

dynamics theme highlighted cohesive team working (10 answers), a culture of openness (12 answers) and a culture of asking challenging questions (four answers).

Test yourself 1.1

Why is there a growing interest in board dynamics in governance in recent years?



8. A broader model of corporate governance

The preceding sections of this chapter all lead us to the point where we can now propose a broader model of corporate governance. This model will take into account both structural and behavioural factors, as well as individual and board group level factors. The model is an adapted version of the work the author completed in 2013 mentioned in Case study 1.3 in the previous section, and is shown in Figure 1.1. The two axes of technical versus behavioural and

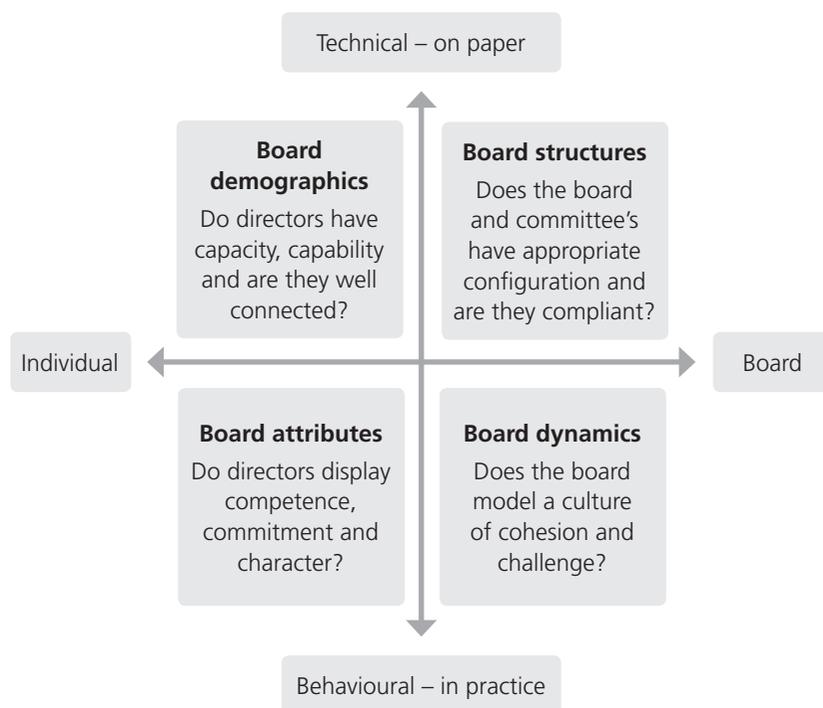


Figure 1.1 The 11 Cs model of corporate governance (adapted from Cross, 2013)

individual versus board create four specific areas of corporate governance focus each of which comprise a list of components. These components can be summarised into 11 areas all beginning with the letter 'C', hence the model's name, the 11 Cs model of corporate governance. The framework of the model will also be useful in providing the structure for the following chapters of the text and for you to orientate the newer behavioural areas of governance into your existing knowledge of the traditional technical considerations. The four areas of the model are described as follows.

Firstly, the dynamic interaction between the technical and board level axis is labelled 'board structures'. This quadrant is the traditional area of focus of corporate governance. The key question that this area asks of boards is: 'Does the board and committees have appropriate *configuration* and is the board *compliant*?' This question (and its subsequent answers) are obviously a vital starting point for approaching corporate governance. However, as we have seen already in this chapter, they are not enough if we are aspiring to better-quality governance. In short, effective answers to these questions are necessary but not sufficient.

The second area on the model is the dynamic interaction between technical and individual factors, and is named the 'board demographics'. This term has been selected as 'demography' originates from the Greek *demos*, meaning 'the people', and 'graphy' implying 'writing or description'. It is the basic register of minimal 'name, rank and serial number' type facts and information. The board demographics factors are those that one would usually find in a corporate curriculum vitae or indeed the brief pen portrait from the annual company report under the 'Directors and senior management' section. They are the high-level technical expertise and, potentially, professional network aspects of one's career which pertain specifically to someone's board role. This is what is known as **professional capital** and **social capital**. The broad question, therefore, that this quadrant asks of a board is: 'Do directors have *capacity, capability* and are they well *connected*?' As the answers to this question are usually within the public domain, they are often used as the proxy for board potential and performance by interested stakeholders such as investors, regulators, headhunters, the media and the public more generally. However, we know that a track record can contain significant bias and does not always predict future performance (hence the rise in popularity of tools such as competency-based interviews, psychometric tests, blind auditions and anonymous resumes in recent years).

