
# Remove the Guesswork of the Human Behavior Behind Corporate Governance


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By Hugh Massie, May 2019

With corporations under increased scrutiny to guarantee compliance, improve relationships with management and propel business success, the board's governance responsibilities are becoming more complex. After all, while many lose sight of or gloss over the fact that board members act as fiduciaries, current business climates not only remind us of that, but place increasing weight on that statutory mandate.

Indeed, the time is ripe to re-envision how effective boards are shaped in order to provide a corporate governance framework that satisfies and even exceeds legal, securities, accounting and ethics standards. In fact, as various oversight entities double down on corporate governance, tighter approaches to these areas fall just short of mandatory.

This overdue, more stringent approach should take a resolute "never on my watch" stance to rogue behavior, noncompliance and greed. Thus, a radical re-think of how boards are structured, populated and appointed is in order. Given that, what if, at the crux of this reinvention, is the discovery of why individuals and teams sometimes tend to do a "behavioral flip" when under pressure – within their own lives or on the job?

## Corporate Governance – the new way forward

While financial performance is still vital, there is an increasing focus on transparency and accountability. Customers want to know how you do business. They want to know if they can trust you. It's no longer just about the product or service they receive from you. They want to know you are doing the right thing the right way and, possibly, for the right reasons. Is their money and data safe with you? Can you demonstrate you are working sustainably and with respect for the environment?

The answers to these questions, and many more, can be found in the behaviors of the people whose responsibility it is to oversee governance of the business. That's right: Even with so much information available to address corporate governance, there remains a lack of understanding of the behavioral personality of an organization's leaders. What's seen, what's hidden below the surface, what drives actions that might compromise the business. This is the core of governance. You can't control people, but you can understand them and give them guardrails and guidance based on profiles of their inherent behaviors.

For instance, how do you know when vetting a member for the board what their values, ethics, and morals are? What unknown personal and financial pressures might they be facing? What do you know about how these people will behave under pressure? Those behaviors can be identified and measured. And they should be. Why wouldn't you want to have this insight in advance of inviting someone to help shepherd your organization as a board member?

Scientifically validated behavioral discovery is available and delivers highly reliable insights, robust processes and real-time monitoring systems to better manage behavior *and responses to pressure/stress* through the board and organizational life-cycles, including detailed reports on where compliance risks may exist with specific members.

Think *probing questionnaire* (a powerful behavioral discovery and reporting of insights, revealing a cutting edge and holistic set of behavioral insights addressing risk, spending, decision making and goal drivers) delivered by a tech platform that deliberately removes all situational, cultural and educational biases – so that it consistently and reliably reveals natural behavior. That is, the innate behavior someone may not even realize they revert to. Understanding these natural behaviors is powerful because they cannot be manipulated by the very individual who possesses them. They cannot "game" this discovery process.

And I'm not talking about gaining insights the organization will keep for itself. Information about an individual's strengths, challenges and triggers are shared with that person. They can then better understand themselves and perform at an accelerated and maximized capacity on and off the job. Everyone wins.

You see, we know that human behavior is 93 percent predictable[1] and, therefore, taking a scientific, psychodynamic approach has many payoffs. Understanding combinations of human behavioral factors that trigger emotions when facing key decisions can provide board members, management and other stakeholders with significant insight into the degree to which bias and emotions can skew decision processes.

The idea is that understanding behaviors and inter relationships could be the key to delivering high-quality governance in any organization, rather than being seen erroneously, as it often is, as a soft approach not worthy of investment. Personality assessment methodologies should be uniformly applied to every employee in the business from the top down. From high-performing leaders down through the sales and operations teams to the disgruntled bookkeeper. New hires, existing employees and, yes, board members old and new.

## No room for wild-card board members

Board members are of course required to be even more accountable than employees in terms of their oversight, and to hold key executives to account. The expectation is that good governance practice has ensured that all board members are aware of the legal meaning and obligations that go with the role. Why then would you not ensure behaviors are scrutinized, especially when members are likely to face, among other challenges, balancing personal and business interests to ensure there is no possibility of a conflict of interest?

If culture (meaning: an organization's expectations, experiences, philosophy, and values that guide individual behavior; based on shared beliefs, attitudes, customs, and agreed rules) is not clearly defined

[1] (Northeastern University Professor of Physics Albert-László Barabási http://www.northeastern.edu/news/stories/2010/02/network_science.html)

and ascribed too at the board level, how then, one wonders, might the organization respond. Micro-management is not necessary. But deep due diligence regarding, again, every individual is.

The more board members understand the strengths and behaviors they bring to their roles, the better able they will be to ensure there is a robust strategy in place to install not only the best preventive and guiding practices, but also the best-matched people and teams to make compliance king. Behavioral insights also put them in good stead to deploy appropriate checks and balances, in general and even individually.

For example, if the board has identified, based on behavioral insights, that the CEO is likely to try to unduly pressure other key executives, they'll understand the guardrails needed to ensure that CEO never fails the transparency test or begins to become the ever-dreaded rogue employee.

