DIDIER COSSIN
IMD

HIGH PERFORMANCE BOARDS

A PRACTICAL GUIDE TO IMPROVING & ENERGIZING YOUR GOVERNANCE

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About the Author

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

As an investor, he works with prominent asset owners, and uses governance as an engine of investment performance across asset classes and organisations while regularly engaging directly with investee companies and investment committees. The four pillars and the content of this book are then the model used for board engagement. He also has developed a parallel methodology for governance of investments in complex portfolios that is implemented by institutional investors. 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 a number of funds.

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, and 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 J. 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 organisations. 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 commendable. 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 maps and synthesises what some gifted and dedicated individuals have endeavoured to bring to society through their personal judgement skills. It also introduces key elements of evolution for great governance in a complex and conflicted world.

Preface

Governance, or the quality of decision-making at the very top of organisation, has become central to success. But although an effective board can be a huge asset in this regard, boards often fail their organisation – typically in the areas of risk oversight, 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 large 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, diversity, 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. The growing complexity and conflicted nature of the global geopolitical, social, and economic context means that more than ever, boards need to adapt their own governance practice to anticipate and confront the challenges that lie ahead, to be able to steer the organisation with clarity. This has led to a corresponding shift in board practices, necessitating a shift in emphasis from divergence of views solely to convergence and conviction on dividing or ambiguous topics where useful. Board choices (notably of strategy and CEO) are harder than ever and they need to align with strong and decisive action that benefits the organisation over the mid- and longer term.

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. In Part III, we look at the importance of board leadership and the role of the chair in ensuring quality governance. Finally, Part IV is a compendium of best-in-class governance practices, with each chapter covering a specific aspect of board work, and drawing on the insights and discussions on this topic that we have had both inside and outside the classroom.

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, May 2024

PART I

The Four Pillars of Board Effectiveness

Joanne Marker and Board Service

At age 62, 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 a senior leader 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 March afternoon 19 years earlier. 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 43, 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.

***

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 Cragnolino, was on the board of Kloetzel and was approaching retirement.

As a member of the nominations committee, Cragnolino 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 could approach and with what messaging to expand in major markets, which is part of their strategy.'

Joanne asked him about Kloetzel's current performance, and whether there were discrepancies across major markets. Thorsten shook his head. He didn't know the details. He dug in his pocket for a pen to make a note.

She pointed out the difference between board service and an executive director role. 'You're not there to tell management how to do their job', she said. 'You're there to challenge them on the strategy to make sure it's a good one, and to help them to get what they need to be able to do it, and then to check that they actually do it.'

Then Joanne asked Thorsten the following questions:

- *People: Who were Kloetzel's current board members? What kind of skills, background, personality, and expertise did they have? How many other independent, non-executive directors were there? What kind of diversity and breadth of experience did they have? And how committed were they?*
- *Information architecture: What kind of information did he have access to that would help him to support Kloetzel in delivering its strategy and monitoring its risks? Who in his network could help? What kinds of social media was he following?*
- *Structures and processes: What kind of structures and processes did the Kloetzel board have in place? How were these helping it to stay ahead of regulation trends in the financial services industry? Did the board have a risk committee? An investment committee? Would Thorsten be able to serve on either of these?*
- *Dynamics: Had he spent enough time with the chair of Kloetzel? Did he like him and his style? What about the other directors? How were the interactions? How did the board engage with the firm's senior executives? And how much passion about the firm could he feel?*

'With all due respect Aunt Joanne, aren't you ahead of yourself?' Thorsten asked. 'Won't I have time to figure this out once I'm on the board?'

Joanne thought back to a board she had sat on – an Indian tech company, where she had submitted her resignation after just six months. She wished she had done her due diligence exercise better before joining that board.

'Fundamentally, Thorsten, it comes down to two questions', Joanne said. 'The first is: is this a good board which I want to be part of?' He nodded with vigour. 'The second is: am I good for this board?'

Joanne smiled at the young man. 'Saying no to the wrong board appointment is just as important as saying yes to the right one', she said. 'If you don't think you will be able to usefully contribute, do yourself a favour and save yourself from a world of frustration and pain.'

'Thanks Aunt Joanne', Thorsten said, slumping a little in his chair. 'I guess I have some homework to do.'

