

Is It Time to Fix Our Boardrooms?

Increasing scrutiny requires boards to step up and deliver a better future

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THE BOARDROOM IS GOING THROUGH AN extraordinary time of transition. The activities of boards are under greater scrutiny and more is being demanded of boards than ever before.

Corporate boards no longer operate in a secretive world, behind closed doors and beyond the watchful eyes of the public and media. Investors, stakeholders, regulatory bodies, and governments are demanding more transparency and accountability. The past six months have brought boards and independent board members from companies such as HP, Yahoo, News Corp., Olympus, MF Global and Goldman Sachs straight into the headlines.

Boards are being examined for their collective responsibility for the well-being of the companies they serve. The reason for this increased scrutiny is a greater and more public understanding of the role boards can and should play. There is growing awareness by investors, employees, and customers of the consequences when boards and board members don't ask hard questions, don't add real value to the organization, and don't protect its future health and wealth.

Many people question what boards do and whether they have the skill, vision, and determination, and indeed any power, to effect the real change necessary in steering organizations and improving their business practices. The answer is the best boards do. Most organizations have boards, be they in the public or private sector, a FTSE 100 company or an NGO, a university or a utility. These boards have the power to influence the direction of business, to ensure that organizations are doing what is necessary to operate at their best, and to take real action if the organization is not performing well.

There are many metrics by which boards will increasingly be judged: their ability to engage in "future-proofing" their organization; how well they balance their "grounding" and "stargazing" responsibilities; whether they simply chase short-term gain or build strong organizations for the long term; whether the items on their agendas reflect current and future challenges and opportunities; whether the people around the boardroom table complement each other well for the tasks at hand and reflect the organization's diverse labour force and customer base; whether the independent members are truly independent; if any one person holds too much power, such as a joint CEO and Chair; and whether the boardroom is a truly dynamic place where real and constructive discussions take place.

Let's look at these challenges in more detail:

Future-Proofing

The nature of what it takes to be a responsible board member anywhere in the world has changed. It's not simply about looking over the shoulder of the executive team and offering an occasional word of wisdom, or a shove in a particular direction, over a lovely lunch.

Board directors today need to be much more engaged in their approach to ensure that the organizations they serve do not simply survive but thrive. Everything we do as board members is to ensure that the organization has longevity and fortitude and the ability to withstand the vagaries of the marketplace, serving not only those invested in the company today but the investors and stakeholders of tomorrow.



Grounding and Stargazing

It is crucial for any organization to achieve a balance of governance and strategy. Boards must make sure that appropriate attention is being paid to today and tomorrow. “Grounding” is about making sure the company fulfills all of its legal requirements, manages risks properly, and does business in a responsible way.

Grounding needs to be complemented with stargazing. Boards can add real value in helping their organization become robust and resilient in responding effectively to the unknowns in its future. Even more, boards must insist that their organizations are looking to the future, which is sometimes murky, but must never be shied away from.

Long Term & Innovation

One of the great dangers of difficult economic times is that companies turn to fighting fires; at the same time, strategy may be pushed aside for the sake of making ends meet today. In boardrooms around the world, companies are making tough decisions about

where money is spent, and they are having a hard time justifying investing in their future when the present looks so shaky. Crises also offer opportunities for critical innovation, and boards need to have the foresight to help their organization to emerge strengthened out of crisis, and avoid choices that would cut off their noses to spite their faces.

Changing Agenda Items

Boards need to ensure that they have their fingers on the pulse of what is happening in their sector and in the wider world. Their discussions must reflect the key challenges their organizations will encounter, not only in the coming months but in the years ahead. There are some essential things all boards and board members must think about, whatever the organization’s size, location or sector: sustainability, the changing workforce, innovation, infrastructure, technology, internationalization, communication, and the balance of continuity and change. The role of the board here is to help the organization put the relevant items on its agendas and prioritize without losing sight of the bigger picture of the local and global ecosystem in which it operates.

Diversity

The issue of diversity has of late been focused mostly on women. There is no doubt that women are severely underrepresented in the boardroom. The lack of women on boards, however, is a reflection of a wider problem with diversity – of color, age, international perspective, and more. Boardrooms that don’t represent the stakeholders of the business and the environment in which these companies are operating cannot do their jobs as effectively.

Diverse boards are more capable of seeing and understanding risks. They are better able to come up with robust solutions to address these risks. In other words, businesses led by diverse boards that reflect the whole breadth of their stakeholders and their business environment will be more successful.

The importance of diversity is increasingly becoming appreciated. Initiatives such as the U.S.-based Diverse Director DataSource, legislative efforts such as those in Norway that require public boards to appoint women to at least 40% of board seats, and government initiatives such as the U.K.'s Davies Report are important steps in the right direction. But more needs to happen to ensure that diversity requirements can make a real contribution to enhancing board performance.

This is not merely a self-serving agenda pushed by some of those currently underrepresented on boards; there is a strong business case and significant public interest behind the push for diversity, and comments to the contrary are deeply frowned upon. It did not go unnoticed when Deutsche Bank chief executive Josef Ackerman commented last year that “Women on our Board would make it prettier and more colourful.”

True Independence

Independent board members need to be able to make decisions without being swayed by conflicts of interest or confused loyalties. Independent board directors need to bring independence in word and deed, and a fresh perspective to the organization they are meant to serve.

More attention needs to be paid to how long directors serve on a particular board – it is simply not possible to be independent if you serve longer than a certain period. The U.K. Corporate Governance Code specifies nine years as the period after which independence has waned. It is pretty certain not to be 36 years, as is the case with James D. Robinson, a director on Coca-Cola's board, or 41 years, as is the case of Douglas G. Houser, a director of Nike. This is not a reflection of their abilities as board members, but simply that it is impossible to remain independent after serving for more than 35 years.

Separation of Chair and CEO role

The issue of the CEO also holding the role of board chair is much debated. Some believe that having a lead director working with a CEO/Chair is sufficient, but recent events suggest otherwise. One example is MF Global, the bankrupt futures brokerage where

Jon Corzine reigned as CEO and board chair, highlighting concerns over the inordinate power held by a CEO who also chairs the board. Independent chairs help mitigate conflicts of interest, ensure that the board is an effective check on risk, and see that the boardroom is getting the full information it needs and is truly acting as an oversight body.

Dynamic Boardroom

The best organizations of all sizes, in the for-profit and not-for-profit sectors alike, are looking for active, engaged, independent, and interested board members who strive to have the best possible understanding of the business the organization is in, and the one it wants to be in, as well as understanding what the organization is, and what it wants to be. A good board will always be larger than the sum of its individual members – but how big this sum is very much depends on the individual directors, and their skill, vision and determination.

The best organizations encourage a climate in which actually having the best people on board can bear fruit. These boardrooms are environments in which independent board members are comfortable asking tough questions (and indeed are required to do so), challenging the status quo and stepping up to assist in areas where they can.

Greater public and shareholder scrutiny will demand more engagement on the part of board members. Directors in turn should actively promote transparency and accountability as a means to ensure that their organizations can truly serve their stakeholders' and the public interest.

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