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ARTICLE | NOV 2017

Good Corporate Governance Should Start with Boards' Own Performance

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This article originally appeared on the UK-based website Board Agenda. It was co-authored with Susan S. Stautberg, CEO and chairman of the WomenCorporateDirectors Foundation.

In the wake of recent corporate scandals revealing serious lapses in collective judgement, the board's role in a company's culture and leadership development is becoming an increasingly critical part of its oversight function. Yet as boards push senior management teams to a stronger focus on fostering a positive culture aligned with the company's mission and impact on stakeholders, boards must also hold themselves to the same high standards. If "culture eats strategy for breakfast", then boards must examine their own culture, self-governance, and functionality, and how these factors support a company's ability to deliver on its business strategy.

Redefining what "good governance" means

Board self-governance is an issue that WomenCorporateDirectors (WCD) and Pearl Meyer explored in a recent report, *The Visionary Board at Work: Developing a Culture of Leadership*.

For this report, WCD and Pearl Meyer conducted in-depth interviews with more than two-dozen global directors, who formed our WCD Thought Leadership Commission, and conducted a survey of board members from US and multinational companies. A picture emerged of the typical processes by which boards currently evaluate and govern themselves and how, for some boards, this is shifting.

For most companies, the focus to date on board "health" has been on the board's authority and how it functions. In recent years, boards have made great strides in formalising processes and defining "good governance" as it applies to their company and mission—a path influenced by stronger regulatory pressures and greater media and public scrutiny. But the next stage in the board's evolution is a concentration on how board members interact among themselves and with management, and how those interactions influence decision-making.

Pushing directors to a higher standard

Stakeholders rightly expect boards to hold themselves to the highest standards. But the key to delivering on this standard is an understanding of the processes and practices that propel a board from being compliance-focused, to one that's more focused on value creation. The board's own leadership strategy can serve as an example for both the company's and senior management's leadership strategy.

What are the shared values and behaviours that facilitate a board's ability to lead by example? Our interviews with WCD commissioners indicated strong support for colleagues who exhibited:

- A desire to build a governance structure around the mission of the organisation, rather than focusing on prevailing practices
- An ability to work constructively by asking probing questions, and challenging management when appropriate
- The capacity for catalytic learning, to absorb new ideas quickly and translate them into actionable outcomes
- Independent-mindedness
- A focus on transparency

This input suggests there is a shared culture of board leadership that transcends country, industry, company size, and structure—a global board leadership mindset. But, importantly, while board culture can be aligned with corporate culture, it should not replicate it. Viewing the board as an exact extension of the company isn't reasonable or appropriate. Visionary boards strive to create a cohesive social unit that, appropriately, stands apart from the company, especially given the board's unique position of accountability to a variety of stakeholders.

Expanding the board's self-awareness

Measuring how board members live up to this accountability is tricky. Most board evaluations today are somewhat limiting in that they do not solicit feedback from the board's key constituents: management and shareholders. Our research found that visionary boards are adopting a board assessment system that includes a 360-degree feedback loop, and facilitates the incorporation of valuable insights from members of management whom they work with. Soliciting feedback from shareholders is more complicated, but it can also be instrumental in evaluating board effectiveness. While shareholders can express their approval of individual directors through annual re-election votes, this is a blunt instrument, and one used more to deal with problems than advance solutions.

As a normal course of regular business, many boards are adopting formal annual outreach campaigns with shareholders to discuss company strategy and compensation programmes. At the same time, some boards also solicit feedback on overall corporate governance matters as well as the shareholders' view on the board's effectiveness. By expanding the concept of "good governance" to one of good *self*-governance, boards today can inspire even greater confidence, and be on firmer footing for the tough decisions and disruptive times that are inevitable.

About the Author

Aalap Shah is a managing director at Pearl Meyer. With more than 20 years of experience, Aalap advises public and privately held companies on executive compensation issues, with focus on pay governance, pay-for-performance alignment, and incentive plan design. Of particular interest is the intersection between business strategy, people strategy, and compensation strategy, believing alignment of all three is required to design effective programs.

About Pearl Meyer

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