IDEAS

THE FUTURE OF THE BOARD OF DIRECTORS

THE BOARD OF 2020

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Globalization, technological change and the increased pace of business are transforming companies in ways that demand a response from boards of directors. At the same time, boards' activities are increasingly regulated. With all that in mind, what traits, aptitudes and attitudes should board members have?

CORPORATE GOVERNANCE • BOARDS OF DIRECTORS • BOARD MEMBER TRAITS

The board of directors is going through a profound change, which is driven by a range of phenomena. A major factor is the digitalization of our society, which impacts numerous business processes and makes information about company activities more accessible in less time. The downside of this advance is that information management becomes more difficult: in the digital age, it's best to assume that confidentiality doesn't exist.

In addition to digitalization, another trend is the pressure to have an increasingly global reach. Latin America opened up to the world in the 1980s. Asia, and particularly China – its largest market – opened up in the 1990s, as did Africa in the first decade of the 2000s. The Middle East, Eastern Europe and Western Asia are entering the game this decade.

These trails were blazed by companies that noticed and took advantage of specific business opportunities; when other companies followed in their footsteps, whole continents opened up. Studies show that foreign investment strengthens the investing companies, boosts the receiving countries, and creates jobs in the home country. The deployment of Spanish companies such as Banco Santander and BBVA in Latin America strengthened these companies, created jobs in Latin America and in Spain, and prepared them for their next international step.

The same thing occurs with technology. A pharmaceutical company that has products based on advanced specialty chemicals faces a challenge if the biotechnology industry suddenly offers alternative treatment options. Biotechnology is another world compared to specialty chemistry and it requires completely different scientific expertise. If a shift is being contemplated, the company needs to explore the options carefully, and if it decides for change, carry it out quickly.

Sometimes a company moves forward in globalization or technological change by acquiring another company that has a good idea but that doesn't have the necessary size, financial or management capacity to execute it. It may seem surprising when a major company purchases a start-up that hasn't even begun to trade, but nowadays a lot of major companies have discovered that they can accelerate their R&D by acquiring start-ups that have developed business concepts not yet advanced by their own R&D departments. Large companies

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can incorporate these new business concepts and develop them rapidly at a global level, a process that the start-ups would have carried out more slowly. Some major companies have reduced their own R&D activities, redirecting some of those funds to finding and acquiring promising start-ups.

One of the most important results of this set of changes in our economy and in our society is the increasing speed of business growth. Companies founded more than 100 years ago developed their international deployment during that long time span. If they were founded in the US, they came to Europe – perhaps after World War II – and entered markets one country at a time for years. In the '90s they may have become interested in Latin America, perhaps entering Mexico and then moving into the rest of the continent country by country. From 2010 onward companies moved into Asia, again, one country at a time: Japan, Korea, Southeast Asia, China and, finally, India.

Today a major company can't contemplate a 100-year global deployment process. The window of opportunity for globalization is small, and if that window closes, a company may lose value and ultimately fail.

WHAT A GOOD BOARD NEEDS

A good board of directors today and in the future should be a catalyst for technology and innovation, globalization, acquisitions, and human resources development, and it needs to accomplish all of these tasks with speed, financial coherence and high legal and professional standards. These needs place major demands on boards of directors around the world.

Legal rigor is complicated by the growing body of legislation that governs boards of directors. Boards face new regulations in many countries. For publicly traded companies, this legislation is more extensive and demanding and covers the provision of information, ethics monitoring, and the development of monitoring systems.

As a consequence of all these responsibilities, both now and in the future, board members must have good knowledge of the company's industry, the global scenario, and the company's circumstances. They also must have the capacity to work jointly with other members in order to encourage the rapid development of the company and the creation of value for shareholders. There is no need for all board members to be experts in all areas that affect the company. But, among them, they should be able to pool knowledge and share abilities.

Boards of directors should place high demands on members in terms of their personal and professional traits and their ability to prepare for meetings, make important contributions to the board, and engage in teamwork. Naturally, board members should receive detailed information about items for discussion, and with enough lead-time that they can consider it carefully.

Some areas of the company hold special importance, such as those related to people (hiring, training, compensation and promotion); all work concerning information quality; and standards for ethics, legal rigor and social responsibility throughout the company. Board committees dedicated to these areas bring together board members and company senior executives in order to conduct research and share the results with the full board. The most common committees are the Appointments and Compensation Committee and the Audit Committee. Some companies create board committees on other issues of particular concern (such as strategy or technology).

Based on their own professional activities and experience, individual board members may contribute more substantially to some areas of the board's work than others. In terms of personal behavior, there are extremes that don't work very well, like talking too much or not talking at all. Board members have to be aware of the intensity of meetings and the importance of contributing ideas, suggestions, and concerns. But they should avoid thinking out loud, repeating themselves or going over information that the other board members already have.

When a board is of a limited size and when its membership reflects a range of backgrounds, ideally each member should contribute to meetings. Teamwork is more effective if the team is of a reasonable size. Eight well-prepared people can have a more productive discussion than 15 who receive the data when they arrive at the board meeting. The current trend is for boards to become smaller.

Within this reasonable size, the board should be diverse, not only in terms of members' professional role (lawyers, economists, businesspeople, scientists), but also in terms of their relationship with the company (company executives and shareholders, as well as independent professionals). A current topic of interest is the participation of women on boards of directors. Currently only 20 percent of board members are women, a figure that is explained by the percentage of women that choose a career in management. It is estimated that this proportion will increase to 30 percent by 2020. Another change under way is the globalization of companies: this often results in the incorporation of board members of different nationalities and can even result in the language of the board being English, the international language of business.

Board chairs have to be skillful, because managing a set of such highly accomplished people isn't easy. This task can be facilitated by close collaboration with the secretary of the board. For example, the chair and secretary should discuss ahead of time the content of the next meeting, the information to be provided to members, and the agenda. They can also consider whether it would be desirable to invite company managers responsible for the topics under discussion. At each meeting, members should cover the general progress of the company and also address one of its specialized areas of interest, so that each year all of the relevant areas are covered in meetings.

Corporate governance is as important for publically traded companies as it is for family businesses. Of course there are differences. In listed companies, what prevails is shareholders' interest in improving returns in the short term, while in family businesses the priority tends to be handing the company down to the next generation, and therefore meetings are oriented to the long term. It's clear that board members should try to do what's best for the company, and do so with an ethical approach, although it's inevitable that they will be influenced by the priorities of the company's owners.

The book *The 2020 Board* delves into these issues systematically. Using the highly effective case method, it brings real-life examples to bear, such as key moments in the life of a board and the circumstances of particular board members. For an additional perspective, the book includes vignettes about boards published in the magazine the *New Yorker*, which has dedicated space to boards of directors for many years.

MORE INFORMATION:
Nueno, Pedro. *The 2020 Board: The Future of Company Boards.* Madrid, Lid Publishing, 2016.

10 Trends for the Board of 2020. Nueno, Pedro. *IESE Insight Review.* Number 29. June 2016.

www.iese.edu/boards

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