



The new rules for board games

There's no simple formula for putting together the right board of directors. If only there was, says **Jon Moulton**

It used to be pretty straightforward to put a board together. Most companies used their own address books to man (pun definitely intended) a board. Being golf partners or old school friends were often essential criteria, and a decision dominated by the owner, CEO or chairman was commonplace.

Then came corporate governance, diversity and social mobility. The intention is noble, but a reasonable question is: "Has performance got better?" At the grossest level, there has been no spurt in GDP or corporate earnings that can be attributed to changes in board structures. There is no obvious difference in overall corporate performance generally – for better or worse.

And that word 'generally' is very important. The list of variables for board structures is long and the choices are not easy. Here's a quick checklist: should you have a non-executive or executive chair? How many non-executive directors? What should they cost? What, if any, board committees should there be? Who should be on them? Are directors better for being shareholders or better being 'independent'? What is the mix of male to female directors? What is the representation of minority groups? What about industry knowledge? Experience? And – if we're allowed to say it – age? Are there any non-profit agendas that need special expertise?

In many cases, the answers to all these questions matter less than the qualities and commitment of the individuals involved. It's the availability, or not, of excellent people that may determine a board's shape.

Balancing acts

Pretty well the most common word used nowadays in discussions about board structures is 'diversity'. In common usage, it tends to mean the female component of the board and, it's fair to say, a less common consideration is race or minority interests.

In recent years, this clarion call for increased diversity has become deafening and targets for female positions have now often been met. Perhaps the debate over the pros and cons of female involvement will diminish. Diversity, however, is a

much more complex thing than gender. While there may be differences in the views of women and men as groups, at an individual level their opinions overlap. The stereotypical images of masculinity and femininity are just that – stereotypes.

Most companies will benefit from a proper debate of issues and alternative ways ahead and someone has to provide those alternative views.

But there is an exception. If companies are dominated by very strong characters who regard questioners as obstacles to be trodden on – and, indeed, if the company is prospering under such a tyrant – board meetings can rationally be reduced to formalities and the board cost minimised. Quite a few of the hugely successful US technology companies have legal set-ups that enable the main man (and it is usually a man) to largely ignore their board. Dictatorship is an available corporate governance structure and it can work.

But, of course, sometimes it doesn't. For instance, companies with a single dominant soul at the top have a large incidence of fraud. The absence of effective NEDs increases this type of risk.

Bigger better?

Very large boards can present a variant of this situation, having the same indifference to dissenting inputs because proper debate is suppressed by the mechanics and allocated time of meetings. Similarly, a director that is too inflexible can also be a problem.

Another thing to consider is that diversity of views is only of use if the input is good. Wild ideas clearly do nothing for anyone and if a board has too many people, with clashing views, decisions may be delayed or obfuscated. Debate must be brought to a conclusion without too much acrimony, delay and cost. Politics in the boardroom may become an unproductive diversion.

Getting an optimal board structure is often really difficult. Choosing and using good people is the key. And don't just copy others – putting real thought into the task can make a huge difference.

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