Building an effective board in a

During the recent heightened regulatory focus, companies and their boards need to think deeply about the way in which they carry out their business. It is not only about the structures and processes that they put in place, but also about the crucial role of the board in setting up the vision of the company. It should always place great emphasis on clarity of roles and responsibilities, as well as on accountability and transparency. To be able to fulfill the numerous tasks, boards need to take all necessary steps to act as effectively as possible.

The consequences of the economic crisis have affected consumer confidence and trust in business and as a result public attention has focused more on the ethical and social activities of companies. Social responsibility for businesses today involves helping to mitigate the social effects of the current economic crisis. Corporate social responsibility (CSR) has been redefined as "the responsibility of enterprises for their impacts on society". It offers a set of values on which a more cohesive society can be built. These values also form the base for a the transition to a sustainable economic system.[1] CSR includes company operations based on obligations set by the law towards society and the environment. This includes human rights, labor and employment practices (such as diversity or gender equality), environmental issues (such as biodiversity, climate change, resource efficiency, life-cycle assessment and pollution prevention), and combating bribery and corruption.

Development of the Corporate Social Responsibility

CSR for all companies is strategically important. If applied well, it can increase a company's competitiveness. The company can benefit in terms of cost savings, risk management, access to capital, human resource management, customer relationships or innovation capacity. Enterprises should adopt a strategic long-term approach to CSR and must also assess the possibilities for developing new and innovative products or services that build and strengthen the well-being of the community and lead to more quality jobs.

To prevent the recurrence of poor decisions, the performance of the board should be regularly evaluated. The evaluation process should aim to be objective and rigorous to support the improvement of the board's performance.

Enterprises should be given a free hand in the development of CSR. Companies should also develop an approach to CSR that is appropriate to their size, circumstances and complexity of operations. CSR activities are very visible to the public, so companies are encouraged to build their own rules and internal documents describing their attitude to CSR.

Doing the Right Thing

In the corporate sector, we see many examples of companies that profess strong ethical attitudes on paper, but they become entangled by corrupt behavior in practice. The fact that a company has a strong sense of ethics is not a guarantee that the company will always do the right thing. However, the reverse action is also true: many enterprises have started from poorly set standards with a weak reputation, but have been able to develop these standards and set new benchmarks of corporate ethics.

The essential component underlying much of what the most responsible and ethical companies do is leadership. It is visible through their actions and commitments. These standards set the moral tone that flows down from the top of a company and introduces the ethical principles expected from everyone acting on behalf of a company. The company should focus within the corporate governance system on all these topics connected to CSR. The principal management body of a company, usually the board, must take steps to ensure that CSR duties are carried out properly.

The Role of Board of Directors is Vital

We have seen various corporate scandals during the past few years, which have shifted the meaning of efficiency of the board into a new light. Directors now face the demand for high professional requirements on one hand and the increased mandate for strong morals and ethical behavior on the other, as they are confronted with personal liability for conducting business. Ultimately, the board takes credit for the company being perceived well by the public, as it provides direction for the business. However, it also takes blame for deficiencies and bad decisions, as it stands in the heart of the company's environment with its "tone from the top" and it is perceived as the overt voice of the corporation.

Boards of directors play a vital part in the growth of responsible companies. The composition of the board has to suit the company's business. Among the professional criteria used for selecting board members should be intellect, critical assessment and judgment, courage, openness, honesty and tact. In addition, the ability to listen and develop trust is essential to build and strengthen relationships with stakeholders both inside and outside the company. Other very important attributes of candidates are personal qualities such as independence and experience diversity. Diversity is especially important because it gives the board a wide spectrum of values, attitudes and views, often brings different expertise and helps to awaken new ideas.

More diversity leads to more discussion, more monitoring and more challenges in the boardroom that may result in better decisions. On the other hand, getting to those decisions may take more time. The board's diversity should be regarded from a couple points of view. If the goal is to increase effectiveness, then the board should have members with various professional experience, gender diversity and nationalities. Professional skills built on such wide experience enable the board to understand the needs of the business and global markets. The importance of diversification of professional backgrounds is generally understood by companies, but is not often applied. For example, 48% of European boards have no director with a sales or marketing profile and 37% of audit committees do not include a former chief financial officer[2].

