



The Board: Roles and Responsibilities for the 21st Century

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Workshop Objectives

- **To review the role of the board in the 21st Century**
- **To review the role of the directors on the board**
- **To introduce examples of practices that lead to effective boards and companies**
- **Discussion on current practice and opportunities for improvement**

21st Century Trends

- **Technology - startups propelling growth and productivity, increasing productivity but ethics of AI and automation remain**
- **Globalisation – frontier market growth, shift of geopolitical power from West to East. China’s global impact**
- **Demographics - Aging in developed markets, lower-income countries graduating to middle-income (private financing opp)**
- **People, planet, profit - “balance development impact with operational and financial sustainability” and shared value**

Current Board Focus

- **Overseeing competitive strategy in a world of disruption and convergence**
- **Seizing opportunity while enhancing risk management**
- **Navigating the dynamic geopolitical and regulatory environment**
- **Optimizing long-term capital allocation strategies**
- **Embracing the talent agenda and the workforce of the future**
- **Strengthening board composition through strategic alignment**

(EY 2017)

Current Governance Trends

- **Higher Expectations and Greater Alignment Around Corporate Governance Norms**
- **Corporate Governance in an Era of Political Uncertainty**
- **Increasing Board Accountability for Long-Term Value Creation**
- **Key Issues in Corporate Governance in 2017**
 - Board composition and diversity
 - ESG and climate risk
 - Succession planning
 - Fall out from corporate scandals such as Wells Fargo, Petrobras or Volkswagen
 - Corporate culture / Ethics
 - Regulatory changes
 - Activism

(Harvard Law School / Russell Reynolds)

Corporate Governance Definitions

“Corporate Governance is the system by which companies are directed and controlled” [1992 Cadbury Committee Report]

“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined” [G20/OECD Principles of Corporate Governance 2015]

“Corporate Governance refers to the structures and processes for the direction and control of companies” [IFC: List of Key Corporate Governance Terms (2010)]

"[Governance] ensures that decisions are made by the right people and according to the best principles and procedures. It is not simply a box-ticking exercise" [Governance + Compliance magazine February 2016]

What is the role of the board?

- To ensure company's prosperity by collectively directing company affairs while meeting appropriate interests of shareholders and stakeholders. **IFC**
- Members of the ADB Board of Directors supervise the institution's financial statements, approve its administrative budget, and decide on all policy documents as well as loan, grant and equity investments made by **ADB**
- Our Board of Directors leads the Company with a firm commitment to CLP's values. The Board formulates CLP's strategic direction and sees that the Company operates in an ethical, sustainable and effective manner.
China Light & Power

Role of the Board

**“The job of the board is
not to lead
but to ensure there is leadership**

**not to make strategy
but ensure that there is one**

**not to run the business
but ensure it is well run”**

Board Best Practices

Leadership

- Separate Chairman and CEO
- Collectively responsible for long-term success

Effectiveness

- Balance of executive and non-executive directors
- Strong, independent audit and remuneration committees
- Transparency on appointments
- Directors training
- Sufficient allocation of time to review materials
- Annual evaluation of board and director performance

Focus on Five Key Areas

Vision, mission and values

Strategy and structure

Strategic engagement with management

Risk appetite to meet strategic objectives

**Accountability to shareholders and
responsibility to relevant stakeholders**

Director Best Practices

Directors support executives in their leadership of the business and monitor and supervise their conduct

Directors seek to establish and maintain confidence in:

- Company conduct
- Management team performance
- Strategy development
- Financial controls and risk management
- Appropriateness of remuneration
- Appointment and replacement of key personnel
- Management development and succession plans

