

NPO Forum

In Conversation with COC: Board Culture, Ethics & Governance

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Why Good Boards Fail

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What makes a good NPO board?

Personal attributes:

integrity, courage, professionalism

Mix of competencies:

sector experience, strategic planning, management, accounting, finance, etc



Diversity:

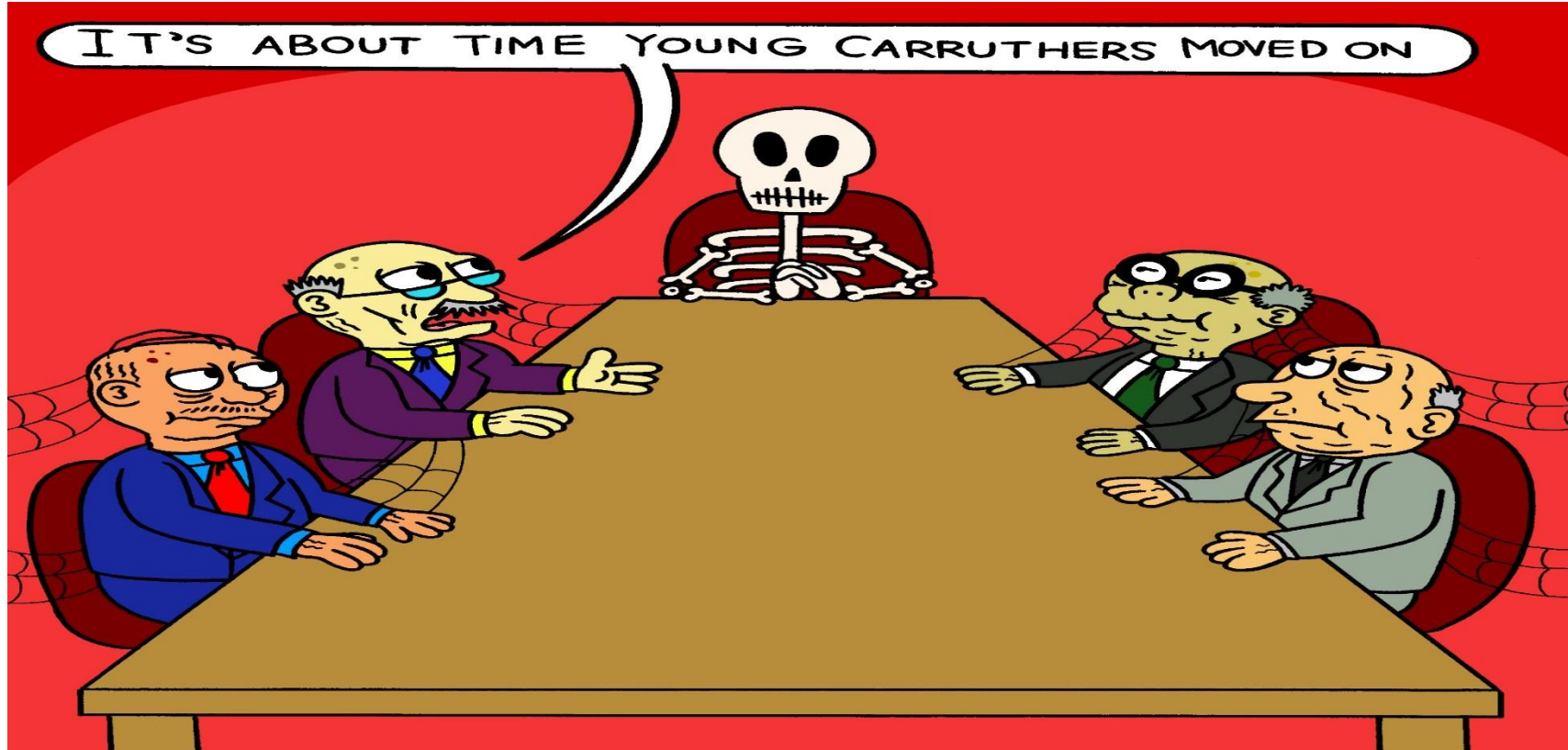
gender, age, ethnicity, socio-economic backgrounds, etc.

