



How the Board ensures Good Governance

What to look for – and what to avoid – in effectively operating Boards

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The sustainability of a business depends on its sustained ability to attract capable leadership talent, and that in turn depends in large measure on the quality of its governance. Good governance, therefore, is not only important for its own sake but also as a requirement for attracting – and retaining – top management talent, be it external or internal (the good ones have alternatives...). In our practice as advisors to owners of significant businesses we are often asked what it takes to ensure good governance, and the key really is to have an effectively functioning Board, be it a classical Board of Directors or an Advisory Board which can play an almost equally significant role for the quality of governance in a privately held company.

In order to achieve the desired impact, the Board, in the first place, needs clarity of purpose. The primary purpose of the Board, at least in a privately held enterprise, is to exercise the owners' rights and obligations (also vis-vis the other stakeholders), and to protect their interests, ensuring that the company is well managed, that fundamental decisions are taken on the basis of good judgment, and at the right moment. A productive and well-functioning Board, however, is also an indispensable resource for management. The best CEOs appreciate – and seek – the advice and challenge of critical, independent-minded Board members and especially an experienced Chairperson as sparring partner. Another function of the Board, and especially the Chairperson, can be to act as an intermediary, and at times even a mediator, between shareholders and management, or among different groups of shareholders.

Another important feature of effective Boards is clarity of focus. Experienced Board members, led by a capable Chairperson, will focus on the long-term well-being and sustainability of the business. They emphasise strategy over tactics, and distinguish what's really relevant. A truly



productive Board uses at least two-thirds of its time to think about the future – instead of reviewing and questioning past dealings or, worse, being presented quarterly reports and figures. A key focus for every effective Board is talent. The Board has to make sure that the company is managed by the best available talent which means not only selecting and employing the right executives, but also to help them integrate, to supervise, support and challenge them, to help them grow, to compensate them adequately, to retain them, and, when necessary, to replace them (in time).

An effectively operating Board will be able to deal with typical problems that can arise. Some Boards experience a large difference of expertise and understanding among Board members, which is acceptable and manageable as long as it derives from a diversity of backgrounds and not from a lack of (time) commitment or meeting management. Another problem can be a clash of personalities within the Board. In general, it is advisable to have strong, and diverse, personalities in the Board room, and if they – and particularly the Chairperson – have the right set of communication skills, there will be productive discussions and a high level of added value. Another problem is directly linked to productivity: sometimes Boards simply don't get through the agenda in the allotted timeframe, and see Board members heading to the airport before the issues are resolved. And some Boards become paralysed because issues remain unresolved or won't even be touched on due to the fear of generating antagonism.

There are a number of simple operating methods that set apart the productive Board. In our experience, a well-organised Board:

- Operates on the basis of a well-thought-out agenda, with relevant topics, a reasonable order and time allocation, distributed with sufficient lead time, asking members to comment and make suggestions, so as to avoid last-minute changes.
- Plans and respects adequate breaks, which are long enough so that Board members can be 100% “present” during the sessions, i.e. no one is distracted by smart phones etc.
- Receives all relevant materials with sufficient lead time, typically one week, and everyone comes to the meeting having read the materials, allowing to focus the discussions on questions, comments, suggestions, i.e. discussing the issues rather than taking in the information.
- Cultivates an atmosphere of candid, reflected discussions, where ideas flow freely and respectful disagreement is encouraged rather than suppressed.
- Generates meaningful minutes, recording the decisions and the “to dos”, as well as whatever is essential to document their reasoning, rather than producing a sort of transcript that no one will read; minutes are distributed immediately (no later than three working days) after the meeting and any comments are received well in advance of the following session.
- Undergoes periodic evaluations of its performance, either in an auto-evaluation or, preferably, with the help of competent external experts; the evaluation is frank and confidential, so



as to allow an honest discussion among Board members as to how to optimise the way the Board works and adds value to the company.

The value a Board generates for the company is highly influenced by its composition. Being a Board member is a challenging, potentially inspiring and fulfilling, but above all a demanding, sophisticated task. Board members have to be individually suitable to this task, and collectively capable to act as a team so as to bring the members' abilities to bear for the benefit of the company and its stakeholders. As individuals, they have to be well chosen on multiple dimensions:

- Relevant Experience – which can be functional, industry or topic-based, or simply as business (or other) leaders.
- Analytical Strength – Board members have to process large amounts of complex and sometimes ambiguous information.
- Judgment – being able to take decisions based on limited facts (no “analysis paralysis”),
- Motivation (and time commitment) – wanting to really make a difference, not just collecting prestigious titles or feeling obliged to someone they know.
- Integrity – above all, the highest degree of honesty, integrity and independence. And, allied to this, an ability to work in groups (being able to listen to and value differing points of view, wanting to contribute to group results without looking for personal recognition or benefit).

The effectiveness of this group also depends on how it is composed, i.e. how the individual capabilities, personalities and perspectives complement each other. An assortment of great musicians will not automatically form a well-honed band or orchestra. When egos are big, and spirits competitive, the opposite may happen (and often does): personalities and (often pre-determined) opinions clash, everyone tries to dominate, and all the energy produces more heat than propulsion, putting off and frustrating management rather than supporting and inspiring it. A well-functioning Board requires a significant degree of humility from its members: dedicating time, attention, energy, doing one's homework, and limiting one's interventions to what benefits the group rather than seeking confirmation for own actions and attitudes, and serving one's ego. And the more diverse the group, the higher the challenge of working productively. But so too will be the benefits be higher in terms of richness of ideas and soundness of decisions. We still see too many “monochrome” Boards that are male dominated or composed of nationals from the home market.

To make the most of the potential offered by the “raw material”, the group of individual “musicians”, is the task of the Chairperson who, not unlike the conductor of an orchestra, makes sure that the total is more than the sum of its parts – and not the other way around. An effective Chair instils in the Board an operating culture of openness, seriousness, respect, humanity, humility, professionalism and discipline (which does not preclude a certain degree of humour, companionship and fun). At the same time, the Chair is a serious sparring partner and mentor to the executive team and personifies the identity and the values of the company and their owners.



This will become evident especially in times of crisis when the Board, and particularly its Chairperson, makes sure the company reacts in a calm, reasoned and expedient manner. And that the executive leadership is up to the task, backed and supported by the Board where appropriate – or replaced in a timely manner, if and when necessary, and in accordance with a succession plan the Board has developed well ahead of any crisis situation.



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