International diversity of board members is quite common among large international companies. There were, however, great disparities among European countries. While the Netherlands leads the way with 54%, only 8% of board members in Germany were non-nationals. Approximately one quarter of large European listed companies have no foreign directors on their board.[3] However, the presence of foreign members brings difficulties along with advantages. These may spring from different cultural backgrounds and languages.

The question of gender diversity is also very important these days, as many strategies are being developed to provide women with equal rights in the field of the business decision making process. These steps should be taken seriously because on average the proportion of women on the boards of listed companies in the EU is barely above 10% [4]. The number remains low despite the fact that the number of women graduating from university is constantly rising. Female board members can provide the decision-making process with new perspectives, as women tend to have a different leadership style than men. Besides, women are regarded as more reliable – they attend more board meetings and fulfill their duties with more focus. The issue of gender diversity is a subject of various measures that attempt to solve this matter. Any quotas to ensure the gender balance cannot really help and in fact they are just window dressing unless the company frankly presents its interest in encouraging women to follow their career paths and introduces policies contributing to the work-life balance.

The board attributes stated above are all important, but they will not be worth mentioning unless the board possesses the ultimate power – cooperation. To be truly effective, a board needs directors who can work as a group to clearly define their role and mission in all fields of the business. Agreement and alignment of where the board actually stands at a given time and where it needs to be in the future within the limits of ethics and responsible entrepreneurship are essential to creating a high-performance board.

How to Strengthen the Efficiency of Board of Directors?

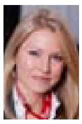
If the company has taken all necessary steps to build an effective board, the probability of the adoption of proper decisions rises. However, it often happens that the board acts with its best intentions but the decision adopted turns the wrong way. To prevent the recurrence of poor decisions, the performance of the board should be regularly evaluated. The evaluation process should aim to be objective and rigorous to support the improvement of the board's performance. The recommended period for the internal evaluation is one year. The evaluation should include the assessment of organization, operation, competence of board members and meeting the set objectives.

Besides the internal evaluation, the services of external experts should be utilized periodically. The view of the external expert is disinterested and candid, but this approach is still sensitive as it stems from the nature of the task. The questions should be asked in a tactful way from different angles. The assessment usually involves the review of board minutes and other papers, an interview with the directors and observation of a board meeting. It often embraces the review of the board's committees. Another reason to hire an external evaluator is to utilize his business knowledge and understanding of the leading practice among peers on the market. The services of an external evaluator might also be used in certain situations, such as when conflict among the board members arises. In this case the external reviewer can add value to the assessment process and can help solve the problem. External reviewer might be immensely worthwhile if there appears to be a distortion in judgment of the board caused by conflict of interest, emotional attachments or reliance on previous experience or decisions.

After the evaluation, the outcome of the evaluator's work should be presented to the whole board. It should comprise the strengths of the board's performance, but the focus should be placed on the areas that need further development. The evaluator's report provides board members with valuable feedback on how they take on such a demanding role. In any case, the report has to be perceived as a cornerstone to set the measures for improvement of the board's efficiency within corporate governance in a responsible company. Despite the fact that review by an external evaluator is undoubtedly a gain for a company, not many take advantage of it. For example, only 16.5% of the top 200 UK listed companies undertook some form of external board evaluation process in 2010[5].

Conclusion

The issue of the board's effectiveness within the boundaries of corporate governance and responsible entrepreneurship is more challenging than ever. Directors have to meet professional requirements as well as moral ones. Setting up the board and appointing the proper members to ensure its smooth operation is a job that needs to be handled with care. The right proportion of different personalities, experiences and backgrounds makes the board a capable medley. To be able to assess the performance of the board, the company should continuously evaluate the board's function. External evaluation brings a fresh view to the company and can radically increase the effectiveness and functionality of the board.



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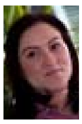

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[4] GreenPaper, The EU corporategovernanceframework, Brussels, 5.4.2011, EuropeanCommision

[5] http://www.icsaglobal.com/about-icsa/latest-from-icsa/article/too-few-board-evaluations