Building the Right Organization Board and Why it Matters

THOUGHT PAPER

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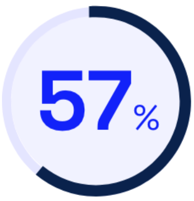
September 25, 2022

Overview

An effective, well-run board is one of the most potent forces driving an organization to success. No doubt, getting it right does not come easy but no matter how challenging the task may be, building the right board can genuinely shape a company's growth and take it to the next level.

In a highly dynamic and diverse business climate like today's, companies and their leaders are facing growing challenges, new governance, and compliance requirements every day. An effective and thoughtfully-assembled board can prove to be of great advantage in ensuring sound governance, challenging as well as guiding the CEO in critical decision-making, and driving everyone's attention to the long-term well-being of the organization. While a good organization board has always had to fulfil the above responsibilities, with everything around them evolving, boards must too.



of boards of directors have increased or expect to increase their risk appetite in 2021-2022

Source: https://www.gartner.com/en/articles/6-key-takeaways-from-the-gartner-board-of-directors-survey

From an increased focus on digital transformation to accelerating actions that promote DE&I and prioritize ESG as critical business goals — boards are widening their horizon, rewriting their functions and capabilities to meet the demands of the post-pandemic era.

Based on insights from industry leaders, this thought paper explores what an effective board looks like in today's context and why leaders and organizations must build one that is *right* for them.

What makes a good board?

What do we think comprises a strong board? What constitutes a robust and impactful board culture? What are the important factors to take into account and expect from a board?

An effective board is not just one with high-performing, seasoned industry experts. A strong board that truly adds value to an organization is a team that balances complementary skills, diverse experiences, and capabilities, and demonstrates the ability to work together while practicing independent thinking.

Broadly speaking, for a board to be a strategic asset to the company, it must be balanced in different aspects:

Size: What's the right size? Much of the recent focus on board size comes from changes in regulatory concerns and the increased focus on collaboration. Therefore, the optimal size could be described as having just enough board members to manage and guide an organization. An '*overcrowded*' board, no matter how skilled or experienced, is ineffective when it comes to fostering productive discussions and making quick decisions. The composition of a board can be the defining factor for a successful board and its makeup will depend on the size and type of organization.

Diversity: The global shift towards diversifying boards is not just a recent socio-cultural trend. Countries like Norway & Germany have been strongly advocating for gender quotas in the boardroom for years. And the value of doing so is being recognized by businesses across borders & industries. Here's why. A diverse board yields diverse perspectives. It benefits an organization by exhibiting a wider range of capabilities and competencies, differing approaches to business challenges, and individual risk/reward orientations – all of which pave the way for increased innovation, improved decision-making, and better identification of opportunities.

Leadership: While every board member must attribute strong leadership traits, the larger share of this responsibility lies with the board chair. The chair is central to building and managing key relationships, creating a climate that encourages directors to have open, productive group discussions by leveraging their unique expertise. Chairs play the role of enablers, leading the board to collaborate and focus on issues that impact the business. A great chair has the confidence and respect of board members and shareholders, a strong partnership with the CEO, and a deep focus on strategy development and oversight.

What does your board bring to the table?

How do leaders know if they have the right board members guiding their business? What should young entrepreneurs and experienced CEOs expect from their boards?

> **Fundamentally, the board looks to achieve key 4 to 5 objectives: have strong corporate governance – ensuring all checks and balances are in place, guiding the company on how to grow and scale – using caution wherever needed, utilize financial resources judiciously and grow with caution. Identifying & hiring key senior leaders as key pillars who would contribute in the growth journey & build mechanisms to track this process. It is the duty of the board to build and prepare a senior leadership pipeline as the key support system to CEOs/founders.**
>
> - Investment partner at a leading VC firm

As one of the Investing Partners at an early-stage technology-focused VC firm points out, the overarching role of the board has essentially remained unchanged over the years. While every business and every board is unique, there are a few key imperatives that every board must meet.

Corporate governance & risk management

The board of directors has a responsibility to steer the company in the right direction. Acting as stewards of an organization, they govern for the present and guide in the direction of the future. The current economic trends also demand boards to be forward-thinking when it comes to overseeing financial risks and exposures to minimize the impact of financial crises. In their role as overseers, boards must continually assess a variety of risks across litigation, reputation, environment, ethics, technology, health, and safety.

Effective corporate governance warrants a clear distinction between the roles of the board directors, the board chair, the CEO, and the primary board committees. Boards must also develop and write policies for codes of business conduct, ethics, ESG, conflicts of interest, and whistleblowing.

