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Golden Research Thoughts

GRT

BOARD EFFECTIVENESS: A KEY TO GOOD CORPORATE GOVERNANCE



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ABSTRACT

Board manages and monitors the corporation on behalf of its shareholders by delegating the authority and responsibility to the CEO, who further transfers the same to other senior management. Board is responsible for the selection, compensation and evaluation of ethical CEO and its management team. This paper tries to understand the concept of board effectiveness as a key to good corporate governance and highlights the elements that make the board effective. It can be concluded that effective board members always maintain an attitude of constructive skepticism when making decisions. The collective vision of an effective board leads to enhance

the performance of the company. Board structure and the way it operates may have a direct impact on the company's ability to meet its strategic objectives.

KEYWORDS :Board Effectiveness, Board Structure, Corporate Governance, Decision-making.

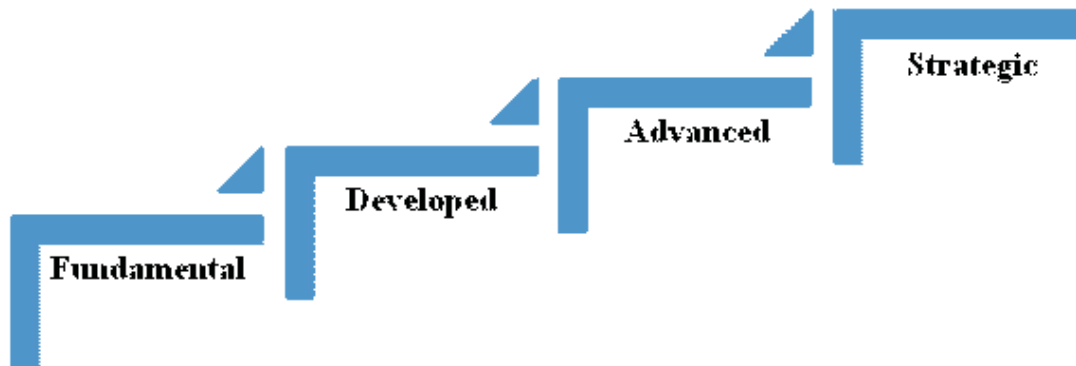
INTRODUCTION :

Over the past decade, the corporate



world has seen a dramatic shift in the definition of board effectiveness. Researchers are trying to search ways to enhance the effectiveness of boards. Corporate scams/ scandals are existing since long but recent global financial crisis lead to many corporate scandals. The boards are not only accountable for vigilant monitoring of the company but also have individual risk and liability. There is a need around the world, for effective boards that fully understand and actively engage in all aspects of an enterprises operations. An effective board needs a team of directors who can work as a group for defining their role and mission and are also able to play their specialized role in which they have expertise. An effective board is the key to good corporate governance. It has been recognized as an important institution of

corporate governance (Ram Charan, 1998; Lawler III, 2002). A board should be comprised of members that are experts in a field which a corporation requires and have a reputation which ultimately helps in the value addition of the corporation. There is general agreement on the importance of an effective board, but what characteristics should a board possess to be called as an 'effective board' and also what are the ways in which these characteristics are manipulated to make it more effective. All these queries are topics of debate in research (Goolden and Zajac, 2001; Hermalin and Weisbach, 2001). It is easy to differentiate between a weak board and a strong board theoretically. Weak boards have directors who show their aversions from work transparency and accountability. Making a good board to a great board, it needs to pass four phases in a series. The four phases are:



Source: A More Effective Board of Directors, HBR

A corporate hierarchy of needs in the corporate model is similar to Maslow's need hierarchy theory. 'Fundamental board' is similar to basic survival needs stage of Maslow's need hierarchy model. At this level boards focus on basic compliance oversight and avoid making tough decisions and taking strong positions. On the other hand, 'Strategic board' is similar to self-actualization stage where boards provide vision to the company and take optimum risk to make significant contributions in the success of the corporation. Such boards are high performing and add long term value to the corporation.

FIVE ELEMENTS THAT TRANSFORM A WEAK BOARD TO AN EFFECTIVE BOARD.

1. Clarity on the roles of individual directors and the board as a whole. Role conflicts slow down decision making.
2. Good Process Management facilitates effective board preparation, meetings, and communications.
3. Alignment and Agreement on Company's Strategy enhance the board's ability to read priority issues and set right agendas.
4. Good Team Dynamics strengthens boards and helps in avoiding power conflicts.
5. Board Composition needs serious consideration and it should be done objectively. Board composition should be according to the need of the corporation. Appointing highly compensated directors; big-name directors and CEOs; relatives as independent directors lead to poor board composition and hardly make any contribution to the company.

