



## Proactive, reactive and inactive boards

‘However, proactive boards recognise that the end game is to build a strong culture of good governance and that can only be achieved over time as a sequence of reviews begin to develop the director mindset and board culture.’

*Filipe Morais and Jenny Simnett*

## Understanding investors’ ESG integration

‘Institutional investors and companies are reprioritising and integrating ESG, especially in areas of sustainability, at all levels. Increasingly, companies have to consider this change in perspective, which has a growing impact on the voting and investment decisions of their shareholder base.’

*Daniele Vitale*

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Feature

Optimal boardroom performance

**Justine Lutterodt** suggests that Chairs should ‘take up gardening’ in order to optimise boardroom dynamics.

Is your boardroom ‘bubble bound’? Do board members avoid uncomfortable conversations to protect their status within the group and/or preserve group cohesion? Do meetings feel like a performance, with most real decisions made beforehand and few alternative options explored? If the answer to any of these questions is ‘yes’, your Chair should consider adding the role of ‘gardener’ to their job description, based on research findings from a report that we recently published at the Centre for Synchronous Leadership (CSL), in partnership with The Chartered Governance Institute UK & Ireland.

The Report is the second of a three-part series entitled ‘Mindful Exclusion’ (see page 8 of *Governance* Issue 322 June 2021 for the scope of the series.)

I have been writing about the concept of Mindful Exclusion since 2016, when it was first featured in the World Economic Forum’s leadership magazine *Developing Leaders*. Since then, CSL has been using the concept to spark meaningful dialogue and transformation with a broad range of stakeholders in the business sector. The main premise is that exclusion matters. The cognitive shortcuts that we rely on to stay focused in a world of unlimited options are often infused with biases and social norms that we are unaware of. These can distort our judgement, leading us to operate within insular bubbles, and creating significant blind spots. It is only when we begin to notice what issues are *not* getting prioritised, what messages are *not* being conveyed, which people are *not* being invited to contribute, that we can break out of these bubbles and learn how to ‘exclude better’. For this mindfulness is required.

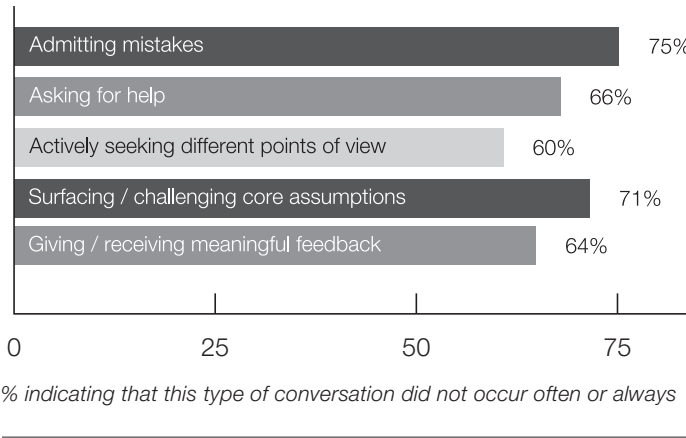
The bubble of comfort

In this Report, Part II of the Mindful Exclusion governance series, our focus was on boardroom dynamics. We first examined whether there was evidence to suggest that important types of conversations had been mindlessly excluded from boardroom dynamics prior to Covid-19. From our qualitative interviews and secondary research, we found that conversations involving vulnerability and challenge did not appear to be normal practice in the boardroom. The results of our survey helped to clarify the extent of the problem. For instance, prior to Covid-19, 75% of respondents indicated that admitting mistakes was not a regular occurrence in their boardroom, with 43% saying that this type of conversation was unlikely to occur. Similarly, 64% reported that giving and receiving feedback was not a regular occurrence, with 32% saying that it was unlikely to occur.