Focused on the future

Boards carry the organization's future on their shoulders. Every member of the board must therefore be actively engaged and invested in strengthening the organization — and in doing so, they must act collectively as well as independently.

Helping an organization scale entails a board of directors being involved in building hiring processes for senior leadership, fortifying a pipeline of leaders by ensuring effective CEO succession planning, and identifying new opportunities for future growth. The right board often serves as an excellent sounding board. It must help CEOs develop and implement solid business strategies not just by providing in-depth guidance and honest feedback but also by consciously challenging them.

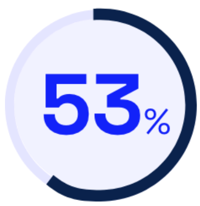
Building strong relationships

It is in the best interest of an organization that boards have a strong relationship with peers, CEOs, and shareholders. These relationships are key to good corporate governance, better decision-making processes, and a strong culture. But such relationships need to be nurtured with intention and effort.

Relationship management is a vital emotional intelligence skill. Boards that display this skill are better equipped to connect with others, lead and oversee their organizations effectively, and create a culture of mutual trust, transparency, and openness. The ability to build and manage relationships is strongly associated with leadership skills — a core competency that every board member must demonstrate.

Building a board

Board building is a continuous process, one that comes with many challenges but bears fruitful results.



of executives believe long-tenured directors can hamper board performance

Source: https://www.pwc.com/us/en/services/governance-insights-center/library/board-effectiveness-and-performance-improvement.html

When it comes to building boards, experience matters but it isn't everything. Especially in today's demanding environment, board members who may possess rich but irrelevant experience can hinder the efforts to bring directors with different skills, experiences, and identities into the boardroom.

An engaged board comprises a mix of experienced, enthusiastic, and forward-thinking members who:

- Are passionate about corporate governance and recognize their responsibility to ruthlessly prioritize it
- Provide the right guidance, advice, and insights to CEOs and the senior management
- Have the ability to harness individual perspectives and collective efforts to drive value
- Seek out the expertise of their network to solidify an organization's leadership for the present and the future

> **Young companies should not rush into building their board, and induct independent directors until they are ready to act on their ideas and implement suggestions.**
>
> - Founder of a leading Retail Technology Company

An experienced and engaged board can provide founders with the right guidance needed to put strong systems, people, and practices in place. It also has a positive impact on the startup's image vis-a-vis investors as it demonstrates the founding team's ability, their willingness to be challenged and to grow.

Having said that, founders & CEOs must take their time in building a board. According to the Founder and CEO of a reputed startup, founders should wait *"until they are ready to act upon their ideas and implement their suggestions. It should ideally be after 5-6 years of running the company when one has enough business maturity as well as a strong revenue model."*

The takeaway

> **It's not the rules and regulations. It's the way people work together.**
>
> - Jeffrey A. Sonnenfeld, What Makes Great Boards Great

Boardrooms are transforming but the underlying duties and responsibilities borne by board members are fundamentally the same. While building the right board for future-proof businesses is no mean feat, it is not impossible. **By definition, a board is full of diverse people and this makes it all the more important to foster a strong board culture – one where candor in communication is prioritized, mutual respect and trust are given value, and dissent and individuality are encouraged.** Building an involved and engaged board that displays the above-discussed competencies and skills, will help shape effective corporate governance, power collaboration in decision-making, and enable leaders to prepare for what's next.

About the Author

Varun has over 20 years of experience in the corporate world, of which the last 15 years have been in executive search where he has led and managed critical client relationships across diverse industries. While working at EMA Partners, he managed engagements that span the sr. leadership suite with a special focus on Digital, Tech & IT Services, VC/PE-Portfolio and Professional Services. He was instrumental in developing firm's capabilities in the Digital & Technology space. Before co-founding PeopleAsset in December 2018, Varun was leading the tech practice at one the fastest growing executive search and hiring firm, headquartered in India.

Prior to joining EMA Partners, Varun was associated with Korn/Ferry where he was part of the Global Technology Markets (GTM) India practice. His areas of focus at Korn/Ferry included: Business & Professional Services, Business Information Services, IT/ ITeS, Electronics, Software & Emerging Technologies, Consulting, Big Data & Analytics, HR, and Finance. Earlier, between 2008-2011, Varun ran his own search firm before which he was associated with a niche economic, business and market research firm, IMA India.

Varun comes in with multi-domain, multi-functional expertise in Executive Search, and Leadership Coaching & Development. He had successfully completed Decision Dynamics Certification in the Executive Assessment Suite, is an Executive Coach, and regularly advises early-stage ventures/ entrepreneurs.

About PeopleAsset

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Varun Sarin is the Co-founder, Director at PeopleAsset.