

## Feature

# Collaborative leadership in the boardroom

**David Archer** and **Alex Cameron** look at the importance of all board members having the skills associated with collaborative leadership to optimise board performance.

According to the New York Stock Exchange Commission on Corporate Governance<sup>1</sup>, the fundamental purpose of a board is to 'build long-term sustainable growth in shareholder value for the corporation, and the board is accountable to shareholders for its performance in achieving this objective'. This seems clear as it is described here, but perhaps this understates the complexity of the role of the board in practice. There are significant tensions that can occur in any PLC board. These tensions can be driven by the unique constitution of the board. To simplify the situation somewhat, the executives want to implement the strategies that they have developed themselves for the business as they see it, but they still need to get them agreed with the board. On the other hand, the non-executives want to scrutinise and sometimes challenge the decisions of the executives in order to get the best strategy for the business and its shareholders.

To achieve agreement between these groups, it is clearly important that the whole board operates effectively as a collective decision-making body and this is the responsibility of the chairman. In order to achieve this, it is generally agreed that the mix of directors is critically important, but even with the right blend of experience and expertise, if the dynamics of the board don't work then the outputs and decisions of the board will be sub-optimal. The chairman has the accountability to ensure that appointments to the board create the right blend of capability for the business and, in turn, board discussions use this capability effectively to deliver constructive challenge and avoid ending up as 'group think'.

Together, the board and its committees have a complex constitution and it is therefore no surprise that bringing all the parties together to create an effectively operating board is a significant collaboration task. Because of the potential tensions that can occur in such a structure, there is a need for boards to pay attention to:

- The right governance to ensure that roles and accountabilities are clear. This means meeting the requirements of any relevant governance code: in the UK it is the Combined Code<sup>2</sup> produced by the Financial Reporting Council (FRC).
- The best board operation to ensure that the right information is available and shared appropriately. This includes ensuring that the board committees (Audit, Finance, Nominations, and Remuneration) operate seamlessly as part of the overall board governance process.

- The most constructive behaviours to ensure that the board can manage any tensions but also encourage constructive challenge and deliver the best decisions for the future of the business.

Like most top teams, if the board is operating well then the shareholders will have confidence in its decisions. In addition, good cooperative and collaborative board operation can set the tone for effective and appropriate leadership behaviour throughout the business. Naturally, if the board becomes dysfunctional, then this can become visible to stakeholders inside and outside the business. In these circumstances board members individually as well as collectively can see their reputations damaged – so demonstrable collaborative behaviour matters.

Some of the classic tensions that have to be addressed (often by the chairman) to make the board able to deliver full value and to ensure that it can carry out its statutory accountabilities include:

- Board challenge and scrutiny is perceived as limiting the freedom of the executive directors.
- Non-executive directors perceiving that their scrutiny and input is being overlooked in board decision-making.
- Tensions between the CEO and the chairman.
- Poor communication between the board committees and the whole board.

But even in boards where they perceive that all members of the board are working well together and board operation appears sound, things can go wrong – and shareholders are becoming more demanding, so regulation of board operation is increasing through the use of principles enshrined in documents such as the UK Corporate Governance Code. But although the act of making a board operate effectively can be influenced by Codes of good governance, the focus on principles over tight rules recognises that the effectiveness of any board is linked to how the parties involved treat each other and work together.

In the US the Commission on Corporate Governance set up by the New York Stock Exchange in 2010 in the wake of the financial crisis laid out a set of principles which aimed to influence the behaviour of directors, management and shareholders. But critically the Commission recognises the interdependence and inter-relatedness of the board,

the management and shareholders and it is making these principles work in such an interdependent system that is the work of the collaborative leader.

The UK Corporate Governance Code sets out the principles of good corporate governance with a 'comply or explain' approach. The FRC make it plain that their Code 'cannot guarantee effective board behaviour because the range of situations in which it is applicable is much too great for it to attempt to mandate behaviour more specifically than it does.'<sup>1</sup> This means that once again, these principles are used as guidelines: non-compliance is acceptable if it is rationally and acceptably explained. Again this focus on principles enhances the flexibility of the Code, but puts pressure on the members of the board to justify their behaviour to others.

### **How collaborative leadership contributes to board performance**

Sometimes boards are referred to as 'teams'. This can be shorthand for an effective decision-making group where the participants get on well together. The danger with this definition as we have already seen is that it does not adequately describe how board members need to work together to be collectively effective as the ultimate decision-making body for the business. If 'getting on well together' really means a 'cosy club', we have missed the point of the true collaborative structure of the board.

Each of the members of the board has a contribution to make to the effective collective operation of the whole based on the role the individual holds. Executives, non-executives, chairman, SID, CEO and company secretary all hold personal accountabilities based on their individual role and the collective accountabilities as a member of the board. As such, these roles have a significant amount of interdependence, but also a need to be separate from each other so that each person can demonstrate their own independence and personal accountability when this is necessary.

The independence of non-executive directors is an essential component of effective board operation. The tension that often occurs between the executive and non-executive roles can be a necessary part of the board decision-making process. This can be similar to the leaders from different businesses trying to collaborate on a joint project, so it is our contention that all members of boards need to demonstrate the attributes of collaborative leadership, and it is the demonstration of these attributes by all board members that will allow the board to manage these tensions constructively. The critical attributes are described below.

*Mediation* – the ability to address conflict situations as they arise is critical to all board members but especially the

chairman and sometimes the SID who have the responsibility to resolve issues between members and ensure that the board process is effective.

*Influencing* – the ability of the individual to match their method of influence to the needs of the situation is particularly important for executive directors who know that they need to support of their non-executive colleagues when board approval is being sought for their proposals.

*Engaging others* – building relationships and communicating with clarity is essential for any senior board roles when dealing with shareholders and other stakeholders who need to support board decisions.

*Agility* – quickly assimilating facts and asking incisive questions is necessary for all non-executive, part-time roles where the individual needs to be able to quickly get to the heart of the issue being discussed without necessarily being part of all the preparatory discussions.

*Patience* – taking a calm and measured approach is often cited as the essential attribute of a good chairman, however, the SID, and CEO also need to be able to lead their constituencies within the board in a measured fashion, often taking the long view on what is best for the business.

*Empathy* – truly listening, understanding their personal impact and taking an open-minded attitude to the views of others applies to all board members. In such a complex group, all participants have to be able to listen if they are to fulfil their responsibility to contribute positively to effective collaboration.

The skills and attitudes of collaborative leadership, as much as any rules and procedures, are the essential elements of effective board operation: hence the need to evaluate board operation from the perspective of group dynamics, robust relationships and decision-making. Without this focus there is a danger of the 'cosy club' or the 'dysfunctional group' emerging. Demonstrable collaborative behaviours are necessary from all parties who aspire to make an effective contribution to board operation.

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<sup>1</sup> Report of the New York Stock Exchange Commission on Corporate Governance – September 2010.

<sup>2</sup> FRC – the UK Corporate Governance Code – June 2010.