

DIDIER COSSIN  
IMD

# HIGH PERFORMANCE BOARDS

IMPROVING AND ENERGIZING  
YOUR GOVERNANCE



WILEY



"It is a reasonable assumption that successful boards will share some common characteristics, as will failing boards. The challenge is to identify these factors before success or failure occur. This book, evidently based on Didier Cossin's years of experience with boards around the world, goes a long way in doing so. The Four Pillars of Board Effectiveness will be an inspiration for many boards and their directors, as they consider how they can further strengthen their governance, enhance their effectiveness and ensure their success."

– **Paul Bulcke**, Chairman of the Board of Directors, Nestlé S.A. (Switzerland); Vice-Chairman, Board of Directors, L'Oréal (France); Member, J.P. Morgan International Council

"Didier is one of the true leaders in academia on governance, with extensive practical experience from his engagement with many management teams and boards across the world. His Four Pillars of Board Effectiveness offers a simple yet practical approach to making the most out of the boardroom."

– **Robert Maersk Uggla**, CEO, A.P. Møller Holding A/S

An important distillation of Didier Cossin's insight and expertise on effective governance. As a long-time follower of his work, I am glad to see Prof Cossin publish this comprehensive guidebook to governance that transcends both geography and sectors. From stewardship of strategic objectives, to managing and structuring risk, the importance of board diversity and more, the lessons are at once practical and essential for any board member.

– **Peter Maurer** is the President of the International Committee of the Red Cross

"It is inspiring to read Professor Cossin's monograph, *High Performance Boards*. His conclusion for board governance – the Four Pillars of Board Effectiveness is classical, profound and impressive. The full time Non-Executive Directorship has enhanced the effectiveness of state-owned and -affiliated financial institutions in China. However, the Four Pillars remain the direction for us to achieve better performance and successful transformation just as all other organizations."

– **Xueling Huang**, Deputy Head, Comprehensive Management Department of Central Huijin Investment Ltd, China Investment Corporation; Executive Director, Central Huijin Asset Management Ltd

"This is the bedside book any board member should read and reread. Building on his extensive and deep experience, Didier pragmatically helps us to challenge our ways of interacting around the board table and establish a multi-dimensional frame in order to foster the best decision

making. Every page calls into question one's practice and pushes each of us to avoid biases and revisit his/her ways of thinking for the ultimate benefit of the company."

– **Barbara Dalibard**, Lead Independent and Chair of Compensation and Appointments Committee, Michelin Group

"Educational and refreshing to the brain, where page after page relate to something one has experienced. The themes are wrapped up and packaged in a very practical way. Overall, it is not a book to read once then shelve, it is something that directors need to read from time to time to ensure protection from drifting with personal habits."

– **H.E. Abdulsalam Mohammed Al Murshidi**, President, State General Reserve Fund of Oman

"Professor Cossin has got it spot on. His four-pillared 'temple' of board effectiveness is brought to life with the boardroom adventures of Joanne Marker. Indeed his construct has two outer buttresses that centre around people. Their quality, focus, dedication and also how they interact with each other dynamically to produce a governance culture of excellence. One hopes that right-minded and passionate directors or would-be directors will read this book and say 'I want to be a John or Joanne Marker when I grow up!'"

– **Teo Swee Lian**, Chairwoman, CapitaLand Mall Trust; Board Member of AIA, Singtel and Dubai Financial Services Authority; former Deputy Managing Director Monetary Authority of Singapore

"This book offers a complete and enlightening review of current board governance practices and challenges. The approach and framework it offers are as pertinent in the east as in the west in establishing high performing boards."

– **Hsieh Fu Hua**, Chairman, ACR Capital Holdings Pte Ltd; Board Member of GIC, Singapore and Grab Holdings, Singapore; Chairman of the National University of Singapore and National Gallery of Singapore

"The foundation of *High Performance Boards* is set in the Values and Character of its members. Didier brings this critical point front and center."

