be mined is so much greater: more of that precious social, political, and intellectual capital that too many claim their board members are withholding.

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commentary

BY PAUL POMERANTZ

I enjoyed reading Nancy Axelrod's article on board culture and couldn't agree more that having an open, ethical, and curious board that works well together ensures better decisions, more satisfying board service, and ultimately a stronger organization. The challenge is how to build such a board. Changing association governance culture is tough – I might suggest even tougher than in the corporate setting. Often, we are challenged by decades of tradition, rapid turnover in elected positions, limited resources, and the culture of the professions or industries we represent. An organization representing physicians faces very different governance challenges than does an organization representing large businesses. In associations, there are CEOs and then there are CEOs. Your authority to drive change is based on many factors, including leadership culture. Depending on the association, executives can either lead change directly or lead indirectly by letting others discover.

The failures in the corporate and nonprofit settings Axelrod describes have pushed governance to the top of the public agenda. The problem is that the perceived solution, enhancing checks and balances between management and governance, is only a partial solution. Independent directors, audit committees, and whistleblower policies will not help boards understand their businesses, drive strategic direction, and evaluate new opportunities. Indeed, recent articles in *Business Week* and the *Wall Street Journal* report that many businesses are pushing back on the type of regulated approach suggested by the Sarbanes-Oxley Act.

In the May 2004 issue of *Harvard Business Review*, David Nadler writes, "the high-performance board, like the high-performance team, is competent, coordinated, collegial, and focused on an unambiguous goal. Such entities do not simply evolve; they must be constructed to an exacting blueprint." The article describes the steps that boards must undertake to understand their work and role, recruit the right people, set the right agenda and, especially, develop the right culture.

I believe that stewardship of governance is the primary responsibility of every chief executive officer. Without effective governance, CEOs lead without a mandate, strategy is uninformed, resources are not allocated properly, and politics and mistrust undermine the potential for progress. Governance is about vision and direction, but it also is about people, dealing with individual sensitivities, egos, diverse styles, and inevitable

conflict. It is inherently messy, and resistance is to be expected. CEOs have many governance tools at their disposal, such as leadership development, board evaluation, agenda development, communication and information, and strategic planning. Certainly, a good relationship with the chief elected leader as suggested by Axelrod is essential. Ultimately, however, successful governance requires courageous staff leadership. We can only have a progressive board culture if the CEO models the values, openness, preparation, curiosity, and sensitivity that are required and maintains the tenacity to see it through, board after board after board.

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