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The ABCs of board room dynamics — attitude, behavior, candor

by Sharon Allen
Chairman of the Board, Deloitte LLP

Diversity of thought enriches director deliberations

From directors and executives to stakeholders and consumers, virtually everyone is touched in some way by the deliberations of a company's board.

These days, there's a lot to deliberate. The dynamic forces of globalization, technology, and demographics and a difficult economic climate have converged to dramatically reshape the world of commerce. I'm convinced, however, that today's boards can meet the challenges of our rapidly changing business environment by bringing together some dynamic forces of their own — the "ABCs of corporate governance."

Today's board room — a social enterprise

Visualize a board room about an hour before a board meeting. There's a long, oval table. A well-organized stack of reports awaits each director. Coffee is brewing, the Danish is unwrapped. It's quiet. Everything is ready to go.

Now, visualize what happens when the door opens. As each person enters, the chemistry of the room changes. Some bring an obvious energy. Others bring an understated calm. Some light up the room. Others may set it off. While the presence or absence of any one person can have a significant impact on board room dynamics, every board is a social enterprise that takes on the collective personality of its members. Furthermore, everyone has a part to play — and how these parts play out depends on board room intangibles that cannot be touched, but certainly can be felt.

Taken together, these intangibles can take a board down one of two paths. A board can either get bogged down and spin its wheels. Or, a board can gain traction by recognizing and managing the ABCs of corporate governance.

The ABCs of corporate governance

"A" is for *attitudes* — your various states of mind. Think of attitudes as adjectives that describe how you feel. Your attitudes are the "either/or" statements that set the orientation of your personal compass. Bad or good, weak or strong, negative or positive — the list goes on and on. What's important about attitudes, however, is that each of them requires a personal decision. Ultimately, board members choose what their attitudes will become.

Here are just a few that are important in board members: curious, diplomatic, disciplined, engaged, and proactive. Such attitudes sure beat disinterested, rude, lax, distant, reactive, and unorganized every time. Having a positive attitude differs from having an agreeable attitude, by the way.

"B" stands for *behaviors*. Think of behaviors as nouns that represent your consistent response under specific circumstances. If attitudes reflect the manner in which you think, behaviors reflect the manner in which you act — and there is a strong connection between the two.

Here are just a few of the linkages between attitudes and behavior that are important among board members:

- A committed attitude that results in active participation.
- A disciplined attitude that results in preparation and persistence.
- An independent attitude that results in the courage to challenge.

Cultivating positive attitudes is an important first step toward harvesting the positive behaviors needed for strong corporate governance. Good thinking, good actions, good outcomes. They work together.

And one of the most important outcomes for any board to achieve is "C" — *candor* — the kind of open and respectful exchanges that can emerge when positive attitudes drive positive behaviors.

Constructive candor can lead boards and management to a new level of performance. Getting there requires another intangible — trust. When board members and management trust each other, speaking out can occur when speaking out needs to be done. Yet it can be done without a sense of confrontation. With trust, boards can challenge management — and, if necessary, disagree openly.

Both board members and senior executives have decisions to make. By choosing to adopt positive attitudes and implement the behaviors that go with them, they can create the candor that is essential to strong corporate governance.

But that's just the beginning. The crucial question about board room dynamics then becomes — how can the nature of board room candor be enriched and made most valuable?

Diversity of thought — catalyst for board room debate

Board chairmen have a special responsibility to ensure that the most crucial ingredient to healthy board room dynamics is alive and well — diversity of thought. That's made possible most easily when new voices are included in the board room.

Several studies validate that there is real value to be gained from diversity. After all, if a board wants to think "outside the box," it may be useful to have board members that, historically, have not been insiders — such as women and minorities.

Consider the experience of America's legal system. When our country began in the late 18th century, an impartial jury had to be comprised only of men who owned property. While we've come a long way since then, the composition of juries still remains an issue of huge importance, especially if life-altering decisions are to be made.

Research conducted last year by Tufts University found that racially diverse juries deliberated longer, raised more facts about the case, made fewer errors discussing the case, and conducted broader and more wide-ranging deliberations. Said the author of the study, Dr. Samuel Sommers: "…the findings have potential implications for a variety of contexts — from the classroom to the board room, or wherever a premium is placed on fact-finding and reaching a good decision."