– **Ann M. Fudge**, former Chairwoman and CEO, Young & Rubicam Brands; Board Member of Novartis and Northrop Grumman Corporation, US; Chairwoman, WGBH Public Media, US

"Professor Cossin has developed the concept of board effectiveness based on his latest research. Intellectually stimulating, this book provides practical guidance to cope with unique challenges associated with governance of institutions. This book is therefore a must-read for board directors of companies, governmental organizations and NGOs."

– **Kumiko Matsuura-Mueller**, Chairwoman of the United Nations Federal Credit Union (USA)

"Didier Cossin brings huge direct experience to bear in his fascinating analysis of what makes a good board. Integrity, hard work, collegiality and independence of judgment matter hugely as personal attributes of board members as does a collective ability to focus on strategy, management support and risk in all its forms matters at the board level itself. And if that sounds easier said than done, read this book. This board member felt wiser and more daunted by the end."

– **Lord Mark Malloch-Brown**, Chairman, SGO (UK); Board Member of Investec, Seplat Petroleum and Kerogen; former Deputy Secretary-General and Chief of Staff, United Nations; former Minister of State in the Foreign Office

"Board work is demanding. Good governance requires a personal sense of accountability and responsibility from all involved. Didier's work with boards of different organizations in many jurisdictions has helped him author this practical guide that will be of great support to chairs, board members and board secretaries alike."

– **Beat W. Hess**, Chairman, LafargeHolcim (Switzerland); Chairman of the Compensation Committee, Nestlé S.A

"Didier Cossin's book explains how Governance can be a key factor for companies' success. It's a must-read for all board members!"

– **Lorenzo Bini Smaghi**, Chairman, Société Générale; Board Member, TAGES Holding

"What impressed me most is the comprehensive coverage of every aspect of board work in a way that is solidly grounded in every day's practice in board-rooms around the world. As such, the book is a must read for every aspiring board member, but also has a lot to offer for even the most seasoned board member with a curiosity for learning and continuous improvement."

– **Gerard Kleisterlee**, Chairman, Vodafone Group Plc; Deputy Chair and Senior Independent Director, Royal Dutch Shell; Chairman, ASML

“Creating a culture of exchanges and constructive challenges among the board remains one of the most inspiring roles for a Chairman. Making sure that members feel accountable for the sustainable success of the firm must be the overarching purpose guiding this inspiration.”

– **Michel M. Liès**, Chairman, Zurich Insurance; Board Member, Institute of International Finance (IIF)

“The book is a comprehensive and practical guide to key issues relevant for all boards aiming to improve their decision-making processes. There are many useful takeaways on how to increase the dynamics in the boardroom.”

– **Olaug Svarva**, Chairwoman, DNB ASA (Norway); Chairwoman, Norfund; Board Member of Investinor and Institute of International Finance (IIF)

“Thank you, Dr Cossin. Board members needed this book for a long time. This work will assist board members to understand their responsibilities better.”

– **H.E. Dr. Mohammed bin Hamad bin Saif Al Rumhy**, Minister of Oil and Gas, Sultanate of Oman; Chairman, Petroleum Development Oman; Chairman, OQ; Board Member, SGRF

“This book offers valuable insights on what it takes to be an effective board. It facilitates a deeper understanding of the range of challenges and dilemmas that boards are faced with and offers guidance and best practices for how these might be addressed. Didier’s elucidation of board structures, processes and culture as key elements of quality board interaction and decision-making is timely and instructive. The checklist at the end of each chapter is a useful reminder of the many dimensions of board effectiveness and provides a quick tool for self-evaluation. This book is essential reference for boards navigating through today’s era of uncertainty and greater operational complexity, with the attendant new areas of potential risks and accountabilities.”