CHAPTER 1

The Four Pillars of Board Effectiveness

Over the past decade, we have witnessed dramatic and unprecedented developments in business, politics, and society. The main upshot of this has been the growing realisation that governance is the determining factor behind the success and failure of organisations. And with fresh evidence of abdication of duty in the corporate and policy-making spheres emerging on a weekly basis, there are growing demands for better governance in different countries, and for all types of organisations – businesses, governments, NGOs, and many others.

When we refer to governance, we mean the quality of decision-making and implementation at the top of organisations – and the processes to ensure these. Increasingly, boards are seen as having a key responsibility and role as the 'owner' of governance in an organisation. It is their competence, structures, and integrity, and their interactions with CEOs and management teams, that shape the governance DNA of organisations.

Until a few years ago, governance and boards were considered to be well understood, and operating along standard and predictable lines. As a result, the subject attracted relatively little attention from researchers. But the situation changed significantly as more stories of corporate malfeasance appeared in mainstream media, industry publications, and academic journals, inevitably accompanied by the question 'Where was the board?'

Indeed, events during the past decade have made it clear that boards can fail in various ways. They have failed to manage risks, failed to contribute proactively to firm strategy, failed to identify the 'right' team and, in some cases, failed to deal with integrity issues and possibly outright fraud. We will discuss board failures and challenges in more detail in Part II.

Partly as a consequence of these much-publicised and damaging failures, today's boards are eager to improve their performance and to continually fine-tune their effectiveness. They have become more cognisant than ever of their role in supporting their organisations' long-term success by aiming for world-class governance.

So, if business as usual is not an option for boards, what are the main dimensions to target when trying to make a board function better? How do we distil the key factors that contribute to board effectiveness?

In our work over the years inspiring the boards of organisations around the world toward greater success, my team and I have identified four discrete pillars of board effectiveness (see Figure 1.1). These are people quality, focus, and dedication; information architecture; structures and processes; and group dynamics and board culture. We will explore each of these pillars in detail in Chapters 4 to 7.

This simple framework for assessing a board's effectiveness has a deep-rooted underlying rationale, and its practical application has helped to transform boards for the better in many different contexts. These include large publicly traded companies, family-owned businesses, non-profit organisations, governments, and other bodies, across all geographies, and in both developed and developing contexts.

The four-pillar methodology, focusing on systematic and continuous improvement along each dimension, has proven to be a strong asset for all types of organisation.

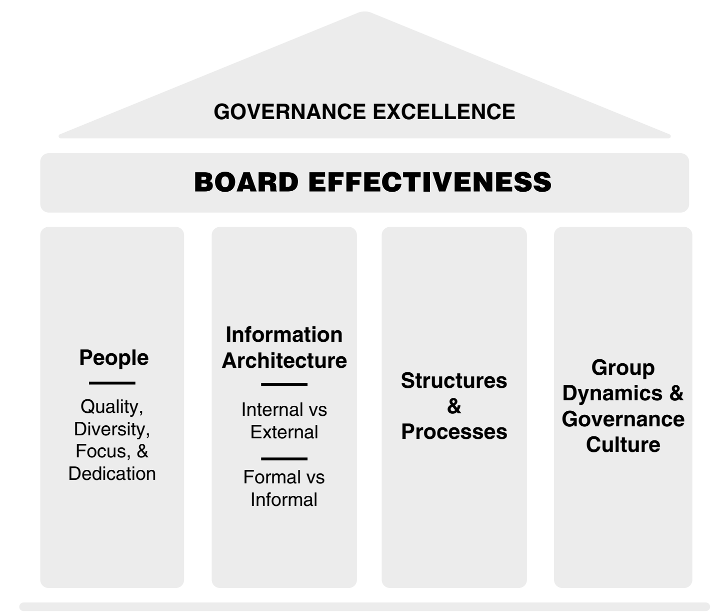

Figure 1.1 Governance Excellence Rests on Four Pillars

The First Pillar: People Quality, Diversity, Focus, and Dedication

A boardroom is a social place, as is business in general. Therefore, the first of the pillars that support a board's effectiveness consists of the people who socialise, interact, learn, make sense of situations, and reach decisions in the boardroom. Their quality, diversity, focus, and dedication are often what makes or breaks a board's ability to perform effectively.

