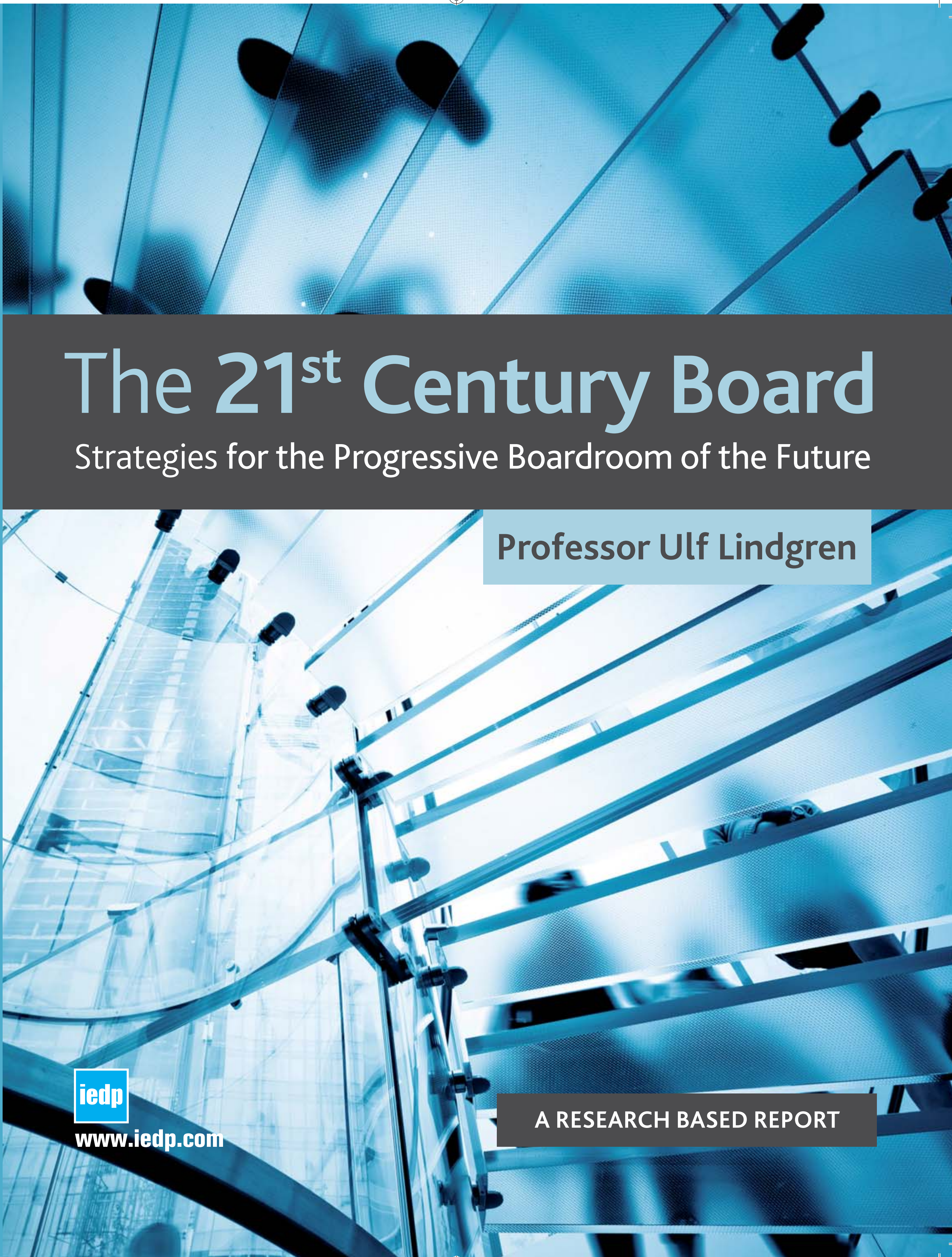
The 21st Century Board

Ulf Lindgren

www.iedp.com

iedp



The 21st Century Board

Strategies for the Progressive Boardroom of the Future

Professor Ulf Lindgren

iedp

www.iedp.com

A RESEARCH BASED REPORT

The 21st Century Board

Strategies for the Progressive Boardroom of the Future

A RESEARCH BASED REPORT

Professor Ulf Lindgren

iedp
London

Contents

Preface

The research work 'The 21st Century Board' by Professor Ulf Lindgren is an interesting and extremely valuable contribution to promoting the discussion on how the work and performance of the Board can be further developed beyond control and governance issues. Due to many regulatory initiatives and existing laws the liability of Board members is constantly increasing and might lead to a 'tick the box' mentality. If no risks are allowed to be taken in business activity there are no returns. The Board's primary role is to create long-term increase in sustainable value for all stakeholders. To this end a well functioning teamwork in the Board as well as a very professional interaction with the executive management are a must.

