

# Realizing the Potential of the Board of Directors for Developing Enterprise and Good Corporate Governance

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# Introduction

- Viewing corporate governance in terms of two distinct but related objectives
  1. First, corporate governance should enhance the effectiveness of the direction and control of companies. Boards are expected to make significant strategic decisions
  2. Second, it should create confidence, particularly in investors who operate at a distance from the boardroom, as to the effectiveness of what goes on in boards (at firm level and a national level) .
- Every board is different, every company is different but there are some general principles of board effectiveness to think about
- The key proposition is that: board structure and composition may condition the way boards operate but actual board effectiveness depends on the behavioural dynamics of the board including the conduct and relationships of non-executives vis-à-vis executives.

# Boards as Strategic Decision-Making Entities

- The Board is the apex of the Corporation's Decision System.
- Boards are expected to make significant strategic decisions using a collective wisdom. The presence and use of knowledge and skills is critical.
- Decisions are the output of the board. Decisions have major material implications.
- Many boards do not reach or realise their potential to make strategic decisions that enhance company performance and sustainability
- Vulnerable to “process losses” which can impact on decision-making and ultimately board task performance and board firm performance
- Firms, even nations, can for fall into the trap of appearance of good governance over the substance of good governance.

# An Ineffective Board: Signs and Symptoms

- The reason I feared the board I inherited was that it could not cope with a big problem (Chief Executive)
- The board was held in awe by the rest of the company...[it] was seen as wise and [having a decision-making] capability. But it really did not have a capability at all. Decisions were being made by one man. Everybody was travelling along with varying degrees of suspicion. He was telling them but not allowing them into the decision-making process (non-executive director)
- This (a highly publicised problem) could have happened to anyone. But the way it was handled turned a drama into a crisis (in coming chairman)

# The Minimalist Board

- Dominant Chair and/or CEO
- Purpose and Size of the Board
- The Board Process
- Low informality
- Limits on relationship building in and around the boardroom
- Low Strategic Involvement
- Marginal power and influence

# The work of non-executive directors and boards: creating accountability

- The conduct of accountability is foundation stone of modern institutions (Douglas 1984).
- Broader meaning and wider potentials of ‘intelligent accountability’ – beyond control and monitoring
- The effective board creates accountability which serves governance (control) and enterprise
- Describing the work of the non-executive in terms of creating accountability brings us much closer to the conduct and practices – questioning, probing, challenging, *inter alia* through which they can be effective. Such practice and behaviour is vital for enhancing the actual effectiveness of boards, and as a source of confidence to investors as to the effectiveness of what goes on in boards
- Accountability is a contingent outcome of continuous active engagement of non-executive with the executives in all aspects of a board’s work. To support executives in the leadership of the business and to monitor and control their conduct
- Skill of developing virtuous rather than vicious dynamics in and around the board

# Board Accountability: Virtuous and Vicious Dynamics

- Virtuous dynamics

When a non-executive director undertakes a role in a very serious fashion, asks brave questions, has real insight and takes an interest in issues and shows real knowledge, the (executive) directors know that they are going to be kept on their toes in relation to these issues, and the respect level rises. Then that person becomes an approachable person..., it is actually cumulative in terms of the benefits that can come from that.. When that engagement actually adds value and can be seen to add value, then very quickly you get a dynamic where you improve the situation. (executive director)

- Vicious dynamics

.....it can go completely the other way because it is just, well, they don't know anything about the business, they had to ask the obligatory three questions and then the respect gets lost between the parties and you do not have a relationship that is built. It gets back down to what is the ability of the person and what is driving them to become engaged...(executive director)

# Focusing on Relational and Behavioural Dynamics of Boards

- Structure and composition help to create conditions within which boards and incumbent directors such as non-executives can be effective but they do not by themselves ensure board effectiveness.
- Focusing on board behaviour and relationships offers a different a more subtle view of the real drivers of board effectiveness
- Board effectiveness depends upon the behavioural dynamics of a board and how the web of interpersonal and group relationships between executive and non-executive directors is developed in particular company contexts.
- Independence is a behaviour more than an attribute.

# Executive – Non-Executive Relations: Two Key behavioural conditions to reinforce virtuous dynamics on boards

- Holding executives to account means questioning and challenging executive performance and plans, not ‘second guessing’, and not undermining executive authority and responsibility
- The contribution of the non-executive should be appropriately informed by knowledge and understanding of the host business

# The Effective Non-Executive Director

- Displays three behaviours:

Independent but Involved

Engaged but not as an executive

Constructively challenge and support

# "The unexamined life is not worth living" (Socrates)

- Codes help to develop board effectiveness but they do so when the focus is not about compliance but about the performance of the board as a decision-making team that develops the business and creates confidence in the outside world
- The pivotal role of the leader of the board
- The openness of the executive to utilise the board to enable it to realise its full potential to service enterprise and good governance
- The knowledge, will and skill of Non-Executive Directors