Likewise, identifying board members' own personality types, revealing those most likely to cross the line, together with the triggers that push them there, could save big dollars and reputations. It's a stronger, more effective position than managing and analyzing the fallout from rogue behavior after a negative event has occurred.

Simply put, knowing, in advance, how potential board members are likely to react under pressure is the key. This information can be revealed and measured. With the use of scientifically based insight gathering, their reaction to situations, their likely behavior under pressure, their hidden agendas, and much more can be understood before they are appointed.

At the heart of this approach is the fact that humans respond to situational cues. If board members are not cohesively aligned under a banner of integrity, honesty and morality, how can they point the organization in the direction of compliance and governance that satisfies the regulatory requirements? Companies scrutinizing their core values, behaviors and the way decisions are made at every level are more likely to satisfy the rules of governance.

## Invest in knowing your people

While larger businesses are investing more in cyber security and other monitoring programs, virtually nothing is being put toward identifying and monitoring costly board member (and employee and management) behavior risks.

The problem is that many of these insider threats are already in your business and the situation is gaining momentum without anyone being the wiser. The Global State of Information Security Survey 2015 recommends that 23 percent of the annual spend on business security should be directed to behavioral profiling and monitoring of employees, and this case, board members.

Based on external research, people with the following measurable behavioral traits are more likely to engage in rogue behavior when emotionally triggered:

- Innovative – bright mind, which turns into curious and devious thinking;
- Ambitious – desire for success, leading to cutting corners; and
- Secretive – working under cover and not revealing key information.

The use of a validated behavioral discovery process can dynamically match people with specific environmental conditions to determine their potential response. Such insights can also discern the degree to which individual responses could create destructive behavior and negative actions toward the business.

You only need look at headlines regarding Wells Fargo, Volkswagen, JP Morgan and the Australian Banking industry, to name but a few, to see the evidence of deviant, sometimes criminal, always destructive behavior, to understand the importance of identifying the triggers that lead to inappropriate activity. The reality is that any person with a weak or temporarily broken character on the wrong team or facing external pressure, can, and will, make flawed decisions and likely become the source of costly negative behavior.

## Determining a gatekeeper

When the behaviors and motivations of individuals are revealed, transparency becomes the norm. But who should undertake and monitor this behavior? To be completely transparent, the process must be conducted by an independent body. A consultancy highly qualified in the area of uncovering deeply hidden behaviors. Once the process has been completed, there is much to be said for appointing a culture manager.

The overall objective with a such a position is that they take the lead on all organizational cultural practices. They should provide expertise and support in a range of areas. Importantly, they are answerable to the CEO *and* Board. And while they do not lead a department, they have right of entry to ensure the safety of organizational culture in areas including performance management, employee relations, employee engagement, diversity and inclusion, policy and procedure development, and HR compliance. That is, complete stewardship over corporate culture and governance.

To wit, the person in this role should have the autonomy to liaise with a broad range of internal stakeholders, primarily at executive level, and with stakeholders and customers as needed. They should have the freedom and skills to periodically take the pulse of the organizational culture to establish if intervention might be needed and if corporate governance and regulatory requirements are being adhered too. If you limit their access and authority, you limit their effectiveness, and your program as a whole.

This style of oversight will ensure that senior management is not withholding information from the board and that the board is following basic governance principles.

## Implementing improved governance

Where there is currently a board *in situ*, undertaking a review should be set against agreed-upon benchmarks. Benchmarks must set acceptable standards based on predetermined values, as well as levels of talent, and should link directly to the key role responsibilities and deliverables. Benchmarking should also include an inventory of desired attributes and behaviors.

The review can then be assessed against a framework of commonly accepted best practices and business objectives. This involves building a profile for the board as a whole, followed by benchmarking existing directors against the board benchmark profile. Once the gaps are identified, it makes the process of filling them easier and likely to be more accurate in the selection process.

Six basic steps that might be used to guide your in-development "behaviorally smart" approach to corporate governance:

1. Having profiled every board member, use this insight to openly discuss how they can work effectively together. No two behaviors are the same. Build trust by identifying individuals and working with them to leverage their strengths and talents and manage their limitations is key.
    a. Know the inherent risk takers;
    b. Identify the influencers in the room;
    c. Look for those that resist change and determine how best to bring them along when change is necessary;
    d. Manage the spontaneous individuals; and
    e. Identify the thoughtful decision makers.
2. Have the right balance of talent, skills and industry knowledge to assist the board and ensure there is a balance between those who know the organization, those who have expertise and those who offer a fresh perspective.
3. Keep information up to date and available to the board members. This will ensure decision making is more effective.
4. Use the behavioral insights to identify a board member that could go rogue under pressure and compromise the business.
5. Undertake regular self-evaluation. Question decisions. Learn from mistakes. Constantly frame behavior and performance against benchmarks.
6. Above all, ensure that you continue to gain the behavioural insights of every employee, leader and board member through a consistent, validated process. Any one person who is not (profiled) in this way may be your next weak corporate governance link.

All told, the advantage gained by institutionalizing the behavioral insights process combined with strategic oversight processes and procedures can and will deliver an environment that minimizes compliance challenges.

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