Boards of directors: 5 pillars to withstand turbulent times

Boards of Directors in Disruptive Times, **by Jordi Canals, aims to improve the effectiveness of corporate governance when it's needed most.**

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The ripple effect of corporate boards' work spreads far beyond specific organizations, investors or shareholders. In the grand scheme of things, society benefits when companies meet market needs, innovate, create jobs and invest in local communities. This is particularly true in times of disruption.

It’s high time to do better, asserts IESE Professor Jordi Canals in his 2022 book, *Boards of Directors in Disruptive Times: Improving Corporate Governance Effectiveness*. In 10 chapters, Canals offers a detailed analysis explaining why the prevailing model of corporate boards is falling short in our current era of accelerated change and radical transformation.

Merging theory with real-life examples of some of the strategic challenges faced by Danone, General Electric, IKEA, Schneider Electric, Unilever and other global powerhouses, Canals argues that we need a new governance model, one guided by purpose. In this new model, shareholders, boards of directors and senior managers are fully aligned to develop the company — not to make the next quarter, but for the long term. As geopolitical and economic uncertainty grows, the need for this new model is urgent.

Corporate governance post-2008

The 2008 global financial crisis was a time of reckoning as it spilled over into corporate crises, bankruptcies and overall economic upheaval. While the roots of the crisis were diverse and complex, legislators were quick to turn their gaze to corporate boards: what role did they play — or *fail* to play — in this colossal catastrophe? What could they have done to prevent it?

Regulators, investors and capital market institutions scrambled to bolster corporate governance systems by championing stricter compliance guidelines, stronger transparency rules and expanded shareholder rights. In the following years, however, these efforts proved insufficient for companies facing continuous disruption, evolving competitive forces, environmental crises and a never-ending stream of new technologies.

Since the 2008 crisis, national regulators have looked for several board attributes to improve their effectiveness. These attributes have included: the ratio of external directors to total directors; requirements to assure diversity; division of powers between the CEO and the chairperson; effective compensation frameworks; and the make-up of board committees. There have been some positive results for boards, but the improvements were not enough to prevent prominent firms such as Bayer, Boeing, General Electric, Wells Fargo and WeWork from going through major corporate crises and aftershocks in the form of damaged reputations, decreased market value, painful restructurings and lost jobs.

A holistic model for corporate boards

In his book, Canals develops a more holistic model that better reflects today's environment of rapid change, in which board members serve as stewards and drivers of long-term sustainable value. Under this framework, board members are keenly aware of the firm's corporate purpose, challenges and opportunities, and their alignment with the overall strategy and stakeholder expectations.

Five key pillars form the basis of this comprehensive model:

1. **Emphasis on long-term value creation.** Board members must have a solid grasp of the company's capabilities and competitive positioning to sustainably create value while simultaneously meeting the expectations of the collective of investors and national legal frameworks. Boards should focus on the firm's long-term development and act as careful custodians of shareholder and stakeholder interests.
2. **Governance based on purpose.** Purpose is not just nice to have. Purpose helps customers and employees understand why the firm is in business, what it tries to achieve and how. Environmental and broader social impacts should find adequate space in the firm's guiding purpose. The board and the senior management should work together to offer good answers to the challenging questions raised here.
3. **Strategic and entrepreneurial mindsets.** Board members aren't charged with managing the company — this is the CEO's job — yet they should be able to help the top management team to think strategically and inspire an entrepreneurial mindset among senior leaders to help promote the firm's long-term development. In parallel, boards should foster a positive and collaborative relationship with the CEO to take the company to the next level.
4. **Sustainability, financial and non-financial.** As boards steer the firm's long-term direction, they must also ensure that corporate objectives look beyond the bottom line and include the firm's wider impact, beyond profitability. In this regard, it's important to monitor whether the firm is sustainably and successfully combining purpose with profit by serving other key stakeholders as well as shareholders.
5. **A human group with a collegial board dynamic.** A positive group dynamic is critical to driving positive corporate outcomes. Board members should stay closely attuned to corporate culture, leadership development and executive succession planning, since they all play roles in a company's ability to excel. The chairperson plays a crucial role in making the board an effective team to help advance the company.

Turbulent times call for boards to steer well, take their company to new heights, and get all stakeholders to a good place safely.

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