6 items for the top of every board's agenda

What boards need is a clearer vision of the firm's overarching purpose, as well as aligning and measuring its long-term success. Also required is a drastic rethink of how the board can add long-term value to the company it serves.

April 1, 2014

By Jordi Canals

Governance failures have led to corporate failures in recent years. There have been serious problems with executive compensation, director-nomination processes, accountability and reporting, and boardroom decision-making. Granted, important changes have been made: Executive compensation seems to be under greater scrutiny, more independent directors have been nominated, boards are making clearer proposals to shareholders, and there are more open discussions between boards and investors.

Yet, however welcome these changes may be, they are not enough to steady the ship. What is ultimately needed is a sea change in the way companies view their activities and responsibilities.

Going back to basics to rebuild trust

Part of this change means remembering that corporate success depends primarily on people and the relationships they build among themselves and with other stakeholders. It demands trust, which can only be nurtured over the long term.

Boards of directors play an essential role in building trust, making sure that it pervades every corner of the firm and that every decision the organization makes conforms to the highest levels of professional excellence.

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Boards also need to have a crystal-clear idea of how the firm can create sustainable value over the long term and how it can get the right people, starting with the CEO.

Failure to do so has serious repercussions, including: confusion over strategy; inadequate reporting and accountability, leading to strained relations with shareholders; poor financial performance; executive compensation scandals; high levels of management turnover; and reputational damage. In the end, this lethal combination of factors poisons innovation and entrepreneurship, stirring up popular resentment and mistrust of business in general.

The main purpose of this article is to remind readers that effective boards of directors are not just the CEO's backstop but stewards of the firm's survival. Making boards more effective requires a much clearer definition of their functions, responsibilities and agendas, based on a holistic view of the firm. Ultimately, to be effective, a board of directors needs to develop and share a long-term purpose for the company and think long and hard about how it can add value to the firm.

This article is published in IESE Insight Issue 21 (Q2 2014).

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