– **Tan Sri Zarinah Anwar**, Chairwoman, Institute of Corporate Directors Malaysia; former Chairwoman, Securities Commission of Malaysia

“I have known Didier Cossin for 14 years. He has always been close by during my executive and supervisory careers. The experience he has built, through academic research and real-life sharing with likes of “Joanne Marker,” myself and others, have allowed him to develop and expand a top-of-the-class, practical and applied science of Corporate Governance. The IMD Global Board Center is today ‘the’ governance reference for current and potential board members, and this is Didier’s greatest achievement.

Having managed a number of serious crisis during my supervisory career, I can only recommend Didier's book which is a very up-to-date inventory of the skills required to be an impactful board member or chairperson in today's challenging world."

– **Michel Demaré**, Deputy Chair, Louis Dreyfus Company; Board Member of Vodafone and Astra Zeneca; Chair of the Supervisory Board, IMD

"The free market system has created the largest aggregate economic growth in human history. However, the serious problems created by its excesses and structural limitations have become painfully apparent. Prof. Cossin's granular understanding and insights on enterprise governance, contemporary risks and challenges and, most importantly, his perspective on stewardship are extremely valuable in achieving the maximisation of long-term stakeholder value – the 'holy grail' of modern enterprise. This book is borne out of Prof. Cossin's extensive experience across sectors and geographies – a must-read for committed enterprise directors and trustees."

– **Francis Estrada**, Board Member, Philam Life (Philippines); Chair, Institute of Corporate Directors (Philippines)

"When reading this book, I recall the inspiring sessions conducted by Professor Cossin for Effective Board Practices. This topic is extremely attractive and well accepted by the boards who want to bring value to the company. The board is a publicly exposed body of the company, which is influenced from inside and outside. Diversity, board dynamics and culture on the one hand, and growing number of stakeholder interests, reconsideration of business purpose and economic trends on the other. The environment inevitably creates challenges for the board and the governance specialists."

– **Oleg Tsvetkov**, Managing Director - Corporate Secretary, Sberbank, Russia

"*High Performance Boards* is the most insightful book I've ever read on corporate governance. It is a brilliant, comprehensive and thorough practical guide that shows how boards do function, but it is also much more than that: it describes with vivid accuracy and real company cases and real-life anecdotes how boards should really function. A must-read for anyone who wants to look behind the curtain and learn about the actual dynamics in the boardroom and, in particular, about the relationship between the Chair and CEO – one of the most important aspects of Corporate Governance."

– **Pierre Vareille**, Chairman of the Board, BIC S.A.; Board Member of Etex SA, Ferroglobe plc and Outokumpu Oyj; Co-Chairman and Founder, The Vareille Foundation

*“High Performance Boards* is ‘the companion’ – the guide you need. Of course, you will find in this book all the dos and don’ts for your daily board work. Professor Cossin takes you well beyond the checklist. More than anything else you will be inspired by the leadership dimension – the moral compass. What you will see in these pages are your values in action as you serve in the boardroom.”

– **Diane de Saint Victor**, Chairwoman of Compensation Committee, Altran; Chairwoman of Nomination Committee, Natixis



# **High Performance Boards**



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**A PRACTICAL GUIDE TO IMPROVING AND ENERGISING  
YOUR GOVERNANCE**

**Didier Cossin**

**WILEY**

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# Contents

About the Author	xvii
Acknowledgements	xix
Preface	xxi
<b>PART I: The Four Pillars of Board Effectiveness</b>	<b>1</b>
<b>Joanne Marker and Board Service</b>	<b>3</b>
Chapter 1 <b>The Four Pillars of Board Effectiveness</b>	<b>9</b>
The First Pillar: People Quality, Focus, and Dedication	11
The Second Pillar: Information Architecture	14
The Third Pillar: Structures and Processes	15
The Fourth Pillar: Group Dynamics and Board Culture	17
Chapter 2 <b>Governance Challenges around the World</b>	<b>20</b>
Scientific Lessons from Natural Selection	22
What is Transformational Leadership?	23
Should We Trust Leaders?	24
The Governance DNA	26
Chapter 3 <b>The Successful Director: Values and Character</b>	<b>28</b>
Duty of Care	30
Duty of Loyalty	32
Integrity: A Key Characteristic of Board Directors	32