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Those findings mesh with those from another study published last October. Research conducted by the Wellesley Centers for Women discovered that women board directors make three distinctive types of contributions that their male counterparts are less likely to make. They include:

- A willingness to consider the concerns of a wider range of stakeholders.
- Greater persistence in pursuing answers to difficult questions.
- And a more collaborative approach to leadership through improved communication.

But the representation of women on corporate boards is nowhere close to being proportionate to their numbers. Today, women hold more than half of all management jobs and comprise nearly 60 percent of all college and graduate students. According to Catalyst, Inc., however, only 14.8 percent of board seats at Fortune 500 companies last year were held by women. Such representation is disappointing — especially when the business case for women on boards is so compelling.

Catalyst Inc. found that Fortune 500 companies with the highest representation of women board members attained greater financial performance, on average, than those with the lowest representation of women board members — and the differences weren't just significant. They were stunning. Returns were 42 percent higher on sales, 53 percent higher on equity, and 66 percent higher on invested capital. Furthermore, the average returns at companies with three or more women on their boards were even higher — an additional 30 percent or more on sales and equity and an additional 70 percent on invested capital.

Depending on how you look at the numbers, however, it's fair to ask if it's the presence of women on boards that makes successful companies better — or, if it's the fact that they are good companies to begin with and that's why they added women to their boards. But with numbers like those discovered by Catalyst, why spend too much time debating which answer is right?

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Mrs. Allen is Chairman of the Board of Directors, Deloitte LLP. She has served in this position since 2003 and was re-elected to a second four-year term in 2007. Besides her responsibilities as Chairman, Sharon oversees the firm's relationships with a number of major multinational clients.

Mrs. Allen is also a member of the Global Board of Directors of Deloitte Touche Tohmatsu, where she is the U.S. representative on the Global Governance Committee and chairs the Global Risk Management Committee. In addition, Mrs. Allen currently serves on the President's Export Council in Washington, D.C., and is a member of the Women's Leadership Board at the John F. Kennedy School of Government at Harvard University.

For the past two years, *Forbes* has named Mrs. Allen to its list of the "100 Most Powerful Women in the World."

Mrs. Allen holds an honorary doctorate in administrative science from her alma mater, the University of Idaho.

Through the looking glass — corporate governance in the future

Where can the ABCs of corporate governance take boards in the future?

For starters, fostering diversity of thought may be more of an imperative than an option for boards in the future — particularly for those boards that seek to spur growth through thought leadership. The process of sifting through different views can help boards be more effective and enterprises more successful.

To get there, it will take attitudes, behaviors, and candor working together and feeding each other. Of course, that's easier said than done. Even when board room dynamics are their healthiest, dichotomies abound.

Asked to lead, chairmen lead best by asking each director to take center stage. Counted on to express themselves freely as individuals, directors are also expected to forge consensus after rigorous debate. In addition, the same cohesion that can promote consensus can also become detrimental if "Groupthink" sidesteps uncomfortable discussions and excludes diverse thought.

Difficult as these balancing acts may be, when they are practiced and achieved, anything's possible. For example, boards may expand their definition of the information they consider relevant to their decision-making. Historically, boards have relied heavily on records of past financial performance to guide their discussions. But, more and more, boards are depending on information that's predictive in assessing corporate health through metrics that are nonfinancial.

Today, the discussion of board diversity focuses primarily on gender and ethnicity. But, tomorrow, the discussion about achieving greater diversity of thought in the board room will focus on expertise typically not found on a board — like internal audit, perhaps, or corporate responsibility, or information technology.

Yet there's one thing about boards that will be just as valid tomorrow as it is today.

Boards are a vital corporate asset. As such, boards can decide to invest in strengthening their own dynamics just as they might decide to invest in any other asset that would strengthen the balance sheet.

Investing in the ABCs of corporate governance may be a good place to start. By enhancing their members' ability to relate, think, and act, today's boards can become a competitive advantage — and an example for how their enterprises can embrace the future.

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