

Board basics

The board of directors is meant to be a collegial body, yet that's not always the case. To function properly, everyone needs to understand what they're there for. Do you?

4 RESPONSIBILITIES FOR THE BOARD

In some countries, these responsibilities are split between different bodies, e.g., steering is separate from supervision & control, as in Germany's two-tier board system.

1 Steering the organization

Discuss the **vision and purpose** of the organization. The CEO is typically selected on the basis of the collectively stated ambition.
Note: The board doesn't decide the strategy. Rather, the CEO that the board has selected will work out a strategy, together with the executive team, and the board endorses it and approves the resources to put it into action.

3 Following norms & standards

The CEO may set these, but the board must endorse them and make sure they're being adhered to.

2 Supervision & control

Boards used to control only for results; now they're controlling for risk (e.g., violation of environmental regulations).

RESOURCES: What's management spending money on?

BEHAVIORS: Are we obeying the law, and do we know what's permissible regarding the acceptance of gifts, for example?

INVESTMENTS: How much money is needed and where will it come from?

COMPLIANCE: Is there a dedicated compliance officer who reports to the board?

4 Assuming responsibility

If there's a violation, the board is ultimately responsible. In some cases, individual directors can be held personally liable.

Why might you be asked to join a board?

- ▶ You represent a key shareholder or stakeholder.
- ▶ You have a reputation for reliability or independence.
- ▶ You bring specific know-how or capabilities...
- ▶ BUT remember you're there to engage in general discussions, not to hold forth on your one area of interest.

Am I a good director?

- ▶ Do I add value?
- ▶ Do I contribute to the future of the company?
- ▶ Do I speak my mind?
- ▶ Do I make sure that the company has the right people on the board and in the management team to ensure its future sustainability?



There's a mathematical relationship between the number of board members, the number of times you meet, and the number of topics that can reasonably be discussed. Think about that when planning the meeting agenda. There's nothing worse than advocating that a decision be made during the meeting but then having to postpone it because you ran out of time. That wastes everyone's time.



What to do with board members who don't talk?

TAKE A STEP BACK TO ANALYZE: Why is this happening? Why is that person here? Typically, board members represent an interest: you need to figure out how to leverage that.

2 PRACTICAL ACTIONS:

1. Make the order of intervening a random process.
2. Appoint discussants who have to read up on a topic beforehand and come prepared to lead a discussion on it.

Sources of conflict

- ▶ CEO is too dominant.
- ▶ Differing opinions about strategies and results: the best thing a board can do is call time on something that's not working.
- ▶ Unhappy shareholders.
- ▶ CEO dissatisfied about remuneration.
- ▶ Directors who undermine the CEO by talking to the press and analysts.

SOURCE: Based on the Executive Education lecture "How to be a good director," delivered by Herman Daems, visiting professor of Strategic Management at IESE and veteran director of multiple boards around the world.