Chapter 4	<b>The First Pillar: People Quality, Focus, and Dedication</b>	<b>35</b>
	Quality	35
	Focus	38
	Dedication	41
Chapter 5	<b>The Second Pillar: Information Architecture</b>	<b>45</b>
	How Complete is Your Information?	46
Chapter 6	<b>Board Structures and Processes</b>	<b>50</b>
	Processes	51
	Committee Structure	52
	Board Secretary	53
	Lead Director or Vice Chair	55
Chapter 7	<b>Group Dynamics and Board Culture</b>	<b>56</b>
	Understanding Group Dynamics	57
	Coalitions Within a Board Are Inevitable – and they Feed into Politics	60
	Boards Fall into Traps	63
	Drawing Strength from the Board's Potential	66
	Developing Self-Awareness	67
	Board Culture	69
	<b>Part II: Board Failures and Challenges</b>	<b>77</b>
Chapter 8	<b>Four Areas of Board Failure</b>	<b>79</b>
Chapter 9	<b>Risks and Ensuring the Right Board Risk-Philosophy</b>	<b>82</b>
Chapter 10	<b>A Board Member's Practical Guide to Risk Thinking</b>	<b>85</b>
	The Physical Health Check: Technical Risks	86
	The Mental Health Check: Behaviours	89
	The Strategic Risk Check	93
	The Governance Risk Check	94
Chapter 11	<b>Elements of Advanced Risk Techniques for Board Members: From Quants to Cyber</b>	<b>97</b>
	The Why and How of Quantitative Risk Assessment for Boards	98

	Integration of Risks	101
	The Outcome of Risk Assessment	102
	Cyber Risk	104
<b>Chapter 12</b>	<b>Crisis Management</b>	<b>107</b>
	Crisis as a Turning Point	110
	There is Work to Be Done In Peaceful Times	111
	Communication Principles	111
	Another Powerful Weapon: Gathering Information	113
	A Crisis Will Shed Light On Boardroom Fissures	115
	Procedure vs. Authenticity	117
	Communicate Your Way to Rebuilding Trust	118
<b>Chapter 13</b>	<b>The Four Tiers of Conflicts of Interest</b>	<b>120</b>
	Tier-I Conflicts: Individual Directors vs. Company	122
	Tier-II Conflicts: Directors vs. Stakeholders	124
	Tier-III Conflicts: Stakeholders vs. Other Stakeholders	131
	Conflicts of Interest within a Group of Stakeholders	135
	Tier-IV Conflicts: Company vs. Society	136
<b>Chapter 14</b>	<b>High-Level Fraud and Active Board Oversight</b>	<b>141</b>
	Why Does High-Level Fraud Happen?	143
	Injustice	147
	Lax Oversight	148
	Problematic Culture	149
	Financial Illiteracy	151
	How to Create an Effective Oversight Environment	152
	Preventing Injustice: Broaden the Notion of Conflict of Interest	152
	Preventing Lax Oversight: Build Appropriate Frameworks	153
	Preventing Toxic Behaviours: Create a Positive Culture	156
	Strengthen Board Oversight Expertise with Special Focus on Legal, Compliance, Risk, Fraud, and Financial Reporting	159
	Tools For Anti-Fraud Activities: Assessment, Prevention, Detection, and Investigation	160
	Assessment	161
	Prevention	161
	Detection	161
	Investigation	162

