The rise of Board evaluations: a tool for improving board dynamics? ¹

In the past few years corporate governance rules, laws and practices started to focus more on responsible board behavior as stakeholders required more transparency. Negative Board dynamics have been observed as contributing to performance problems, damaging corporate behaviors and value destruction. This note provides an integrative viewpoint on board dynamics combining the key insights and concepts from the practical corporate governance literature, the behavioral economics and the neurosciences field into a comprehensive board dynamics framework. The aim is to help board members/advisors/strategy & governance committees to develop better board evaluation practices by grounding these in the available insights on board dynamics. The “lets-be-nice” or “fill-out-the-form” board evaluation practices are slowly changed in the boardroom to try to create board’s that create long-term value.

The emergence of board dynamics as a key corporate governance element²

Well-known companies like, SNS Bank, DSB, ABN-Amro, Ahold, Rochdale or Vestia were all (perceived as) successful in different industries, but they have a common feature. They provided big corporate governance scandals in the media in the last decade and called for urgent corporate governance reforms in the Netherlands. The problem seems more universal with similar cases at Enron, Parmalat, Siemens, HP, Disney, Shell and Siemens. The issue of fraud, audit failure, accountancy scandal or the whistleblower CEO at Olympus (Woodford, 2012) was just the start of governance failures. In the past few years corporate governance scandals have appeared all over the media and brought the attention to the possible dysfunction of companies’ boards itself. Were the non-executive board members doing their job properly? Did they follow the accepted standards of board operation? In most cases they did. Setting only strict rules of operation miserably failed and a new perspective is needed on good board processes. It is not just about procedural rules, monitoring and regulations anymore; it is how we build high-functioning, critical and efficient working groups. (Clarke, 2008; Lorsch, 2012;). Good board dynamics cannot be legislated, but it can be built over time. By having an open and trustful atmosphere directors can fulfill their roles in a more efficient way without being trapped in a rigid position. While we have been used to building efficient groups within the hierarchical set up of companies, we have less experience in building these groups at the peak of the hierarchy.

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In this note the focus is on the behavioral side of boards. The formal/technical, value creation/strategic and context specific elements are left out. The readers is assumed, well advised to read abundant general corporate governance literature on these topics.