Membership of the board, and especially the Chairman's role, is today already a profession and requires substantial work and time investment. It is no longer about prestige but is hard and challenging work for people who have enough time, knowledge, and intellectual curiosity to constantly challenge and learn new things.

What does it take to be a good Board member? Personality is the starting point. High ethics as well as respect and trust of other Board members and executive management are essential. A Board is also typically a team of strong individuals and therefore mature team behaviour is critical for its success. The Chairman must understand how to be the leader of the Board team. A Board member has to bring industry knowledge, technology insight, functional experience as well as the right geographical and cultural expertise. Because seldom one individual brings all these competencies to the table, diversity of Board composition is the key. Greater diversity allows for a wider range of perspectives and real value creation in the Board team as well as in the interaction with executive management.

What is essential for value creation? Both the Board and the executive management have to understand the constantly developing customer needs in different geographical areas. Therefore an interaction with key customers is needed. Strategy formulation is a key joint responsibility for the Board and executive management. Choosing the right people, organization, and business processes as well as safeguarding the agility of the company to adapt in changing circumstances are managed by the executive management but must be well understood and actively followed by the Board. Getting enough exposure to key talent and technologies for the company must be arranged, and achieving the right 'checks and balances' is a critical guiding principle.

A well-functioning relationship between Chairman and CEO is a fundamental success factor for every company. This relationship requires respect, trust, professional behaviour as well as clearly defined rules of engagement. Continuous learning is a must for an active Board member. The quality of every Board is tested when companies face fast changes in the global market place or otherwise experience sudden crisis.

This extremely valuable work by Professor Lindgren should be a stimulating basis for extensive discussions in all Boardrooms, and shows how to develop its work as a real value creator to the long term benefit of all stakeholders.

Excellent corporate governance is about leadership and people!

Juhani Anttila, Managing Partner, ValCrea AG
(www.valcrea.com)

02 //
Enhancing the Chairman's Value

A clear consensus amongst the chairmen... they can add significantly more value to the companies they serve

All corporations have boards though they can differ in structure and legal role according to their jurisdictions (two-tier structure, executives versus non-executives, union representation etc.); and all boards have a chairman, again with changes in role emphasis affected and regulated by differences in legislation, tradition, culture and other factors.

Oddly, relatively little academic research has been conducted around boards since Drucker in the 1950s emphasized their key roles. Given the recent great turmoil and shakeout in the financial sector this is surprising. The research behind this report is based on conversations with 38 chairmen of large global corporations that have been conducted through in-depth interviews and long 'experience-sharing' discussions since the early 2010. Topics discussed of relevance to all, both in and out of the boardroom, included:

- Should the chairman be given a more influential role in the overall governance and leadership of the corporation? If so, how should the appointment of the chairman be made so as to secure the right profile and skill base?
- What is the optimal profile and skill set for the chairman of a given corporation?
- Is the role of the chairman defined in an optimal way, if it is defined at all? If it is, does it allow the chairman to use their full potential?
- How can the chairman act so as to create strategic value for the corporation? What would be the best value levers for their active role?
- How should the chairman be compensated if they are being asked to take on a new and more active role that reflects their value contribution and acknowledges their exposure to liability should things go wrong?
- Is the chairman position emerging as a new and distinct profession?

There emerged a clear consensus amongst the chairmen, that they can add significantly more value to the companies they serve, but that this must be reflected in rethinking both how they are recruited and successfully retained, as well as how their roles and responsibilities should be defined.

There are arguments both for and against a reinforcement of the role of the chairman. The relationship with the CEO is a key issue in this respect. The research identified many examples where a well-functioning and complementary collaboration, that we call 'The Tandem' structure, have significantly enhanced the effectiveness of both strategic decision-making and the execution of such decisions.

A five hour discussion with the chairman of one of the largest financial services groups in the world focused almost exclusively on the chairman role, "This is the first time I have discussed these things with someone", he said. Then he added; "Who should I otherwise talk to? The CEO? No, he reports to me, and it does not feel right to ask him what I should or should not do".

This research identifies the following key themes related to the role and challenges facing the chairman of the board:

Top Leader: The chairman is the 'Top Leader', the person put in charge to lead the work of the board and hence to be ultimately responsible for governance, the performance of the board, to be the face to the outside, and finally the person who has to make and execute the ultimate decision to remove or replace the CEO. The latter being described by some as the key role of the chairman.

