Assessing board culture and dynamics

There is no blueprint for an effective board, but engagement between investors and board directors can offer a way to assess how well a board is functioning. Diana Glassman and Jaime Gornsztejn explain how we have evolved our approach to assessing board culture.

Setting the scene

Boards contain inherent biases that can be acknowledged and mitigated but not eliminated. Getting this aspect of governance right makes it more likely that material risks and opportunities will be well managed. It follows that an effective board is best placed to secure a company's long-term success.

We explored board culture in our April 2020 white paper, *Guiding Principles for an Effective Board*. Since then, we have developed our approach to assessing the quality of board dynamics, as major corporate scandals have continued to reveal fresh insights into board weaknesses.

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In recent years there has been an industry-wide push for more standardised disclosure related to governance. Investors can now see how many board meetings were held, how many meetings each director attended, and other easily quantifiable aspects.

Unfortunately, such disclosures can also create a risk of governance by numbers, with a focus on aspects that are not the most important contributors to board effectiveness. Board culture, the degree of engagement from individual directors, and the quality of relationships are also vital aspects that should not be ignored just because they are difficult to quantify.

Weaknesses in board-level culture, including impaired information flow, weak escalation norms, lack of independent oversight, and blurred accountability, can translate into financially material investor losses or below market returns. These weaknesses may be driven by low trust, a lack of openness or poor psychological safety within the boardroom.

For example, at Wells Fargo, the board may have been overly deferential to a strong chair/CEO,[1] taking too long to detect and respond to various misconduct signals[2,3] and hold management accountable[4] for a cross-selling scandal that an investigative reporter identified as early as 2013.[5]

1 A Closer Look at the Wells Fargo Scandal – Yale University Press.
2 Lessons From Wells Fargo – Markkula Center for Applied Ethics.
3 Here's How Wells Fargo's Board Of Directors Just Failed Customers.
4 HHRG-116-BA00-20200311-SD003.pdf (page 5).
5 wells fargo settlement background.

Multiple scandals[6,7] during the 2010s resulted in fines and remediation running into billions of dollars[8] and a multi-year Federal Reserve asset cap[9,10] that was only lifted in 2025.[11]

At aircraft manufacturer Boeing, production pressures and management influence over safety expertise and regulatory scrutiny weakened oversight[12] of critical engineering and risk decisions.[13] This may have contributed to the 737 MAX accidents, in which two aircraft crashed with the loss of 346 lives.[14] The estimated costs have run into the billions, including fines and compensation to the families of those who died,[15] with a significant erosion in the company's market value.[16]

At Volkswagen, systematic emissions manipulation was allowed to persist uncorrected[17] in what would become known as the Dieselgate scandal. This led to over €30bn in fines, settlements, and remediation,[18] while €25bn was wiped off the company's market value over two days.[19]

Even where impacts have unfolded more gradually, weaknesses within board culture have proved financially material. At Brazil's Petrobras, politicised boards with weak independence and fiduciary accountability presided over governance failures that culminated in Operation Lava Jato (Car Wash).[20] This was an investigation into allegations that Petrobras executives had accepted bribes from construction firms in return for awarding them contracts at inflated prices.[21] Billions were wiped off the market capitalisation at the peak of the scandal, while huge penalty payments to regulators and class action lawsuit settlements followed.[22]

These scandals demonstrate the financial impacts of poor governance. Boards that fail to allow real challenge of dominant personalities, or that lack the skills to steer a company through the challenges it faces, may find themselves unable to grapple with deep-seated cultural problems. Unaddressed issues that manifest themselves as major compliance or public safety crises may lead to unplanned cash outlays in the form of fines, legal fees, and remediation expenses. Further, revenues can be immediately halted, or curtailed in future periods, via the company's loss of its licence to operate, acute brand damage, and explicit market restrictions.

Our engagement approach

In 2020, we published our white paper, *Guiding Principles for an Effective Board*, laying out five principles that underpin effective boards. These cover genuine independence and representation, the role of the chair, how the board allocates its time, the board's relationship with the CEO, and a commitment to continuous improvement.

These dimensions cannot be assessed through governance 'hardware' indicators alone – such as board structure, formal roles, committee arrangements, or independence metrics. They must be evaluated through a diagnostic lens that considers qualitative 'software' elements. These include culture, behaviours, relationships and decision-making dynamics, that determine whether the board's structures work in practice.

Identifying strengths or weaknesses in the application of each of the five principles can lead to practical engagement objectives around board evaluation, succession planning, establishing a lead independent director role or disclosure of a board skills matrix. We have also been able to evolve and refine our approach using insights from our board engagements, particularly around the software aspects of board culture.