<b>Part III: Board Best Practices</b>	<b>165</b>
<b>Chapter 15    The Board as a Strategic Asset</b>	<b>167</b>
Five Definitions of Strategy	168
Clarifying the Board's Role	171
Taking Context into the Mapping Process	174
The Impact of Context on Strategic Views and Roles of the Board	175
The Board's Ultimate Strategic Significance	176
<b>Chapter 16    A Primer on Finance Essentials for Directors</b>	<b>177</b>
Reading Financial Reports	178
Understanding Ratios to Analyse Operating Strategies	179
Interpreting Between the Lines of Financial Statements	181
How to Identify Red Flags in Financial Statements	182
Implementing Desired Capital Structure	184
Understanding Valuation Fundamentals	185
Making Better M&A Decisions	187
Overseeing Risk	189
<b>Joanne Marker and Board Values at Comfre</b>	<b>193</b>
<b>Chapter 17    Board Leadership and Values</b>	<b>197</b>
Quality Boards Live and Breathe Integrity	198
Which and Whose Values?	199
Board Values vs. Organisational Values	202
Family Values in Business	203
<b>Chapter 18    The Intricacies of Subsidiary/Holding Governance</b>	<b>204</b>
Structures	206
Culture	208
<b>Chapter 19    Fostering Entrepreneurship from the Board</b>	<b>210</b>
'Best Practice' Governance vs. Entrepreneurship	211
Boards Should Actively Encourage Entrepreneurship	212
<b>Chapter 20    The Board's Oversight Framework for M&amp;As</b>	<b>217</b>
Creating a Deal-Making Mindset	218
Seeing the Bigger Picture	220



	Staging Deals with Maximum Precision	220
	Integration	225
	Confronting Litigation Involving M&As	226
	<b>Joanne Marker Confronts Failing Board Culture</b>	<b>229</b>
Chapter 21	<b>The Chair–CEO Relationship</b>	<b>233</b>
	The Role of the Chair	233
	Chairs are Increasingly Active	237
	Chair–CEO Dynamics – the Hallmarks of a Productive Relationship	238
	Tests of the Chair–CEO Relationship	240
	The Ideal Attributes of a Chair	242
Chapter 22	<b>The Board–Management Relationship</b>	<b>244</b>
	Supervision	244
	Support	246
	Blurring the Board–Management Relationship	247
	Writing Governance Codes Is Easier Than Changing Behaviours	248
Chapter 23	<b>Effective Diversity</b>	<b>251</b>
	Diversity is Good . . . But Why; and When?	251
	Diversity as a Considered Choice	252
	Gender	253
	Culture	255
	Personality	256
	Age	257
	Social Background	259
	We Have Embraced Diversity . . . Now What?	260
	The Chair's Role in Building and Nurturing Diversity	262
Chapter 24	<b>The Talent Pipeline</b>	<b>265</b>
	The Board's Responsibility for Talent Management	265
	The New Talent Dynamic: Culture, Values, Community	268
Chapter 25	<b>Boards and Social Media</b>	<b>272</b>
	JP Morgan's Failed Foray into Twitter Q&A	273
	Why Boards Should Understand Social Media	274
	What Boards Should Do	276

Chapter 26	<b>Boards and Investors</b>	<b>279</b>
	The Move toward Increasing Shareholder Engagement	281
Chapter 27	<b>Managing Stakeholders</b>	<b>283</b>
	Shareholders vs. Stakeholders: A Definition	284
	How to Identify a Company's Key Stakeholders	285
	The Board Can Be Instrumental in Shaping the CEO–Stakeholders Conversation	285
	Anticipating Stakeholders' Influence and Impact	286
Chapter 28	<b>Stewardship from the Board</b>	<b>289</b>
	Building Upon a Rich Cross-Disciplinary Legacy of Thought	291
	Psychological, Organisational, and Cultural Influences on Stewardship	291
	Steward Leaders Build on their Unique Strengths to Drive Stewardship	292
	Steward Leaders Deliver Long-Lasting, Meaningful, and Inclusive Impact	293
	Becoming a Steward Leader: What it Takes	295
	Stewardship Risks	297
	Boards Are Key to Fostering Stewardship	297
Conclusion		299
Index		301

## About the Author

**D**idier Cossin is professor of governance at IMD, Switzerland. He is the founder and director of the IMD Global Board Center, the originator of the Four Pillars of Board Effectiveness methodology and an advocate of Stewardship.