Role of the Director

Mutual respect

- **Mutual respect and a spirit of partnership**

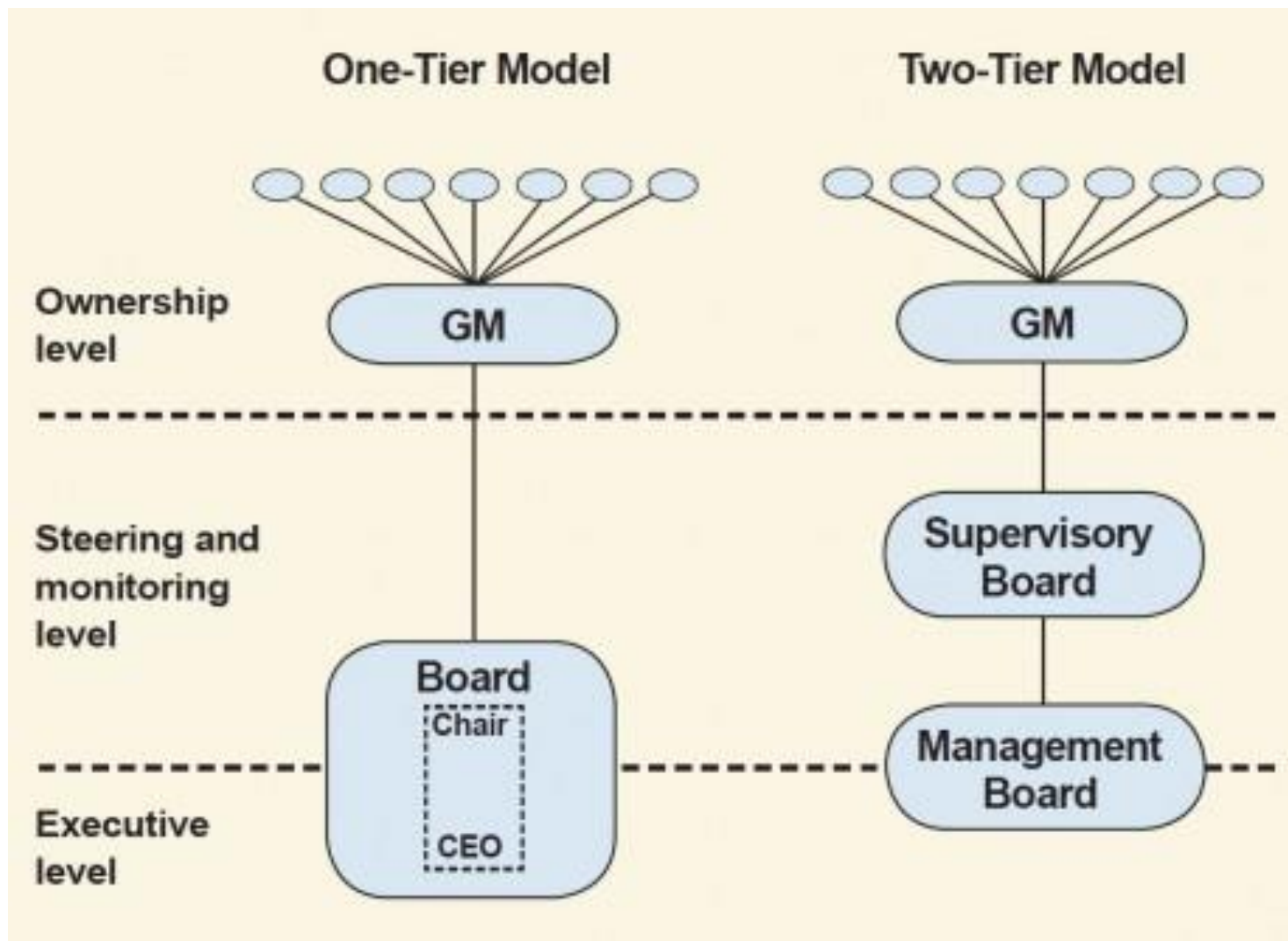
Promote openness and trust

- **Recognition by executives of boards contribution**

Culture eat strategy for breakfast

- **Behavior and relationships as important as structure and processes**

Board Structure



Main Players

Shareholders

Chairman

NED/INED

Executive
Directors

Stakeholders

Role of the Chairman

80% of INEDS report a good Chair as the key deciding factor in accepting a role

- Strong Chairs influence the decision-making process, if not always its outcome, for the better
- Great Chairs
 - Maximise board diversity
 - Create an environment of constructive challenge
 - Harness the efforts of the board in ensuring good governance
 - Ensure meetings are run well and productively

Board Committees

Each committee has clear terms of reference, reviewed annually by the board to ensure relevance:

- **Audit**: monitor integrity of the company's financial reporting; ensure internal financial controls, oversee the company's external audit process, appoint/work with external auditor
- **Remuneration**: packages for executive directors, succession, long-term talent strategy
- **Nomination**: new appointments to board and senior positions, ensure appointments made according to agreed specifications

ADB Committees

- Audit
- Compliance Review
- Budget Review
- Development Effectiveness
- Ethics
- Human Resources (vs nomination and remuneration)