"The chairman only has one single important task to perform", said one chairman of a large financial conglomerate in Scandinavia "it is to fire the CEO". Even if this certainly is a key task for the chairman, he/she should be given a more prominent leadership task in the corporation, and that this leadership role should be defined and acknowledged throughout the organization. The leadership role goes beyond the pure role to chair board meetings and manage the Board of Directors; it implies strategic leadership for the entire corporation. The proposed leadership role leads to many issues, as will be outlined below.

Team Leader: A second key role was described as being the '*Team Leader'*, the coach and manager for the board team. The director responsible for seeing that the board works as a team, and that the various skills and competencies of the individual board members are brought to bear on key tasks of the board. And to leverage the potential that a diversity of background and skills of the board members could deliver.

Governor Role: A third and maybe a more traditional role, is the '*Governor Role'*, to be the company's spokesman to the world in matters of relationships, overall governance, and interaction with regulators/legislators. This is often the key role in large continental European corporations, and is a legacy from past governance traditions.

However, when used *in extremis*, e.g. for crisis management, it could have very negative effects unless coordinated and orchestrated by defined rules.

Value Creator: There is a key role where successful companies have found the right role for the chairman as a 'value creator' where they work with the rest of the board and the CEO and his team on key strategic issues to create value for the corporation. We saw this in some cases where larger M&A deals were being pursued, in some major customer interactions (albeit this is an area where far too few chairmen or board members get involved), and, finally in cases of an emerging crisis. To summarize, such actions tend to be too *ad hoc*, and both could and should be structured and planned in a much better way.

"We actually work as a great 'Tandem', a team of two people who respect and trust each other, and we acknowledge both our strengths and weaknesses"

'Tandem' Role: A successful dual approach to leadership, where the chairman and the CEO have defined and subsequently assigned key strategic roles to each other. Explicitly and by design, thereby playing on their relative strengths and core competencies. A combined chairman and CEO role is not generally acceptable or desirable; but remains a situation often found in U.S. corporations. At the same time a (too) strong chairman or CEO acting on their own will is not desirable either. The ideal is a strong duo, a 'Tandem' at the top, where the chairman and the CEO work together in tandem to maximize synergies arising from complementary skills and competencies.

The chairman and the CEO in a large UK group had listed key tasks and decisions that required board approval, and then had divided up the responsibility for execution and follow-up between them. The assignment of roles was based on a profound discussion on relative skills and competencies. Acknowledging that he could not be the universal expert, the CEO had identified the strengths of his chairman and had been instrumental in establishing a new *modus operandi* between the two of them.

"We actually work as a great 'Tandem', a team of two people who respect and trust each other, and we acknowledge both our strengths and weaknesses; it is a great partnership that I hope will last throughout my tenure at least", said the chairman of this UK corporation.

One key issue raised by many chairmen, as well as other board members, is the out-dated nature of compensation for their services, dating back to when being appointed as chairman was a sign of honour and reward in itself, and the fundamental flaw arising from an asymmetric risk/reward structure in the compensation system. "Why should I walk the extra mile for this company? There is really nothing in it for me, the more I get involved, the bigger the downside", as one chairman put it in a discussion.

The Roles of the Chairman – Key Challenges and Opportunities

It is time to review and enhance the role of the chairman. We do not want to have a situation where an experienced and skilled executive with a vast personal network is assigned the role of chairing formal board meetings for two to four hours a handful of times per year, and signing protocols and reading from manuscripts produced by CFOs and Chief Legal Officers.

The following ideas and conclusions have been discussed with many of the chairmen interviewed for this research report, and have thus been refined and made more realistic and ready for implementation by corporations worldwide:

1. Define the key executive tasks for the chairman in a given corporation. Often such 'job/task descriptions' exist for the CEO. Write them down and agree on them also for the chairman. Clearly distinguish between what the tasks of the CEO are, and those of the chairman respectively. And what tasks belong to the entire board or its committees.

Align the CEO with the role descriptions for the chairman, and communicate these explicitly for the top management team

The chairman should be given the choice of accepting this active and executive oriented role. This could require them to give up on an existing 'Old Boys Network' of members of the board.

2. Ask the chairman and the CEO to arrange specific tailor designed *Board Strategy Retreats* both with the C-level team involved, as well as with the board alone, to define the core strategic tasks of the board. The purpose is twofold; to penetrate how to improve strategic performance and effectiveness of the board, as well as to create the kind of teamwork that so many chairmen requested during the research interviews. Such board retreats should be carefully prepared and focus on the