Prof. Cossin works with sovereign wealth funds, large corporations, non-profit organisations, families and institutional investors on governance and stewardship issues. He is an advisor to central banks, regulators and international organizations across the world.

He is the author of other books such as *Inspiring Stewardship*, book chapters (such as *Governance Risk: A Guide for Investors*) and articles in the fields of governance, investments, risks and stewardship. He is also principal author of a proprietary methodology of investment selection on governance that is used in financial markets.

Prof. Cossin holds a PhD in Business Economics from Harvard University (Robert C. Merton chair), is a former Fulbright Scholar from the Massachusetts Institute of Technology and is a graduate from ENS, rue d'Ulm, Paris as well as of Sorbonne University and EHESS.



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Of those that contributed indirectly, I owe a particular debt to the real actors of the governance world, board members, directors, government officials, investors, that have peopled my words and my ideas, for the better or for the worse! They probably are just as happy to not see their name mentioned here, as a chair of one of the largest financial institutions in the world wryly remarked once: “Being in Didier’s writings tells you it’s time to go!”. I suppose that my critical eye has helped a few towards self-awareness. For many though, they have been an inspiration of how to drive true governance, and many of them are chairpeople or board members of influential and powerful organizations. I am grateful for all those who shared intimate and confidential situations that make the reality of good and bad governance. Without them, I could not contribute to governance improvements that I know impact the world for the better (and sometimes dramatically and publicly so). The dedication, integrity, and altruism of many is commandable. Some are famous, some are unknown, and all support us towards a better governed world. And indeed I have rarely met individuals that did not want to do better, in all senses of the word better. We, as society, should always support the development and improvement of those that govern us and our organisations, and I hope that through my words, their contribution will be

heightened. I am in many ways a go-between, putting in words and concepts what the very best-in-class are naturally doing. This book is simply a mapping and synthetization of what some gifted and dedicated individuals have endeavored to bring to society through their personal judgement skills.

# Preface

**G**overnance, or the quality of decision-making at the very top of an organisation, has become central to success. But although an effective board can be a huge asset in this regard, boards often fail their organisations – typically in the areas of risk management, strategy, the selection and support of the CEO and senior management, and integrity. Making boards more effective, therefore, is crucial to improving governance around the world.

My own interest in the subject began more than 30 years ago, when I studied the governance of risk. I was fortunate to have many inspirational teachers, including five Nobel Prize winners – one of whom, Robert C. Merton, chaired my PhD committee. In parallel with my mathematical work, I quickly became convinced that the human element is crucial to effective governance, and my interest in psychology, philosophy, and ethics increasingly shaped my approach.

In the decades since, I have worked with boards across the globe to assess and improve governance – in big global companies, sovereign wealth funds, government bodies, international organisations, non-profits, family businesses, and tech start-ups. Over the years, I have developed a systematic approach to increasing a board's effectiveness that rests on four pillars: the quality, focus, and dedication of individual directors; sophisticated information architecture; well-functioning structures and processes; and, healthy group dynamics and board culture. By focusing on continuous improvement across all four dimensions, my methodology has repeatedly shown its ability to transform boards for the better.

Diagnosing governance problems is often relatively straightforward, although in some rare cases the causes can be deep and hidden, especially with integrity failures. Improving governance, on the other hand, is often a longer-term process, requiring a gradual, sustained effort over several years.

