

Identifying the Root Causes of Board Dysfunction

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Board dysfunction can bring serious harm to a company, leading to inconsistent decision-making, open discord, low morale among senior leaders and weak organisational culture.

We often take for granted that things will function as expected – the car will transport us to our destination, and the computer will keep us connected and productive. We rarely pause to reflect on how these machines function.

While we may recognise that they are made of specialised parts, each with a distinct purpose and function, we rarely appreciate the complexity of their design or how these components work together to achieve a common goal. It is only when these machines break down that their hidden faults become clear.

The role of a board of directors can be compared to a complex machine, where various parts work together seamlessly. The board's effectiveness depends on its core structures, responsibilities and framework, and is shaped by the dynamics between individual directors that function as a collective unit.

Board dysfunction, therefore, can be traced back to these elements and how they interact with one another. Here, we examine four root causes of board dysfunction, drawing insights based on board evaluation exercises facilitated in companies based in Southeast Asia.



1. Social divisions and a lack of cultural fit in the boardroom

The Greek philosopher Aristotle famously observed that humans are social by nature. Board governance is no exception – it unfolds in a social setting where interactions among directors can take many forms.

A mismatch in perspectives, if not managed appropriately, can escalate into conflict, which may result in entrenched divisions. When this happens, board members may form silos based on their alignment on specific issues being discussed.

The chemistry of the board composition across polarised boards often points to a heavy counterweight in selected personality traits with certain integrating personas being absent. For example, in the absence of mediating figures, there may be a group of individuals within the boardroom who strongly champion aggressive growth strategies while the conservative cohort in the boardroom may exercise a high degree of scepticism, thus leading to





a situation of impasse and spillover tensions to other aspects.

To prevent divisions within the boardroom, the chair must remain attuned to early signs of tension and be proactive in diffusing conflicts. When friction arises, the chair should practise “fair process leadership” to ensure open engagement, transparency and objective evaluation. This approach helps to maintain balance and encourage collaboration and stability within the boardroom.

It is also essential to assess whether the board has a healthy representation of different personality types and whether individual members are culturally suited to their roles within the board and its committees.

Directors may display a dominant primary or secondary trait, as shown in the box “Business Chemistry Archetypes”. Based on the archetypes, professionals can understand where others are coming from and appreciate the value they bring to build stronger relationships and enhance team performance.

Business Chemistry Archetypes

 <p>Pioneer</p>	<p>Pioneers relish possibilities. They see the big picture and are brainstormers who speak up and make quick decisions. Sometimes they don't think through the execution details, which can add significantly to management's workload. Pioneers will likely be assets to the board when discussing long-term strategy and innovation.</p>
 <p>Guardian</p>	<p>Guardians appreciate stability. They are risk-averse and like to bring order and rigour to the boardroom. These board members thrive on detail and data. Guardians tend to listen and collect facts before presenting an opinion, which can slow things down. Guardians can be useful in the boardroom due to their attention to concrete detail and affinity for data.</p>
 <p>Driver</p>	<p>Drivers welcome a challenge. They are skilled at identifying patterns, and direct in their approach to people and problems. Drivers ask point-of-the-matter questions, and they aren't afraid to create waves with other board members or leaders in management. For Drivers, the end goal is the objective, even if they might sometimes come across as abrasive and impatient.</p>
 <p>Integrator</p>	<p>Integrators value connections. They tend to be diplomatic and non-confrontational, serving as the “glue” that holds the boardroom together in times of chaos or calm. Integrators thrive in human resources and personnel discussions due to their interpersonal skills, love of people, and their networks. Integrators can be helpful as committee members but may struggle to be decisive because of their bias for camaraderie.</p>

Source: deloitte.com/us/businesschemistry

Finding the right fit for board roles is essential to ensure strategic alignment, effective governance and overall board cohesion.

Boards should be mindful not to force a mismatch between individuals and their roles (or fit “square pegs into round holes”), by appointing directors who are not a cultural fit to specific positions.

For instance, placing a highly experimental “Pioneer” as the audit committee chair may not be ideal for ensuring that the guardrails for internal controls are preserved. The audit committee chair should possess a keen eye for detail, a knack for being methodical and a strong sense of vigilance when monitoring the actions of management.

