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The Effective Board

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The very first principle of the Code of Corporate Governance states: "Every company should be headed by an effective board to lead and control the company. The board is collectively responsible for the long-term success of the company."

Yet, after ploughing through the detailed guidelines of the Code, it is difficult to take much comfort in the ideal that a board will necessarily be an effective one even if it is successful in complying with every guideline. That is because the Code is mainly an operational collection of rules and parameters on board composition, directors' relationships, board processes, information access and disclosures. There is little on what a company must do to stay successful in the long term – which should be the primary role of the board.

So, what should an effective board do?

There is abundant literature on the subject and while I hesitate to add my views to the list, I suggest that, in our present context and circumstances, there are three distinguishing aspects of a truly effective board.

1. EMPHASIS ON PERFORMANCE, NOT JUST CONFORMANCE

The number of rules and regulations for companies has increased in part because of the fallout from corporate scandals, but also because of an increasingly complex globalised world. Unfortunately, the proliferation of these rules – the burden of which is often laid upon directors' shoulders – leads to an erroneous impression that corporate governance is just about ensuring that management and the company comply with these rules, and nothing more.

The fact is, conformance with the rules may be necessary, but it is insufficient. A company's long-term success does not merely depend on it staying out of trouble.

Companies exist to create value for their stakeholders and the economic system at large. They therefore ultimately have to perform in that regard. And good performance does require some risk taking.

An effective board should therefore ensure that the company it governs takes appropriate risks to create value while staying within the parameters set by the myriad rules and regulations.

2. FOCUS ON VALUE AND VALUES

It is a truism that companies exist to create value. However, what kind of value, and for whom the value is created, remain difficult questions to answer.

These days, the traditional capitalist mantra of "maximising shareholder value" is increasingly regarded as unacceptable. Across the board, political and religious leaders, consumers, social entrepreneurs, academicians, consultants, and even business leaders are calling for a rethink of capitalism and its effects on society.

At the core of this model of new capitalism are two concepts:

- That companies should meet the needs of not just shareholders, but also other stakeholders such as investors, customers, suppliers, employees, the community and the environment.
- That companies and the people who run them should focus on values (both human and community) and not just value (profits and economic).

A more compassionate form of capitalism is evolving. Based on value-plus-values, it is manifesting itself in the form of extended corporate social responsibility programmes, more thorough sustainability reporting, and in the type of companies that employees want to be a meaningful part of.

3. HEALTHY RELATIONSHIP BETWEEN BOARD AND MANAGEMENT

The debate continues about the role of the board versus that of management. Where does one draw the line between the two when it comes to strategy, policy setting, financial responsibility, and so on?

The answer can vary from board to board, but the more important aspect of an effective board, in my view, is a healthy working relationship between the board and management and, in particular, the board chairman and the chief executive officer (CEO).

The crux of that relationship is for the board to ensure the right balance between supporting and challenging the CEO and management.

A company can perform at its best only if its board, management and staff are all aligned in the same direction. In this regard, it is particularly important for the board to support management when it comes to strategy formulation and execution.

At the same time, good governance insists that the board challenges management in its thinking, decisions and actions. Research has shown that high-performing teams are those that are fully engaged in a reciprocal, constructive contention of ideas.

Of course, achieving the right high levels of support and challenge simultaneously is not easy. Often, board-management relations can become too adversarial or too aligned. In the Asian context, the latter is a problem as a great deal of emphasis is placed on obedience to the hierarchy and avoiding conflict. As a result, many companies lose out on the better decisions that might otherwise have emerged from an environment of constructive debate.

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And hopefully you will find that many of the chapters in this book have harked on board and director effectiveness. ■