This book covers both the diagnosis and treatment of governance problems, and aims to provide directors with a practical guide to making their boards more effective. Part I introduces the Four Pillars of Board Effectiveness methodology that my team and I use to assess governance health. Readers may wish to think of this section as a check-up process. Part II addresses the most common areas of governance failure, and how boards can guard against these. Finally, Part III is a compendium of best-in-class governance practices, with each chapter covering a specific aspect of board work.

My colleagues at IMD business school, and especially the team at the IMD Global Board Center, have contributed hugely to the content of this book. So, of course, have the thousands of board members whom I have had the pleasure of working with. I pay tribute to them in this book by describing the board experiences of a character called Joanne Marker (not her real name). The real Joanne, an exceptional woman of great energy and dedication, has softly (and sometimes not so softly) impacted the governance of three of the world's most iconic large-cap companies and one of its most influential philanthropic organisations.

As Joanne's experiences illustrate, good governance is about balance, responsibility, and genuine personal accountability. I therefore hope the following chapters will inspire you and your organisations to even better governance and further success.

Didier Cossin  
Lausanne, January 2020



# **PART I**

## **The Four Pillars of Board Effectiveness**



# Joanne Marker and Board Service

**O**ctober 2018: At age 69, Joanne Marker had been a senior independent director for over 20 years on the boards of many different companies and public organisations.

*The previous year, Joanne had taken early retirement from her job as head of global marketing at Connect, a major US telecommunications company, where she had worked for more than two decades. Hers had been a rewarding and challenging career, of which she was proud.*

*Joanne now derived a different kind of satisfaction from her board service at three very different companies: Connect, international pharmaceutical company Ziogen, and engineering multinational SNB. In recent months a few other organisations had extended invitations, and she was currently evaluating each of them.*

*One morning, an email from her nephew Thorsten popped up on her screen.*

*Dear Aunt Joanne,*

*Exciting news! I just received an invitation to be on the board of Kloetzel & Brothers! First board meeting is next month. I wanted to pick the brain of my favorite board member! Can I take you to lunch at Mario's when you're in town next week?*

*Yours,  
Thorsten*

*Thorsten was an ambitious, capable, and educated young man working in investment banking on Wall Street. Joanne had no doubt that he would make a fine board director; his knowledge of the financial markets and banking regulation would certainly be helpful to Kloetzel, a global financial services company. He was bright, energetic, and hardworking – and from what she had heard, had earned a reputation in banking as a name to watch. Still, she found herself remembering a few incidents that made her wonder whether he had the maturity and self-possession needed for boardroom discussions. She checked her calendar and emailed Thorsten, confirming the lunch.*

\*\*\*

*Joanne cast her mind back to a chilly afternoon in March 1992. She had been in her office thinking about how to improve a distribution partnership for WeCare, the multinational consumer goods company she worked for at the time, when her phone rang.*

*It was her old friend from business school, Burt Goodman, who was now a mover and shaker at GCD, a major consulting firm. Goodman invited Joanne to join him for the Henry Street Settlement dinner in New York City. ‘I’m just not cut out for big gala events, Burt’, she had protested.*

*‘Oh come on, it will be good for you’, Goodman said. ‘Sometimes even an MBA and over 20 years of experience in a major multinational can’t match the magic of one lucky dinner conversation’. So Joanne decided to go.*

*At the dinner, she was seated next to Jordan Wise, the CEO of Amsterdam-based Virtuous Ventures, a major international conglomerate. Their conversation touched upon Joanne’s family and career journey to date, and Wise asked her advice on the pros and cons of joint ventures in different emerging markets. Joanne shared her key learnings about each market, as well as the main strategic and industrial dimensions that needed to be considered.*

*‘But doesn’t it depend on your partners in the end?’ Wise wanted to know. Joanne described the different partnerships that WeCare had developed locally, depending on the distribution channels in place (or not) in different markets.*

*Two days later, Wise called her with a proposal that took her by surprise. ‘How would you like to be on the Virtuous board, Joanne?’ he asked her. She had always aspired to board service at some point in her career – but she was only 44, surely far too young to be a director.*

Wise explained: 'We're expanding internationally into a new retail business, and we need your international marketing expertise. You can bring in solid knowledge about distribution networks and consumer insight too'. Now Joanne's interest was piqued. She began to ask questions. Wise soon ran out of answers.