6 https://en.wikipedia.org/wiki/Wells_Fargo_cross-selling_scandal#2023_allegations.
7 https://en.wikipedia.org/wiki/Wells_Fargo#Lawsuits,_fines,_and_controversies.
8 Wells Fargo to pay $3.7 billion for illegal conduct that harmed customers | Reuters.
9 Here's What the Wells Fargo Cross-Selling Scandal Means for the Bank's Growth – NBC Bay Area.
10 https://www.thebanker.com/content/d7cb5e79-850b-460c-9084-033dba2ab72f.
11 Wells Fargo's Asset Cap Is Lifted – What Happens Next? | Banking Advice | U.S. News.
12 Boeing testimony: Board of directors didn't react to 737 MAX crashes - CBS News.
13 https://www.theguardian.com/business/2020/mar/06/boeing-culture-concealment-fatal-737-max-crashes-report.
14 https://en.wikipedia.org/wiki/Boeing_737_MAX_groundings#:~:text=The%20Boeing%20737%20MAX%20passenger,a%20dangerous%20in%2Dflight%20incident.&text=346%20total%3A,on%20Lion%20Air%20Flight%20610.
15 https://en.wikipedia.org/wiki/Boeing_737_MAX_groundings#Financial_and_economic_effects.
16 https://edition.cnn.com/2020/11/17/business/boeing-737-max-grounding-cost/index.html.
17 https://www.theguardian.com/business/2015/dec/10/volkswagen-emissions-scandal-systematic-failures-hans-dieter-potsch.
18 https://www.bbc.co.uk/news/business-61581251.
19 https://www.theguardian.com/news/datablog/2015/sep/22/scale-of-volkswagen-crisis-in-charts.
20 https://en.wikipedia.org/wiki/Operation_Car_Wash.
21 https://www.bbc.co.uk/news/world-latin-america-35810578.
22 https://www.hklaw.com/en/insights/publications/2018/10/petrobras-agrees-to-pay-more-than-18-billion-for-f.

Board culture as a high-performance team sport

Serving on a company's board can be compared to a team sport. Some teams have a better collective decision-making culture, which allows them to outperform, while others have sub-optimal dynamics, or are more dysfunctional. We engage to assess whether boards are fostering a healthy culture of critical thinking and collaborative decision-making that best serves long-term shareholder needs, rather than just rubber-stamping the decisions of the CEO, chair or lead independent director (LID).

We also try to evaluate if the board is shaping strategy and risk oversight through informed and psychologically-safe dialogue with a team of directors that is constantly improving itself. To increase our visibility into the cultural dynamics impacting decision-making quality, we have translated our five principles into a board effectiveness diagnostic tool that relies on interpreting non-quantifiable information that only skilled engagement can elicit.

The board's leader – the chair, or the lead independent director (LID) in the case of a combined chair and CEO – plays a pivotal role in shaping board culture. But directors tell us that the chair or LID can sometimes be the problem. A recent PWC and Stanford Leading Edge Stewardship paper[23] found that 75% of companies lacked refreshment mechanisms for chairs or lead directors.

To ascertain whether a chair or LID is fostering genuinely robust debate, we probe how the board avoids anchoring discussions around the chair or LID's views, if contributions from all directors are sought, and how dissenting or different perspectives are voiced. We ask about who is involved in setting the agenda and whether this prioritises the most important forward-looking strategy, risk and business resilience items, or if the group focuses primarily on backward-looking compliance and operational issues. We may incorporate perspectives from colleagues on other boards to build up our picture over time.

We look for evidence of genuine independence and diversity of thought at the individual and team level. For example, we ask about pre-existing social and business relationships among directors that do not appear in required disclosures but could impact boardroom decision-making. For clues on whether individual directors can take unpopular positions, we ask about examples of past personal courage.

Match fit?