This leads us to the third area in the model, which is the dynamic interaction between behavioural and individual factors, labelled 'board attributes'. Whereas the 'board demographics' captures some of a director's surface characteristics, the 'board attributes' dig deeper into the more psychological and emotional competencies of a director's **personality** as they play out in the boardroom and beyond. These are also sometimes known as their 'behavioural capital'. The key question that this quadrant asks of the board is: 'Do directors display *competence, commitment* and *character*?' For a board to be high performing, these attributes need to be true for all board members. However, there will also be some specific competencies required depending upon the role that each director is taking in the boardroom.

professional capital

The functional, industry and executive management experience, as well as specific prior board directorships, that an individual candidate might bring.

social capital

The number and strength of one's personal connections that may include professional networks, alumni networks and social networks.

personality

The characteristic set of behaviours, cognitions and emotional patterns that evolve from our biology and our environment.

The fourth and final area of this broader model of corporate governance is the dynamic interaction between the behavioural and group level boardroom factors, labelled 'board dynamics'. This factor is the 'black box' of corporate governance because it is the area which, even though largely responsible for shaping boardroom culture and performance, has been largely under-researched and under-acknowledged until now. The main question that this quadrant asks of the board is: 'Does the board model a *culture of cohesion and challenge?*' This question is one of many versions that could be asked to capture the essence of board group and team working to ensure appropriate cultural role-modelling, prudent risk management and effective decision-making.

For simplicity, the model can be summarised by the 11 Cs of corporate governance being *configuration* and *compliance* (board structures), *capacity*, *capability* and *connections* (board demographics), *competence*, *commitment* and *character* (board attributes) and *cohesion*, *challenge* and *culture* (board dynamics). Figure 1.2 goes into these 11 Cs in more detail, and provides a structure for the following chapters.

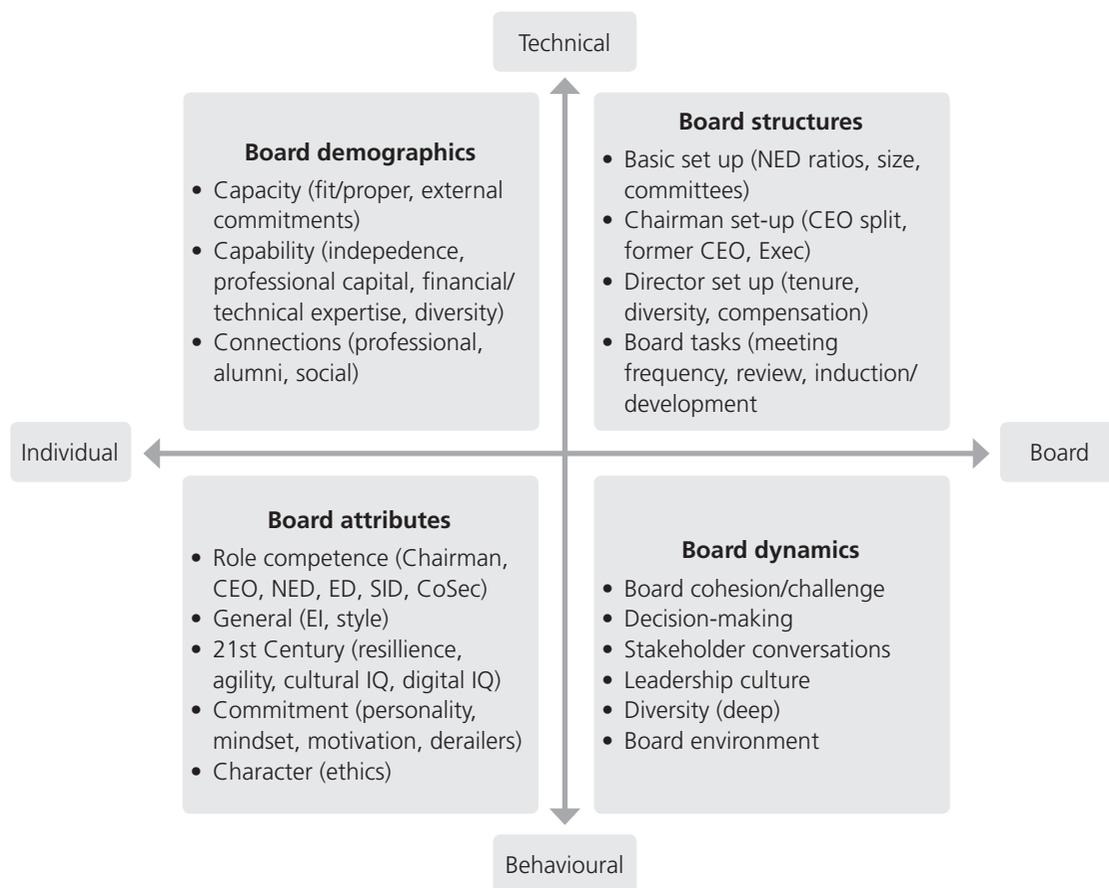


Figure 1.2 The 11 Cs model of corporate governance (adapted from Cross, 2013), including detailed components for each quadrant