Commitment:

ability to contribute time, giving adequate priority to NPO activities

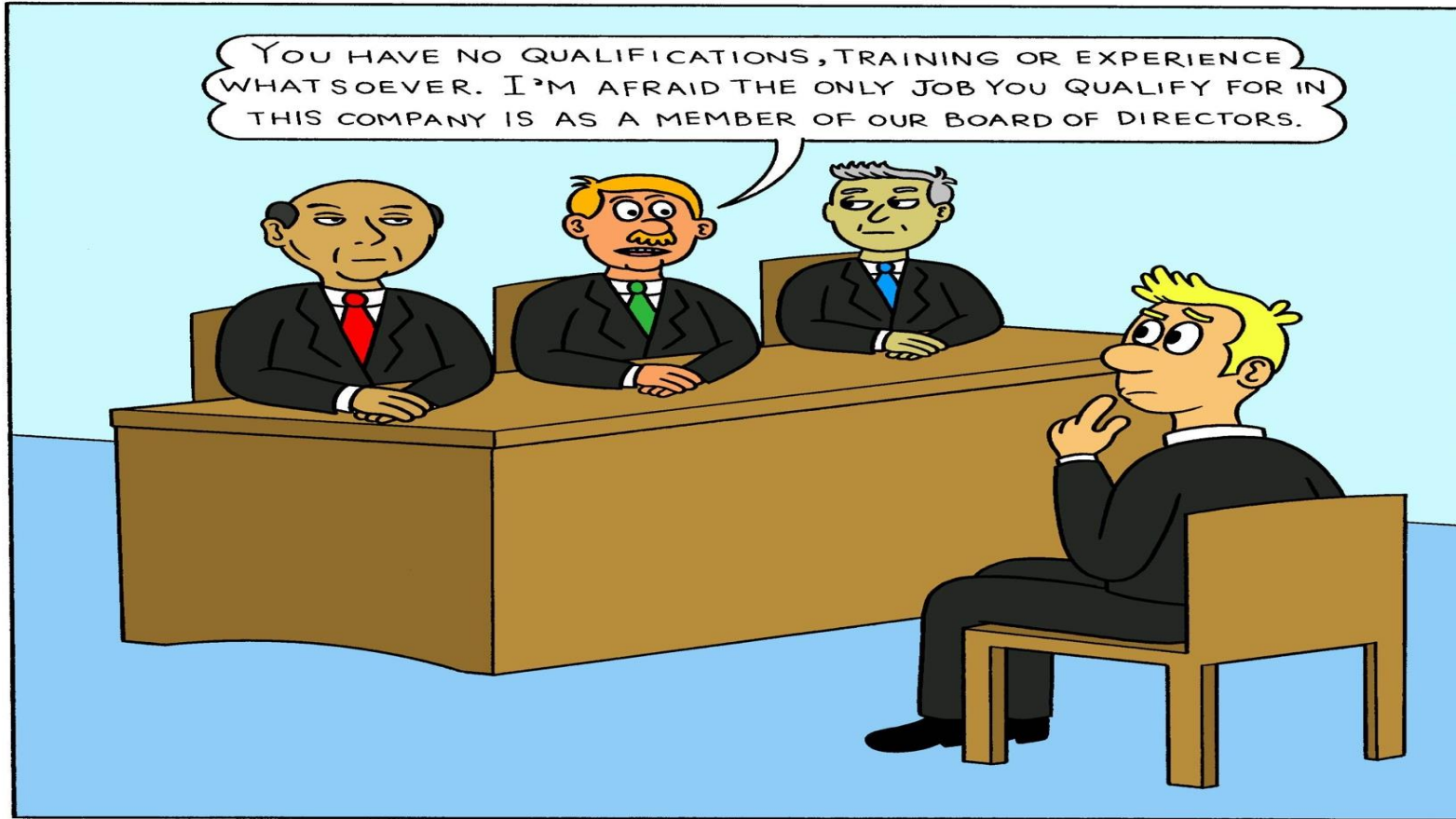
Common weaknesses in NPO boards

- Lack of proper succession planning/renewal



Common weaknesses in NPO boards

- Lack of proper selection process for directors



Common weaknesses in NPO boards

- Boards having little direct accountability to stakeholders



Common weaknesses in NPO boards

- Lack of proper performance evaluation



Directors who may
lack the right attributes

What makes a good director?

