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WARP FACTOR

"AMBITIONS - SUCH AS IMPROVING SUSTAINABILITY, REDUCING INEQUALITY OR DISCRIMINATION - INVARIABLY TAKE A BACK SEAT WHEN THE SCANDALS AND DYSFUNCTIONS EMERGE IN THE EXECUTIVE SUITE"

When corporate elite team culture becomes distorted, there is a strong risk that decision-making will be warped by psychologically undesirable and dysfunctional behaviours, which run counter to both the stated ambitions and actual interests of the organisation. While dysfunctional executives and cultures are each dysfunctional in their own particular way, research finds the dysfunctions have consistent themes for poorly defined cultures, where corporates and their leadership team members do not actively engage to effectively shape the culture their organisations espouse.

Research findings were not casually reached, they came from a careful study of 300 years of wrong-doing, malpractice and organisational failures, to find and codify the corporate failings, scandals and 'mis-steps'. Dysfunctions should not be taken lightly, as their impact is both significant and almost always destructive for staff and customers associated directly with the business in question, but also for investors and the wider community. The consequences can vary in terms of drama and impact. Ambitions - such as improving sustainability, reducing inequality or discrimination - invariably take a back seat when the scandals and dysfunctions emerge in the executive suite. The six dysfunctions framework

uncovered are applicable to any corporate or executive group that makes consequential decisions. Indeed, these apply to any groups that make high stakes decisions - where they feel the stress of being responsible for the outcomes of their decisions - and where there are many stakeholders with interests in what the group is doing. All such groups are highly likely to fall prey to these psychological blind spots and errors at some point. In some respects, many 'elite teams' share similar challenges. For example, reducing inequality by trying to be more representative of those they serve and represent - i.e. to try to articulate missing voices - or find themselves where culture can interfere with information sharing

within the team and thereby, distort their leadership, strategy and decision-making.

Once these corporate dysfunctions are identified - namely denial, groupthink, bystander groups, diffusion of responsibility, rule bound cultures and lack of independence - are noticed, they seem to appear everywhere in corporate executive and elite teams. Such psychological 'blind spots' hamper and distort effective decision-making, despite positive intentions and best efforts. Of course, such dysfunctions are not limited by nationality, geography, culture, sector or industry. Despite best intentions, wrongdoing, scandals and malpractice continue to happen with alarmingly regularity. They are almost no longer

notable until noticeably excessive. The six psychological dysfunctions of every/any executive team we identified can be detailed as follows: 1: *Subordination* - lack of independence. 2: *Imbalance* - missing key voices - aka lack of diversity of background, specific required knowledge, etc. affects decisions and actions. 3: *Distension* - cultural becomes exaggerated and dysfunctional or misdirected. 4: *Bystander* - diffusion of responsibility - aka key players refuse to speak up or else point to everyone regarding problems and no one takes responsibility. 5: *Bureaucratic* - rule-bound cultures ignore and sideline alternative views, content or ideas. 6: *Conformity* - groupthink and identity threat causes elite teams to go along with others and not raise legitimate concerns.

Having discovered, identified and codified these dysfunctions, we would argue that regulatory codes of conduct in most of the world have anticipated much of this and do what they can to reduce these risks. However, official rules can only take us so far in encoding and defining corporate cultures. We hold a nuanced position on compliance - particularly since the evidence suggests that the governance codes in countries where governance is taken seriously - like the UK for example - are necessary and do support effective governance. Our position here is that they are not sufficient to stop board disasters or change executive mindsets. Not because the rules are bad or insufficient, but because we are dealing with issues of behaviours and culture that cannot really be directly or properly legislated. This is mainly because beyond this often-performative regulatory environment lies the hidden social and psychological structures that underlie the cultures and political power games of executives - as both teams and individuals - as well as informing how they approach and fulfil their managerial and oversight responsibilities.

By applying focus upon the underlying psychological causes of board ineffectiveness for this analysis, we have come up with a range of recommendations. *Measure it*: There are effective measures to look at culture, such

as whether it is competitive or cooperative. *Be pre-emptive*: Think about your culture before you engage organisational change, will it help or hurt this change? Hold individual directors to account for their behaviour. As one of our interviewees suggested, use a letter of appointment that sets clear behavioural expectations. How directors work together on a board is the foundation to avoiding disaster in the boardroom as well as helping address structural inequalities. When individuals work well together in the boardroom, they can overcome structural challenges, identify and solve key problems and make good

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A key messages that comes through loud and clear is that boardroom disasters will stop, only when every director is trying to "do the right thing for the right reason". No amount of official rules and sanctions will persuade directors - beyond the usual sweet words for equality, purpose and sustainability - to make structural changes to their cultures. As a consequence, regulators, shareholders, employees and citizens all have a role to play in supporting and reaching this goal. Regulators can encourage better director education, assessors can ensure that boards measure and discuss their culture, citizens should stop normalising business

disasters or demand change. We all have a role to play in making these boardroom excesses, scandals, stifling cultures and disasters a thing of the past. Firstly, ensure culture is a core activity of the board. Boards need to actively measure, question and interrogate their own culture as well as that of the organisation to search for existing - or emerging - evidence of any of our six dysfunctions. Many boardroom scandals and disasters could be avoided by identifying, acknowledging and tackling these often psychological, but inter-related board dysfunctions. Focus should be upon being pre-emptive and anticipating - aka managing the negative sides of existing cultures - before they create disaster. Emphasis should also be laid upon planning for cultures that serve the entire organisation, rather than enabling powerful sub-groups to conflict or allow dysfunction to run unchecked.

To address "lack of independence", establish strong systems for directors - and those who aspire to the role - to be formally and independently prepared and give organisations reasons to appoint those directors. When it comes to "missing key voices" encourage boards to engage the widest possible range of stakeholders as an easy and obvious starting point. Often claimed to be hard to identify - let alone impact, when it comes to what we call cultural amplification - why not measure and monitor the boardroom and business culture systematically? This will make sure that it is what you think it is, while also keeping the culture always fit for purpose. To ameliorate "diffusion of responsibility", having a clear structure, ensuring every director has specific assigned responsibilities and also that values and goals are clear and consistently enforced better. So many cultures are proudly rules-bound, so move away from strict box-ticking, regulations and formal voting. It would be far better to instead focus executive bodies on the meaning behind the rules and living the spirit of those guidelines.

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