2. Over-exuberance by first-time and specialist non-executive directors

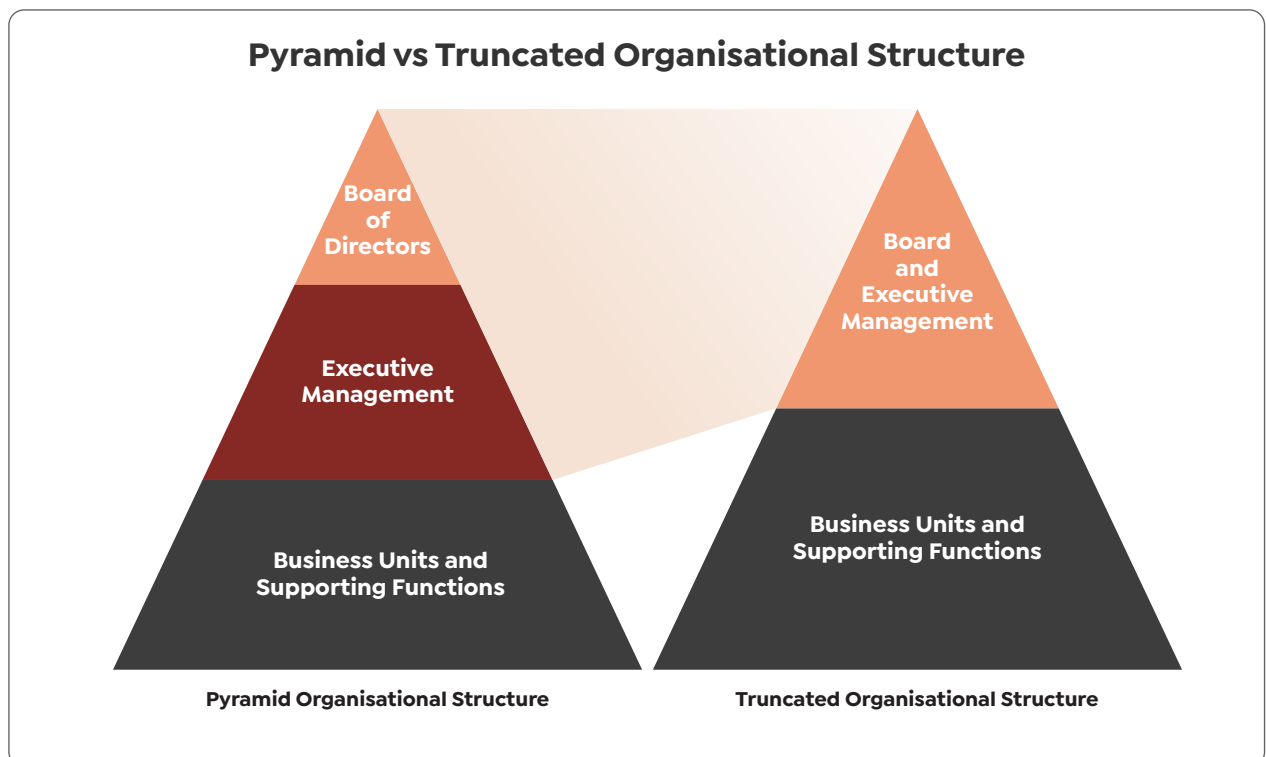
As executives transition into non-executive director roles, they may face some challenges due to the shift from active management to a more detached and supervisory function.

Evaluations conducted on the effectiveness of boards, board committees and individual directors across public-listed companies and financial institutions reveal some common tendencies among first-time directors:

- Inability to distinguish between day-to-day management responsibilities and broader oversight.
- Attempting to showcase value-add by proposing sweeping systemic changes which may not align with the organisation’s broader strategic direction.
- Requesting for an inordinate amount of information beyond what is necessary in relation to their area of expertise.
- Bypassing formal board and committee meetings to engage directly with senior management, often through sidebar discussions.

These situations result in the truncation of a traditional pyramid organisational structure, as shown in the box “Pyramid vs Truncated Organisational Structure”.

This may result in frustration and fatigue among senior management, communication breakdown



between the board and management, and discomfort among other board members.

Given these challenges, a comprehensive onboarding programme that familiarises new directors with boardroom norms, including their role vis-a-vis management, is essential. Additionally, periodic check-ins with the chair or a more senior board member can help first-time directors navigate their roles more effectively.