Her first meeting with Virtuous Ventures' Chairman Gerald Grossheim was over lunch at the famous Charlie Trotter's restaurant in Chicago's Lincoln Park. Over their first course, Grossheim explained how the company's 11-member board worked, how often it met (four times a year), and his relationship with Jordan Wise (almost daily contact, yet with a certain necessary distance). He also discussed other members of the top team.

Grossheim asked Joanne about the kinds of challenges she had encountered when negotiating with local distributors during international expansions, and about how she had developed an understanding of customers in different markets. Joanne happily described her extensive travels in India, Bangladesh, Thailand, China, and Egypt to talk to WeCare's local sales teams. She had accompanied them on visits, discussing their frustrations and where they saw opportunities, in order to get a sense of the reality on the ground.

Joanne had some questions of her own. While Grossheim sipped his coffee, she asked him:

- Who was on the Virtuous board? How dedicated were they? What did each bring – and what was his or her unique contribution?
- How did board directors ensure they had the information they needed to make decisions? What were the board briefing papers like? Were there other sources of information?
- What kind of processes and structures did the board have in place to ensure it was doing things efficiently and professionally? How did it ensure directors have a sufficient board-level view of risk? (Here, Joanne recalled the WeCare board's inability to understand how their growth strategy had exposed her own company to key vulnerabilities.)
- What was the Virtuous boardroom culture like? What kind of dynamics were at play? How would the other directors view the contribution of a much younger woman?

Together, they formulated questions for Grossheim to ask Virtuous Ventures' President of Marketing, including what additional information he could ask for that would be helpful in assessing the company's current global marketing plan.

*Outside, they shook hands and agreed to speak again in the coming weeks. 'I hope to be seeing a lot more of you, Joanne', Grossheim said, smiling at her.*

*Three months later, after a series of discussions and a formal panel interview by the nominations committee, Joanne was appointed as an independent director and began eight years of board service with Virtuous.*

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*The following Tuesday, Joanne walked into Mario's and kissed her nephew Thorsten on the cheek. It had been 18 months since she had last seen him. While Joanne sipped her iced tea, Thorsten told her how his favourite professor from business school, Sam Cragolino, was on the board of Kloetzel and was approaching retirement.*

*As a member of the nominations committee, Cragolino had seen the board's needs analysis, which had identified a gap in the area of finance – and investment in particular. The head of the committee had developed a skills and competency matrix, which specified that the candidate should also be young (between 30 and 40), and had then issued an invitation to executive search firms. He also asked the other board members if they had any candidates to nominate. Sam had recommended Thorsten.*

*James Caspar, Kloetzel's chair, had also screened the candidates proposed by the search firms, and invited Thorsten for a panel interview. The young man's expertise in securing and structuring deals with a series of major clients had attracted Caspar's attention as being something missing from the board's existing skillset – and something they very much needed. Thorsten had made the shortlist and passed the due diligence process, and then met the full board. He had been impressed by the ambition of its members to contribute to transforming Kloetzel.*

*'I really like what they're doing', Thorsten said to Joanne. 'James seems active and engaged, yet not overbearing. Everyone I talked to seems serious about really building something'. Joanne smiled at his enthusiasm.*

*'That's great, Thorsten', she said. 'Board service is one of the most rewarding experiences any professional can have during their career, and I think you stand to gain a lot. But tell me', Joanne said, putting down her fork and looking intently at the young man, 'what is it about your experience that leads you to think you could make a meaningful contribution to Kloetzel?'*

*'I know how companies are thinking about the costs and benefits of major transactions', Thorsten said. 'I could help Kloetzel think about whom they*