

# NACD CHAPTER PROGRAM SUMMARY



**EVENT TITLE:** Culture as the Foundation: Building a High-Performance Board

**EVENT DATE:** 3/7/2024

**EVENT TIME:** 12:30 p.m. ET

## **PROGRAM SUMMARY:**

NACD's New England and Minnesota Chapters co-hosted a panel discussion of the Association's most recent Blue Ribbon Commission report, "Culture as the Foundation: Building a High-Performance Board." The report defines how a robust board culture is the key to helping directors meet rising expectations for board performance. The report sets out a number of recommendations and provides proven approaches and practical tools to help boards elevate their actions, processes, and composition to build and sustain a high-performance board culture.

In these difficult times, directors can be forgiven for feeling like the world is in a state of permanent crisis. Financial and operational challenges can test the cohesion and agility of any board, particularly when the organization's culture is lacking. Organizational culture might seem like the last thing to worry about in periods of crisis but the lack of a clearly articulated and demonstrated culture can breed dysfunction within a boardroom and strain the board's relationship with management.

Culture, it has been said, is what is left over when there is nothing else to consider. It can be thought of as the ethos, the moral guidance, or shared understanding that exists within an organization. Ideally, individuals within an organization should be able to rely on its culture to help make decisions by asking themselves, "what would this organization want in this situation and what would it do?"

Culture can be a natural, even accidental, development but most high-performing organizations deal with matters of culture in an intentional way. The first step should be an honest assessment of where your culture is, agreement among the directors about what the culture should be, and whether there is alignment with the

management team. Only then can a board start thinking in terms of the behavioral norms that can support that culture.

If “culture” is too nebulous a concept for the board to get excited about, it should begin by addressing threshold questions concerning board identity, purpose, and the way board meetings should be conducted. Setting expectations in this way is particularly important for new boards, such as the board of a spin-off, or when a new chair takes the helm.

Whatever the approach, boards need to find the time required to take on what can seem like an overwhelming process. The initial stage might take the form of four or more two-hour board meetings over a number of months. The results of those discussions can, and in fact should be, a gut-check for each director. Directors who find themselves unable to support the strategy of the organization have three choices: change themselves, work to change the strategy, or step down.

Whichever choice the director makes, the organization will be better off in the long run. When a fundamental mismatch exists between a director and the board, it will manifest itself eventually, so it is better to address such disagreements proactively and openly. The worst-case scenario would be to have a director who passively goes along with one or more members of the board. Such passivity diminishes the quality of board discussions and should not be mistaken for board collegiality.

When a new director joins the board, it is ultimately their responsibility to understand the ins and outs of the organization, but the onboarding process can be greatly facilitated by assigning an experienced director as a “board buddy” to each new director. Ideally, that “buddy” is also a culture carrier within the organization, someone who can provide a historical perspective while also explaining and reinforcing the board’s cultural mores.

A key recommendation of the Commission’s report is for boards to be intentional with respect to their relationship with management. The board must stay on top of many more issues than was the case even five years ago, but it should otherwise stay out of the way of what management is trying to accomplish day to day.

One way of finding the right balance is for directors to be thought partners of management and to keep their eyes on potential blind spots. When important issues are identified, such as the impact of generative AI, they can be tackled initially by board subcommittees, which should seek input from a range of sources, including relevant members of the management team. Such an approach can build trust between the board and management, and enhance subsequent, board-level discussions.

Directors, particularly the chair and committee leaders, must keep an eye out for problematic behavior in the boardroom. Examples include argumentative directors (not to be confused with those who are constructively skeptical), self-appointed experts, domineering speakers, cliques within the board, and directors who fail to do their homework.

If such problems do arise, an offline, one-on-one conversation with the chair may be enough to remedy the situation. If it does not, then the problem may need to be discussed in a full board meeting, in which case it can be framed in terms of its negative impact on the board's work. In any event, such problems are a matter of leadership and must be addressed.

The Commission's report notes the importance of periodic board refreshment. Individual directors should be prepared to step down before they age out or reach a term limit, if doing so would be in the best interests of the board, such as when their skills no longer align with the needs of the organization. There should be no stigma involved, and the chair can help to normalize the process by making the planning for such a departure a point of discussion in routine, one-on-one meetings with each director.

Such meetings also are an opportunity to discuss emerging priorities, successes and failures within the board and the organization, and to discuss the director's individual contributions outside of an annual evaluation. Periodic feedback can be invaluable for the success of the board but can be a heavy load for the chair to carry alone; committee chairs should take an active role in this area.

When the time comes to recruit a new director, the board should retain the services of a search firm. Doing so will ensure that the board draws from a global pool of candidates, not simply those who happen to be in the networks of the current directors. That is not to say that the board, typically the nominating and governance committee, should not be actively involved, even on a weekly basis, to evaluate the search firm's recommendations and recalibrate the search parameters as needed.

When the board is ready to vet individual candidates more closely, one or more directors should play a hands-on role in checking with references. This may be the best opportunity to evaluate the cultural fit of the candidate. Typically a candidate's list of references will include a former boss, who should have great insights regarding their personality, tendencies, biases, and approach to business—all of which can influence the board's culture.

Identifying a cultural "fit" does not mean replicating a current or outgoing director. In fact, often the best fit is additive in nature, where a candidate provides abilities or expertise that the board is lacking.

### **KEY TAKEAWAYS:**

- Don't take your organizational culture for granted; bring intention to the process of creating and maintaining a strong culture.
- Boards must decide how best to work as a team, including defining management and board roles, and ways of ensuring that all voices are heard.
- Assess the cultural norms impacting your board's interactions, relationship with management, and decision-making, including major cultural fault lines or problematic directors.
- Identify and empower "culture carriers" within your organization to reinforce, and, when needed, change the board's culture.
- Serving on a board is a team sport; if you do not enjoy working and communicating with others, a director's seat is likely not for you.
- An activist investor's best friend is an "inactive" director.

**MODERATOR:**

**Claudia Allen**, Senior Advisor, KPMG Board Leadership Center

**SPEAKER(S):**

**Sam Di Piazza**, Board Chair of Warner Bros. Discovery, Former CEO of PwC

**Nick Donofrio**, IBM Fellow Emeritus, Former EVP of Innovation and Technology

**Heather Hiles**, Managing Partner Equity

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