Although conversations involving vulnerability or challenge can be uncomfortable, they are crucial for board effectiveness. The five types of conversations referenced in Chart 1 also happen to be indicators of ‘psychological safety’ – an academic

term referring to the shared belief amongst team members that interpersonal risk-taking is safe. Numerous studies have found that psychological safety is strongly linked to team performance. Thus, avoiding these conversations is indeed a form of mindless exclusion.

Chart 1. Which conversations were excluded from ‘normal’ group dynamics prior to COVID-19?



Armed with this insight, we considered what factors are known to increase psychological safety, making it more comfortable to be uncomfortable. From our secondary research, it appeared that Chairs from high-performing boards were more likely to invest in building team relationships outside of formal discussion time. The academic research was more specific – indicating that high-quality relationships that were rooted in shared goals, shared knowledge and mutual respect were predictive of psychological safety. These datapoints resonated with our own experience working with boards and executive teams to cultivate psychological safety and optimise performance.

Based on this, we hypothesised that the more boards and executive committees *invested in team alignment*, the less likely they would be to exclude these important conversations. To test this theory, we divided respondents into four segments, based on the extent to which their board or executive committee ‘invested time to build the trust, knowledge, and capability required to work together effectively’.

As mentioned in Part 1 of this series, here is how the segments were defined:

The *Bubble Bound* were the most insular segment. They were defined by their complete failure to invest in team alignment, and thus their reliance on the default norms of the group to create psychological safety.

# Feature

*Bubble Breakers* were willing to go beyond their bubble to some extent, but not beyond the scope of traditional norms. They were defined by their occasional investment in team alignment.

*Mindful Managers* were willing to go beyond their bubble and were unconstrained by traditional norms. They were defined by the regular practice of investing in team alignment.

*Mindful Movers*, the most proactive segment, reshaped their bubble to align with their values and larger objectives. They were defined by their ongoing investment in aligning (and re-aligning) their team.

The survey results validated our hypothesis, showing that there were huge differences in psychological safety between the segments prior to Covid-19. For instance, 92% of the *Bubble Bound* (approximately one fourth of the sample) indicated that admitting mistakes was not a regular occurrence versus 47% of the *Mindful Movers* (one eighth of the sample). Similarly, 91% of the *Bubble Bound* indicated that giving and receiving meaningful feedback was not a regular occurrence compared with just 11% of the *Mindful Movers*.

As expected, the *Bubble Bound* showed signs of suppression. They were more likely to experience dominating behaviour in meetings. They were also more likely to have performative meetings, where most decisions had already been made beforehand. Only 24% of the *Bubble Bound* strongly agreed that there were high levels of trust. Likewise, only 25% were confident that their boardroom dynamics were ideal for effective governance.

In contrast, the *Mindful Movers* showed a capacity for synergistic decision-making. They had the strongest learning orientation – with higher quality induction training, a regular practice of seeking external expertise, and greater focus on talent management. They were the most likely to value difference – mandating collaboration across different departments and treating both diversity of skills and diversity of lived experience as a priority. This segment was also the most likely to have an official diversity and inclusion function and to have board or executive members participating in reverse mentoring. Seventy-six per cent of *Mindful Movers* strongly agreed that there were high levels of trust, and 86% were confident that their boardroom dynamics were ideal for effective governance.

## The Chair as gardener

Interestingly, there was one other major difference between the *Bubble Bound* and the *Mindful Movers*: chairing. This was not entirely surprising as the role of the Chair had been repeatedly emphasised in our interviews and focus groups. Also, academic research on psychological safety suggests that the role of the team leader is particularly important for setting the right tone. However, we had not anticipated the practice

of investing in team alignment to be so strongly correlated with the presence of skilled chairing. Only 30% of the *Bubble Bound* reported that their meetings were regularly chaired with high levels of skill versus 95% of *Mindful Movers*.