The quality of the board's composition and functioning is crucial. For starters, members of the board and its committees are expected to have the necessary and relevant knowledge. Boards are typically composed of experienced, accomplished individuals from a variety of backgrounds, including top managers, public officials, and education experts. Yet these backgrounds do not automatically give them the knowledge they need to contribute effectively to the work of a specific board.

As we have seen time and again in recent years, having limited knowledge hinders a board member's effectiveness. Whenever a major corporate initiative has run aground, the board members' technical and other specialised knowledge has come under scrutiny. Effective boards therefore ensure that performance and knowledge standards are articulated and tailor-made for individual directors, with the help of matching learning modules and other opportunities. Board members' performance can then be evaluated against those standards.

The quality of the board is further enhanced by its diversity of gender, personality, and opinion. (For a fuller discussion of diversity, see Chapter 19.) In particular, high-quality boards are typically successful at managing their mix of personalities. How many times have we read news stories attributing boardroom confrontations, showdowns, and dramatic exits to a 'clash of personalities', 'incompatible personalities', or, to use a euphemism, 'strong personalities'? The example of Steve Jobs being fired by the board of Apple is just one of many such cases.

To avoid becoming one of these headlines, a board needs to map out, understand, and learn to work with the range of personalities on it. As in all such exercises, this requires tools or 'cognitive handles' that help to capture not only the composition of personalities and the risks involved, but also the configurations that, with a bit of planning and effort, can help to infuse the board with additional vibrancy and strength of performance.

Boards can productively employ and draw on a number of taxonomies in this regard. For instance, personality diagrams highlight board members' introversion or extroversion, their abstract 'big-picture' thinking or orientation to detail, their level of emotional reactivity, and the emphasis they put on competition as opposed to harmony. The well-known NEO Personality Inventory framework describes the 'Big Five' dimensions of personality: emotionality, introversion/extroversion, openness to experience, agreeableness, and conscientiousness (see Chapter 7 on Group Dynamics and Board Culture).

As important as skills and quality are, directors must also be focused and dedicated. Yet these attributes are often missing, in varying degrees, from the boardroom.

Dealing with ambiguities in decision-making is inevitable – in fact, it is a sign that the board is addressing real issues. But when directors misunderstand their roles and functions, their focus suffers. To sharpen and re-energise it, boards would do well to establish their own statement of purpose (often codified as a board charter statement) and define their role in a way that adds value to the company's activities. Boards need to reflect regularly on their involvement and strive to make it firstly distinctive, so that they do not replicate the efforts of other parts of the organisation; and secondly additive, whereby the board builds upon decisions made by the firm.

Well-focused boards know how to distinguish between contexts. From there, they determine whether they should perform a supervisory role or rather offer support or challenge to management. Such boards are ready to be proactive and jump into pre-emptive action when they see signs of risk and recognise that oversight is needed. In other situations, such as during a crisis when the organisation's reputation is at stake, they are just as efficient in identifying and acting on the need to communicate the firm's strategic objectives. In addition, a board's focus can be strengthened by having the right agenda: one that looks more towards the future than the past, and that aims to capture long-term issues while managing short-term matters.

But even high-quality, focused boards will underperform if their members are not fully dedicated to their work and to the organisation. Directors frequently tell me that their board meeting discussions reflect a level of preparation that was 'basic' and 'not in great depth'. A minority of them do report rich and diverse preparation, where board members have diligently read the relevant documentation and obtained external information where necessary. But all too many describe the board members in their organisations as typically 'not very well prepared'. The percentage of directors who have regularly witnessed great preparation for board meetings, with members actively consulting outside sources and analysing information in depth, is in fact small.

A similar picture emerges when we ask board members how many hours of preparation time one hour of a board meeting requires from each director. Typically, more than half of them estimate one to three hours of preparation, around 25% report three to seven hours, and only a minority report seven to ten hours. It is rare to hear of directors spending more than 10 hours preparing for each hour of a board meeting. Worryingly, in fact, a few say that less than one hour of preparation time is required – even though most responsible individuals believe that a director should not sit on more than five boards at