3. A poorly-conceived boardroom governance model

Boardroom governance must be structured in a way that is both facilitative and governance-conscious to support both executive and non-executive directors and fully harness their years of expertise and wealth of knowledge.

All too often, the design of board and committee structures places non-executive directors in conflicting positions – either by undermining their authority or by granting them excessive influence.

Common pitfalls include:

- Placing board members in conflicting board committees. For example, a non-executive director is made a member of a procurement committee and audit committee. This may lead to a situation where a tender proposal which was approved or recommended by the procurement committee being a subject matter of audit that is then presented to the audit committee.
- Placing board members from the holding company on subsidiaries without assuming key positions such as board chair or committee chair. This may represent a missed opportunity to provide clarification on the expectations of the holding company and cascade uniform messages across the group.
- Placing independent directors on the board of non-wholly owned subsidiaries with a view

of representing the interest of the holding company. This may create inherent tension for the independent director who, by nature, must act in a detached manner and consider the best interests of the company and stakeholders, including the minority shareholders.

- Concentrating power in the hands of a few individual directors by placing them as chairs of multiple board committees. These individual directors may then wield significant influence and become overly dominant to the extent that management may feel pressured to accommodate their demands, which may not be in the best interests of the company. For example, when the chair of the nominating and remuneration committee also leads the financing committee, senior management may feel compelled to take a more lenient view on selected customer accounts which are favoured by the chair of the financing committee, in the hope of obtaining a positive performance evaluation from the nominating and remuneration committee.

These scenarios may create tension and ultimately disrupt the effectiveness of the board and its committees, the relationship between the holding company and its subsidiaries, and the dynamic between the board and senior management.

It is, therefore, incumbent on boards to structure the outworking of the board and board committees, including subsidiary board governance, by taking into account the roles, responsibilities and functionalities of each board member. This may involve ensuring that board members are appropriately positioned with the optimal degree of influence and are free from conflicts, with clear visibility of the company's key activities, including those of its subsidiaries.

As a general rule of thumb for parent companies with key operating subsidiaries, boards can consider limiting the overlap of independent directors at the subsidiary level to no more than one-third. Those who serve across both levels

should be accorded the right left to serve as chair of the board or in key committees at the subsidiaries.

4. Gaps in information flow

The lack of, or an overload of, information leads to ineffective decision-making. Both inadequate and excessive information can hinder the board's ability to conduct a thorough review.

One of the most common bugbears faced by boards is the late distribution of discussion materials, often compounded by unclear presentation and information packs that are not fit for purpose. Key details are often buried within the appendices, making it difficult for board members to extract critical insights effectively.

Another important but less explored cause of poor information flow is the non-affirmative stance management provides to the board. This results in confusion as to what is the ask from the board and backpedalling, which ultimately frustrates both board and management.

The reticence to express recommendations is particularly noted when options are presented in proposal papers. While such reticence could be fuelled by past missteps, the inability to move on and take an unequivocal stance on management's recommendation will compound matters. To avoid this, management should clearly articulate their recommendations, guided by the following parameters:

- Recommend without Reservation/Condition
- Recommend
- Recommend with Reservation/Condition
- Not Recommended

To improve information flow, accountability should rest with the C-suite or members of senior management who prepare the board papers. Establishing a structured review mechanism where board members, as led by the chair, can provide

regular feedback on presentation clarity and content effectiveness will help to drive continuous improvement.

This feedback loop can be reinforced by the chair as part of the agenda-setting process that not only helps identify areas for refinement, but also encourages a culture of openness and constructive critique.

Board dynamics and governance

Ultimately, the board is one of a company's most valuable assets. Just as businesses invest in strengthening their balance sheets, they must also invest in refining their board dynamics and governance structure.

Healthy board dynamics, including a collegial working relationship with management, are essential for the smooth running of a company. This could explain why more companies are conducting annual sessions to clearly demarcate the boundaries between board and management.

Preventing board dysfunction is not optional; it is a fundamental requirement. When good governance is consistently practised, it drives stronger performance, even during times of crisis.

By equipping board members with the ability to think strategically, collaborate effectively and align their efforts towards a shared vision, boards can transform into a powerful competitive advantage. They can also set a powerful example for how companies can navigate an increasingly complex landscape and lead the way towards long-term and sustainable growth.

To this end, as the leader of the pack, the chair plays a monumental role in setting the tone and expected decorum for the board to thrive. ●

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