Our perception of whether a meeting is skilfully chaired tends to be based on how the Chair behaves in meetings. We expect Chairs to play the role of ‘police officer’ as necessary, holding individual members to account for their fiduciary duties. We expect good Chairs to also be ‘traffic directors’, capable of silencing members who are dominating in an unproductive manner and encouraging healthy debate. The importance of Chairs playing both of these roles was underscored by company secretaries participating in this study.

However, what the survey data suggests is that skilful chairing also requires members to grow more aligned with each other, thereby making it easier for the board or executive committee to self-regulate. The Chair can facilitate this by investing in ‘slow time’ to understand how each individual can best contribute and nurturing their development in a way that also helps the group grow collectively as a unit. In this respect, the Chair is also a ‘gardener’.

Gardening is likely to become a more important aspect of chairing as boards seek to integrate ‘diverse’ newcomers with existing members. New joiners who bring vital skills to the table that have been traditionally undervalued – such as human resources or digital expertise – need to know that their vantage point will be respected by their peers. Additionally, other members must gain sufficient fluency in these areas to ensure that they can challenge new members effectively. New joiners whose lived experience differs from existing members – based on age, gender, ethnicity, class, disability, sexual orientation and gender identity, etc – must feel that they are valued for their difference but not pigeon-holed by it. Likewise, other members must avoid relying on them as spokespersons for all people from their demographic group.

Getting this right will require an ongoing commitment to learning and valuing difference. Establishing the right ground rules, processes, and habits will still be critical. But – as any skilled gardener will appreciate – the Chair’s ability to notice the development of each individual and adjust these norms accordingly will be equally important. Already, Covid-19 has forced many boards to change the way that they meet, given the challenges of gathering in person. According to our survey results, 42% now report meeting more frequently and 37% meet for less time. This interruption of group norms provides fertile ground for resetting group dynamics. Chairs who are forward-thinking will seize the moment, and use this period as an opportunity to plant new seeds.

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Justine Lutterodt is Managing Director of the Centre for Synchronous Leadership and author of the *Mindful Exclusion Report*. For more information about the *Mindful Exclusion Report* see [www.cgi.org.uk/mindful\\_exclusion](http://www.cgi.org.uk/mindful_exclusion)

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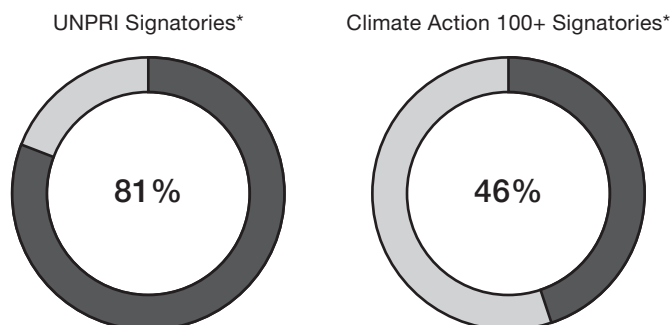
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responsible investment principles, including annual reporting. 'For growing initiatives such as Climate Action 100+, almost half of investors have become signatories and increasingly agree to their prescribed goals.'



\*Percentages are of the target investors analyzed.

### Conclusion

Institutional investors and companies are reprioritising and integrating ESG, especially in areas of sustainability, at all levels. Increasingly, companies have to consider this change in perspective, which has a growing impact on the voting and investment decisions of their shareholder base. At the same time, issuers focus on the importance of obtaining good ESG ratings to attract investors and safeguard their reputation. Asset managers will refer to the data and rating scores to show how the assets in their funds are more sustainable, attracting even more investments. As ESG continues to evolve, companies need to keep a close eye on how their investor base rises to meet these challenges.

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*Daniele Vitale is Head of Governance in UK/Europe at Georgeson*

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Designed and printed by WithPrint

Riverside Studio, Gills Lane, Rooksbridge, Somerset, BS26 2TY  
[www.with-print.co.uk](http://www.with-print.co.uk)

ISSN 1358-5142

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