Board Process

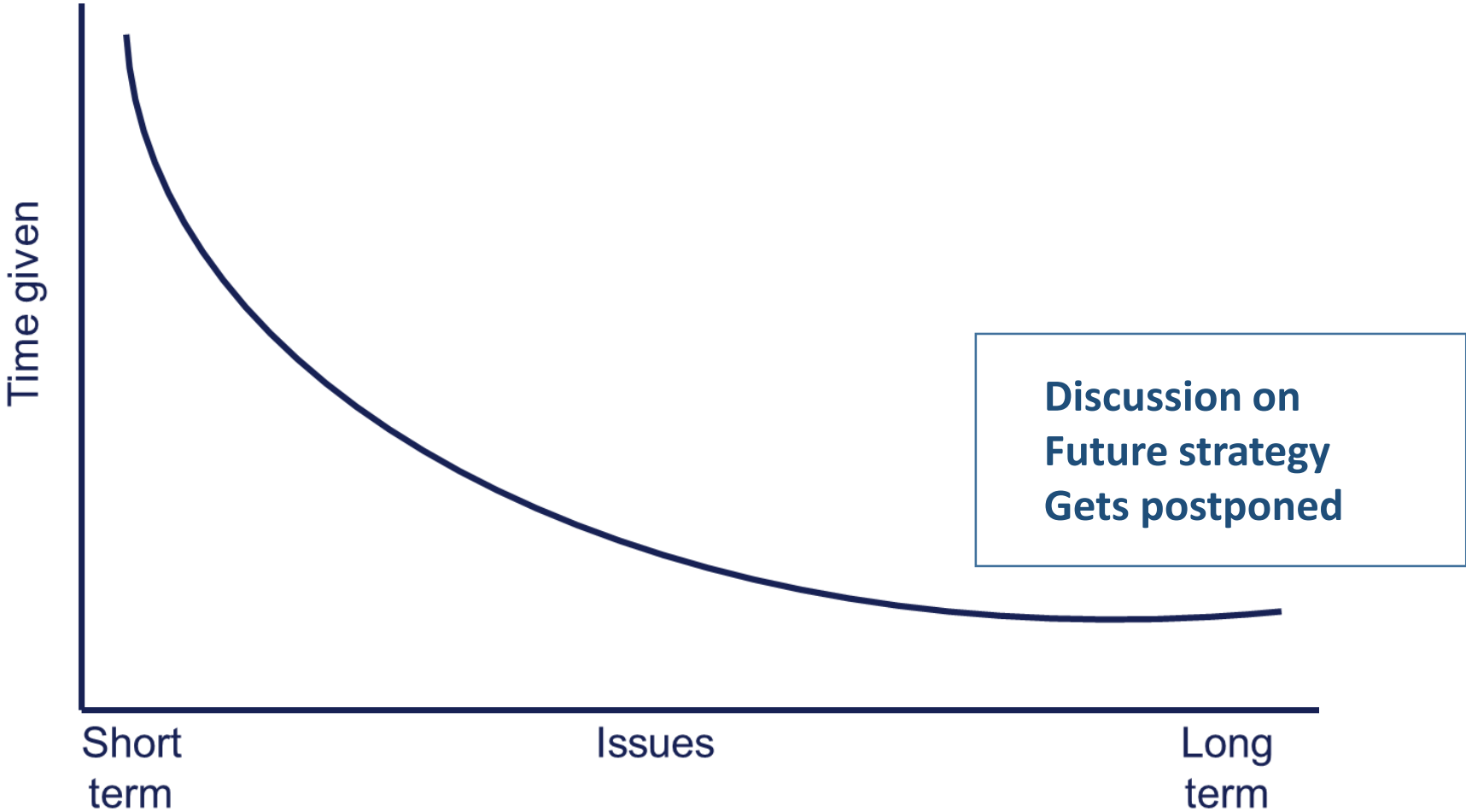
Lends itself to good timely decisions that benefit the company

Ensures performance against long-term stakeholder value

Proactive not reactive

“Make sure process does not become a proxy for results”

Typical Pitfalls



Started off small....



Joined together with a few people...



Got bigger...



Raising funds on the stock market...



Where was the board?

“

There would be days where we would open 5 checking accounts for friends and family just to go home early.”

— **Anthony Try,**
former Wells Fargo employee



Structure and Process Support Good Behaviour

Six Reasons Corporate Boards Fail

- **Poor strategic decisions**
- **Over-expansion and ill-judged acquisitions**
- **Dominant CEOs**
- **Greed, hubris and the desire for power**
- **Failure of internal controls at all levels from the top downwards**
- **Ineffectual and ineffective boards**

[Hamilton and Micklethwait (2006). Greed and Corporate Failures]

Best Practice Behaviour

- **Be prepared** – make sure you have the information you need (from internal or external sources) to do your job, *appropriately in advance*
- **Maximise your *distinctive contribution*** – bring your distinctive experience, knowledge, perspectives and personality to bear on the company's issues
- **Play your role** – not about constantly second-guessing the executives or kicking all the tyres (or 'siding with' either the Chair or the CEO)
- **Focus on '*data and logic*'** - not 'positions and personalities'
- **Speak sparingly but powerfully** – recognizing where you need to adapt

Constructive Challenge

Summary

A few things to think about...

- **Be aware of larger context**
- **Define the role your board**
- **Vision, strategy, management, risk and shareholder engagement all key**
- **Best practice: comply or explain (but don't comply without explaining either)**
- **Structure board and processes to ensure good behavior**

THANK YOU & Discussion



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