



**Directors' Circle
Outcome Report
Topic 1: Courage
Date: 2 Feb 2015**



The aim of the Directors' Circles is personal development and building a community of directors.

The Challenges

- Power differentials across the board can affect directors' perceptions of their ability to effect board-level changes, particularly if disruptive or dysfunctional individuals have positional power, such as the CEO or the Chairperson, or financial power, where a director may be a shareholder.
- It is difficult to shift towards better governance processes where 'old-school' styles of directorship are in the majority.
- Timeous decision-making can be impeded by the requirements for consensus, as dictated by board charters or mandates.
- Raising concerns, or challenging a particular decision or direction can be perceived as negative, interfering and disruptive. This poses reputational and positional risk to the individual director.
- When decisions are based rigidly on legal criteria, shareholder benefit can be reduced.
- Governance structures within owner-managed, parastatals and state-owned-enterprises are complex, and can be virtually impossible to influence.

The Ideal

The courage of a director is rooted in understanding their own non-negotiable values, and in their competence and knowledge of their roles and their business. Their communication skills and emotional intelligence assist them to constructively raise difficult issues at the appropriate time. They are constantly reflecting on the risk and benefit of action and inaction, and choosing the path most aligned with integrity.

The Solutions

- The board members must understand the role of the board, and the board composition must be appropriately diverse. Individual roles and the collective requirements of the board must be documented and understood by all. This will reduce the need for individual courage.
- Seek collegiate support for a view that may be seen as contrary, particularly through using the business case and accepted governance guidance such as King III. Raise difficult issues in the first instance with the relevant individual(s), outside of board meetings, build relationships, and seek to understand their position. Sharing and discussing solutions to issues rather than adopting a confrontational approach can be more effective. Directors should not necessarily raise everything with which they disagree if it is trivial, but if the issue is of sufficient importance to a director, dissent must be documented in a board meeting. The lead independent director can be approached if the Chairperson is dysfunctional or problematic.
- Ensure a consistent understanding of consensus, which is not equivalent to unanimity.
- The role of the Chairperson is paramount in allowing and managing different viewpoints, particularly enforcing the understanding that the board is a team of equals irrespective of their appointment route. Chairpersons should consciously develop their communication, interpersonal and group dynamic skills, and should encourage continuous professional development of the board as a team.
- Independent board appraisals and 360 degree review processes can help to address persistently difficult or dysfunctional individuals or cabals.
- Relevant board sub-committees can be utilised to broach difficult issues with the board, rather than any individual director.
- Keeping the level of focus of the board strategic supports a culture of constructive interrogation and operational monitoring. This must be supported by the quality of information that is in board packs. A powerfully constructive approach to this interrogation is to use phrases that place the onus on oneself, such as "Please explain as I don't understand". Risk tolerance levels should guide the distinction between strategic and operational issues.
- Mandated upfront probity checks on potential partners can be used to screen out potentially unethical relationships, especially in the case of massive contract values.
- Second opinions on legal issues can be useful to break a dominant perspective. Furthermore, defining criteria against which exceptions to the legal rules can be made can guide the degree of involvement required at board level.
- In public entities, where CEO appointments may be politically driven, or have a high turnover rate, the creation of an operational 'COO' position can assist to keep the organisations running efficiently.