Integrity

Courage

Professionalism

Commitment

Competence



Does it for the right reasons

Steps aside when it's time

Walks away when it doesn't feel right (but not without first trying to make it right)

What makes a good director?

X is 41 years old and holds a degree in Business Administration and an EMBA from top universities. He's currently an MD of an asset management company and an adjunct professor of finance at a well-known European university. He has more than 20 years of experience in investment banking and has held senior positions with top-tier investment banks. X has worked in US and Asia, including Singapore, and has experience in real estate, REITs and capital markets. He has served on several listed boards, mostly in Singapore, including on audit committees and as lead independent director.

What makes a good director?

In 2013, X was fined \$5,000 for often leaving his dog chained in his balcony and exposed to the sun and rain during the whole day, over a period of several months. Efforts by SPCA and others to contact him failed.

Over the last 5 years, he has resigned or retired from 8 boards. In 4 of those boards, he served less than 1 year, and in one case, for only 2 months. He left citing cultural differences, company lacking resources and therefore requiring more of his time than he can commit, lack of cooperation from management, etc.

Would you consider him for appointment to your board?

What makes a good director?

Y is 57 years old and was one of the founding partners of a company providing corporate finance advice and investment management services, with its headquarters based in London. He has held senior positions in a top investment bank, including as its Chairman for the Asia Pacific Region.

Y has sat on boards of several large companies, including in the telecommunications industry. He has also been a director of the telecommunications regulator. Y holds a B.Sc. (First Class Honours) and a M.Sc. in Economics from one of the best universities in UK.

What makes a good director?

In 2014, while on a trip to HK with his wife and daughter, Y was caught on camera by the HK media going out with a young HK model during the day, and then hugging and kissing her in a taxi.

Would you consider him for appointment to your board?

Why “good” boards fail to act

- Confirmation bias – looking for and recognising only “evidence” that supports a view held
- Self-justification - supporting a prior decision one has participated in making
- Groupthink
- Peer pressure
- Dominant personalities

The Case of Theranos (*Bad Blood*, by John Carreyrou)

Theranos was a blood-testing company which claimed to have developed technology that allowed hundreds of tests to be done with a single drop of blood obtained from the finger. It was a private company, was able to raise significant capital, and achieved a valuation of US\$9 billion, despite growing scepticism among employees, the industry and media.

The Case of Theranos (*Bad Blood*, by John Carreyrou)

“When one former employee interviewed for a job at Theranos..., he asked Holmes (the founder and CEO) about the role of the company’s board. She took offense at the question. ‘The board is just a placeholder,’ he recalls her saying. ‘I make all the decisions here.’”

The Case of Theranos (*Bad Blood*, by John Carreyrou)

Theranos board included Channing Robertson, the Stanford University engineering professor; Donald Lucas, the venture capitalist; General James Mattis, who later became President Donald Trump's secretary of defence; and George Shultz and Henry Kissinger (both ex-secretary of state).

George Shultz's nephew, who worked in Theranos, had repeatedly told Shultz and showed him evidence that Theranos was a fraud. But Shultz did nothing.

The Case of Theranos (*Bad Blood*, by John Carreyrou)

At one point, the board was going to replace Holmes with a more experienced CEO but she was able to convince them not to. Finally, the fraud was exposed by the media. Why did the board fail to act?

The same question could be asked about Enron, Satyam, and many other companies with high profile/highly experienced directors and yet the board did nothing, often despite red flags and negative media reports.

Are boards generally too cohesive?



Changing board culture in NPOs

- Evaluation – board, committee, individual director, Chairman
- Succession planning:
 - Strict tenure limits
 - Diversity requirements
 - Proper nomination process
 - Use a board matrix that encompasses tenure, diversity, competencies to assess desired and current board attributes
 - External sourcing for directors

Greater regulatory intervention may be necessary in NPO sector to promote change in board culture

thank you

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