NACD Calls for Explicit Use of Culture as Instrument to Drive Board Excellence

By Michael Peregrine October 2, 2023

In an important corporate governance development, the **National Association of Corporate Directors** has released its latest Blue Ribbon Commission Report, "Culture as the Foundation: Building a High-Performance Board."

There has long been a general appreciation for the role of collegiality amongst and between board members in facilitating open, frank and respectful board dialogue. The significance of this new report is that it represents the first formal recognition of the broader role of intra-board culture as a critical component of effective corporate governance. The board's nominating and governance committee will want to pay close attention.

The premise of the report is that high performing boards require well developed cultures that incorporate firmly established behavioral norms and values that promote critical traits such as trust, candor and accountability. Traditional board practices are less important in an environment where greater board agility is required. And agility can be achieved best "when boards focus as much on their culture and conduct as on their protocols and provisions."

In this context, problematic cultural fault lines (such as factionalism, abusive behavior and disengagement) must be confronted in order to avoid destabilized boardrooms. Indeed, one of the most interesting parts of the report is a list of "red flag" signals of board cultural concerns that may require attention.

The nominating and governance committee should thus interpret the report as a "call to action" for the explicit use of culture as a key tool to promote governance effectiveness. This "call" is manifested in ten specific recommendations within three distinct phases of consideration.

The first phase is an intentional effort to define "optimal" board culture, and subsumes three specific recommendations: one, to assess the current board culture in order to intentionally define the desired state; two, to reach agreement on behavioral norms that promote clarification of board and management authority; and three, to assure that the culture is fit for the current business environment.

The second phase identifies steps that can be taken to reinforce board culture and behavioral norms, including: one, to clarify the roles of designated board leaders in reinforcing/changing board culture; two, to assign overarching governance responsibility for culture matters to the nominating and governance committee; three, to refine recruitment and onboarding functions to accommodate culture matters; and four, to incorporate culture and behavior into board and director evaluations.

The third phase contemplates addressing the major organizational fault lines. These may include dealing with unhealthy behaviors and problematic directors; destigmatizing the decision of individual directors to step away from leadership positions, or from the board itself; and balancing the need for vigorous internal debate with the value of achieving consensus on major decisions.

The report also allocates specific responsibilities for culture-related tasks amongst board leadership, the nominating and governance committee, other committee chairs and the board as a whole.

What should be particularly appealing to boards is the report's inclusion of a "toolkit" (including discussion guides and other supporting materials) intended to help boards implement its recommendations. The "toolkit" is consistent with the report's projection that the development of a strong culture does not require dramatic, far-reaching change, but rather a meaningful commitment from the board to address unwanted behaviors.

"Culture" is historically a soft and somewhat elusive concept in terms of corporate governance. Everyone traditionally recognized its importance but has never been able to define either what it means, how its importance is manifested in board practices and how to implement meaningful change.

The ultimate value of the report is that it is the first substantive effort from a recognized board development organization to address how culture impacts effective governance. Its recommendations regarding the development and maintenance of a purposeful culture can thus be fairly interpreted by boards (across industry sectors and corporate forms) as an important development in the formalization of governance principles

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