COSSIN, D. and CABALLERO, J. (DECEMBER 2014) stated in their article that Corporate events that happened in the last decade made it evident that boards can fail and therefore there is a need to increase the effectiveness of board. They illustrated different factors in the form of four pillars that

contribute to board effectiveness.

FOUR PILLARS/ FACTORS OF BOARD EFFECTIVENESS

1. People on the boards and their quality, focus and dedication

The quality of decision making depends on the necessary and relevant knowledge of board and committees' member. Board diversity also enhances the quality of board.

2. Information Architecture

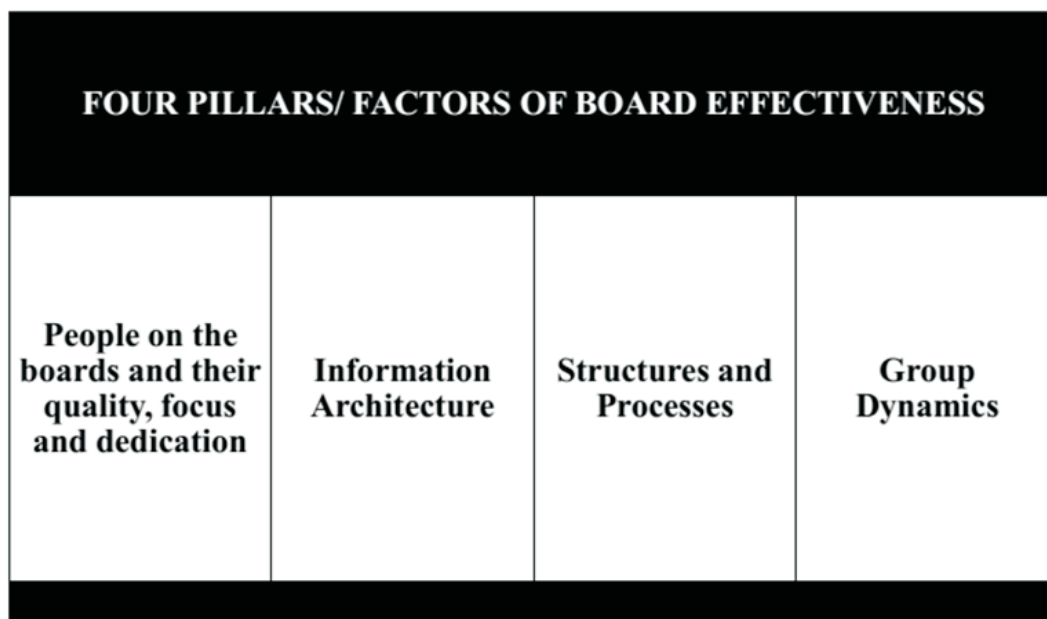
Best information system helps in disseminating the information clearly and timely to the board about all essential activities undertaken the corporation.

3. Structures and Processes

Independence and composition i.e. well-managed board diversity in terms of opinion, experience, expertise, diligence and genre of the board contributes to effectiveness.

4. Group Dynamics

Dynamics such as dominating member, non- interested members, poor coordination between board and management etc. are fundamentally linked to the culture of the board and they are detrimental for board effectiveness. A board should develop best group dynamics.



Source:IMD Global Board Center

In this way board's effectiveness may be enhanced if directors consider:

- 1.Appropriate board structures.
- 2.Assessing board and director performance regularly.
- 3.Board succession planning.
- 4.Running meetings efficiently.
- 5.Committee members must have relevant expertise.
- 6.Making effective use of board sub-committees where appropriate.

7. Careful forward planning and Risk management.

CONCLUSION

The essential features of an effective board are facing challenges and good teamwork, it is not about playing safe. Board diversity is also an important component which brings range of perspectives, opinions, views and ideas based on directors' expertise, age, education, gender, culture, experience etc. Directors should be courageous, confident and diligent to raise questions or provide suggestions and constructive feedback and also be able to address any personal developmental needs. The collective vision of the board leads to enhance performance of the company. Board structure and the way it operates may have a direct impact on the company's ability to meet its strategic objectives. Hence, an effective board is the key to good corporate governance.

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