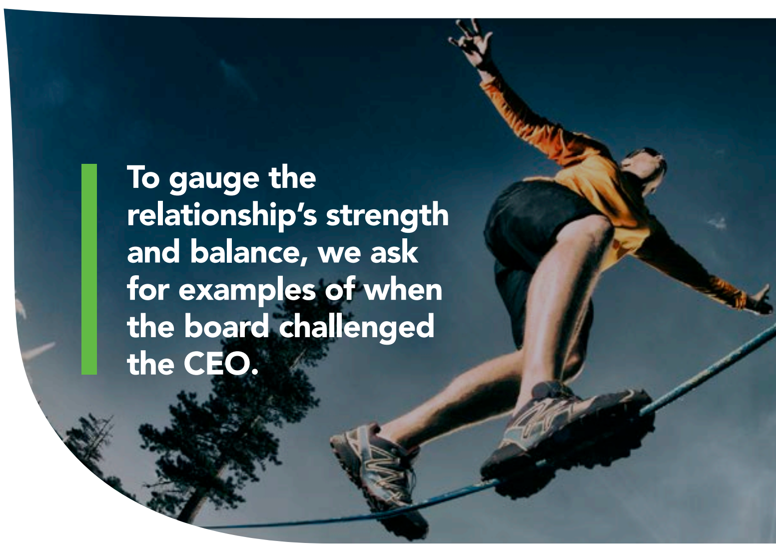
We aim to form a view on whether the board's collective perspective is fit for purpose by enquiring how it is addressing potential skills gaps. These might include technology change management, organisational and workforce transformation, geopolitical perspectives and industry-specific risks. Conversely, we may ask about a potential overabundance of one or another skill, background, or characteristic. This may be the case at long-tenured boards comprised largely of CEOs and financial experts whose experiences may be rooted in past eras. Their responses help us to gauge their potential blind spots and any proclivity to groupthink.

We encourage an average board tenure of less than 10 years as this is an indicator of refreshment with the skills and perspectives best suited for forward-looking strategy and risk assessment. However, we also examine internal power dynamics and the participation of newer versus longer-tenured directors. We ask about the onboarding process, as this is critical in enabling all directors to contribute to decision-making as soon as possible.

Strength and balance

A strong relationship between the board, and the company's CEO and management, is a delicate balance of review and challenge, underpinned by trust and transparency. To gauge the relationship's strength and balance, especially when the chair is also the CEO and/or the founder, who may have enhanced voting rights, we ask for examples of when the board challenged the CEO and how the CEO responded.

For example, at one Asian company, the founder is the chair, CEO and the main shareholder. We have engaged with an independent director to discuss the board's effectiveness given these circumstances. We also raised our concerns about potential conflicts of interest in transactions undertaken by the chair, such as his pledging of company shares to raise debt for personal projects, a co-investment programme whereby the chair, in a personal capacity, co-invests with the company's funds, and the loans made by the company to the chair. We asked what the independent directors were doing to constructively challenge the chair's view and risk appetite.



[23] pwc-and-stanford-effective-board-leadership-9-8.pdf.

Drawing on the US National Association of Corporate Directors (NACD) "nose in, fingers out" oversight philosophy,[24] we ask how directors build visibility into company operations while empowering management to execute. As information may be carefully filtered when trust is broken, leading to poor decisions, we ask how often the CEO is willing to share bad news, and how the board and management team behave in such situations.

We enquire about the frequency, breadth, and depth of board-management interactions, the board's ability to access a range of employees, director site visits, and the type of information that the board receives. We also look at how the board perceives its oversight scope, and how it may be changing over time to encompass emerging risks, human capital, and technology strategy, including AI.

Talent management

Good sports teams embrace continuous improvement, as do effective boards. We strongly encourage a third-party perspective in a board's annual assessment, as this can provide a more robust and objective view. We engage to distinguish between those boards approaching these as tick box exercises, and those gaining real value from them. We ask about the providers of third-party board evaluations, how and why they were selected, and if they have complete leeway to interview all the directors and offer candid feedback.

In the US, we have encouraged boards to expand their scope to include human capital oversight and to consider human capital management skillsets during refreshment. We believe that better oversight of talent management, encompassing workforce recruitment, training and progression, engagement, and culture, can help to enhance future shareholder value.

[24] Inside the Board–CEO Dynamic: Trust, Alignment, and 2026 Governance

Latin American boards

In some Latin American countries, we see specific problems with boards that need to be addressed.

At state-controlled Brazilian oil company Petrobras, we have supported the election of genuinely independent directors using instruments provided by the Companies Act. This includes cumulative voting and requesting a separate election for the board seat allocated to minority shareholders, to ensure their interests are represented at the board level.

In Mexico, most company boards have practices that raise concerns about their effectiveness, such as oversized boards, excessively long tenures, a lack of genuine independence, an insufficient range of skills, or insufficient diversity of background.

At Cemex, we engaged on the development of a board evaluation framework to help identify areas of improvement. The board composition has shown some slow progress since the first self-assessment in 2024. Two new board members were nominated, including one woman, but there are still three directors with excessively long tenures.

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