

Board efficiency and effectiveness: The key for strategic success



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Boards of directors play a key role and must lead by example in providing a favorable environment for their company to successfully execute on strategic goals. This view is supported by the largest institutional shareholders that perceive their say on board elections as the most important tool to drive value generation in their portfolio companies.¹ In a more recent study, institutional shareholders as well as corporate representatives clearly stated that a successful implementation of a company's sustainability strategy requires a strong corporate governance and thus board of directors.² Given these key responsibilities of a board of directors, it is crucial that it can execute its tasks efficiently and effectively. In SWIPRA's view, this requires not only solid and resilient established structures for the oversight of a company's day-to-day business, but also a dynamic and forward-looking approach to ensure the board is able to think ahead and address the challenges of tomorrow (see Figure 1).

1. The starting point: Having a clear vision and well-defined strategy

To be able to have a forward-looking mindset, the board needs to have a clear understanding of where the company should be heading, in terms of vision, strategy and behavioral execution, and also of how expected regulatory developments as well as changing stakeholder requirements, in particular challenges along the value chains, may impact the future path. This requires that boards have an overall deep understanding of the industry, trends in the market and regulation, as well as the company's competitive surroundings and challenges. The increasing complexity of today's businesses, value chains and expectations regarding environmental and social responsibilities make it indispensable that each director contributes with complementary know-how to the board's overall intelligence. This ensures that the board covers a range of perspectives and insights that are key in taking the best possible strategic decisions.

1 SWIPRA Corporate Governance Survey 2015.

2 SWIPRA Corporate Governance Survey 2021.

Figure 1: Expectations for a modern professional board of directors



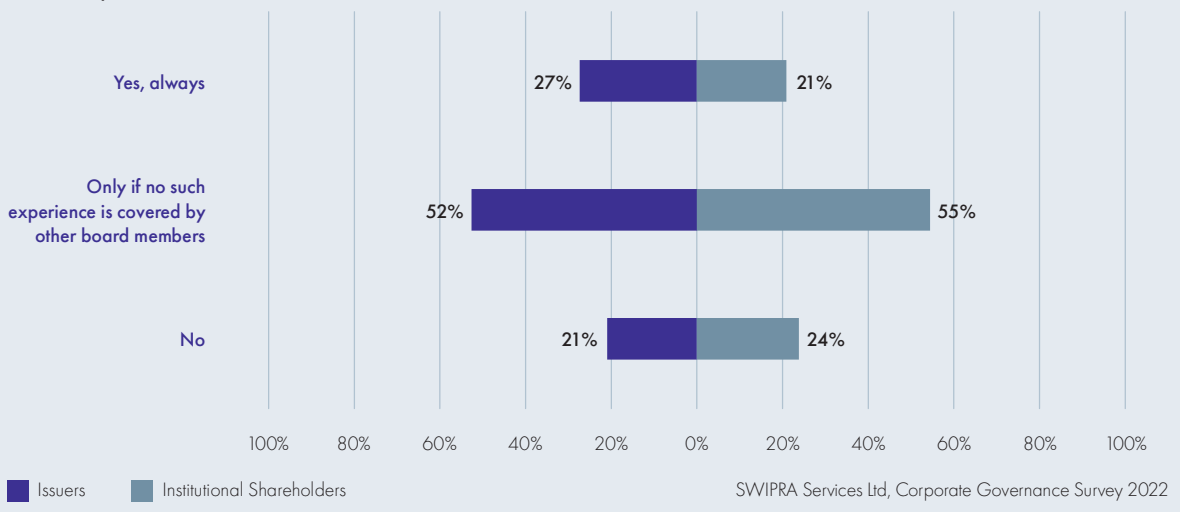
It is a company-specific question which skills and experiences are needed on a board, and they may change over time in line with the development or business transformation of a company.

In the current environment, sustainability knowhow is one of the perceived key criteria for the election of new board members. According to the SWIPRA Corporate Governance Survey 2022, 76% of participating Swiss companies indicated that they use sustainability experiences and competencies as one criterion when searching for new board members; an effort that is welcomed by 79% of the institutional shareholders (see Figure 2 below). Often sustainability experiences and knowhow come combined with extensive strategic experience and change-

management skills, personal backgrounds that are key in the currently ongoing transformation of businesses.

In addition to tapping the individual board members' experiences and the company's internal intelligence, stakeholder engagements by boards has become very important, obviously also a key capability for members of a board of directors. SWIPRA's recent practical work with listed companies of various sizes has clearly shown that boards' direct engagements with external industry experts, shareholders, and other important stakeholders have become very valuable in providing boards and their companies with essential insights and objective feedback to further develop boards and managements understanding and thinking.

Figure 2: Are sustainability (environmental and social) experiences and competencies a selection criterion for new appointments to your board of directors?



2. The catalyst: Driving processes with a strong leadership

Making the best use of internal and external pools of information to draw up a comprehensive picture requires that the board's leadership has a broad and far-sighted perspective. The board chair is expected to guide and direct the board's work towards achieving the company's strategic goals while fostering an effective and well-organized team environment and corporate culture. For professional boards, this includes a culture of inclusivity, high ethical standards and respect that encourages a constructive debate and feedback amongst the members of the board and throughout the organization. It must be ensured that every director is contributing effectively to the board's work and an open dialog is possible.

3. The foundation: Levering the power of complementary board members

A precondition for such a collaborative and effective environment is to have the «right» group of people around the table whereas right not only means skills, backgrounds, and experiences from former roles, which generally can be observed quite easily, but even more importantly the ability to work together in an open minded and constructive way. Even the most comprehensive experience and deepest knowledge cannot help a company if there is no open dialog in the group and throughout the organization, often called the «speaking up culture». Bringing together the right individuals is the true challenge for boards and their nomination committees.

An instrument helping boards to come as close as possible to the right mix are external board assessments. In working together with its clients conducting such reviews, SWIPRA was able to observe that, if done comprehensively and tailored to the company, such reviews not only support the board in becoming more effective in working together and with its senior leadership team, but also to broaden the horizon, identify new items that should be put on the agenda going forward and organizing the board's processes in an efficient manner.

SWIPRA witnessed that an open discussion of such an assessment's findings sharpens the understanding of individual responsibilities, how each member contributes to the overall functioning of the board, the quality of the relationships with senior management, how the board could improve overall and which personal and professional skills it could be complemented with. Overall, effective and trustful communication and collaboration amongst board members and between the board and executive management are essential for a board to work effectively and efficiently.

4. The result: Robust governance and oversight

A complementary set of skills and knowledge paired with a constructive working environment not only facilitates the board's forward-looking strategic development tasks, but also its ongoing interaction and oversight of management. It supports the development of robust governance and oversight mechanisms that ensure the company's strategy is being executed effectively. Besides monitoring key performance indicators and holding management accountable for their development, this predominantly includes the ongoing assessment of financial and non-financial risks and opportunities relevant for successful strategy execution.

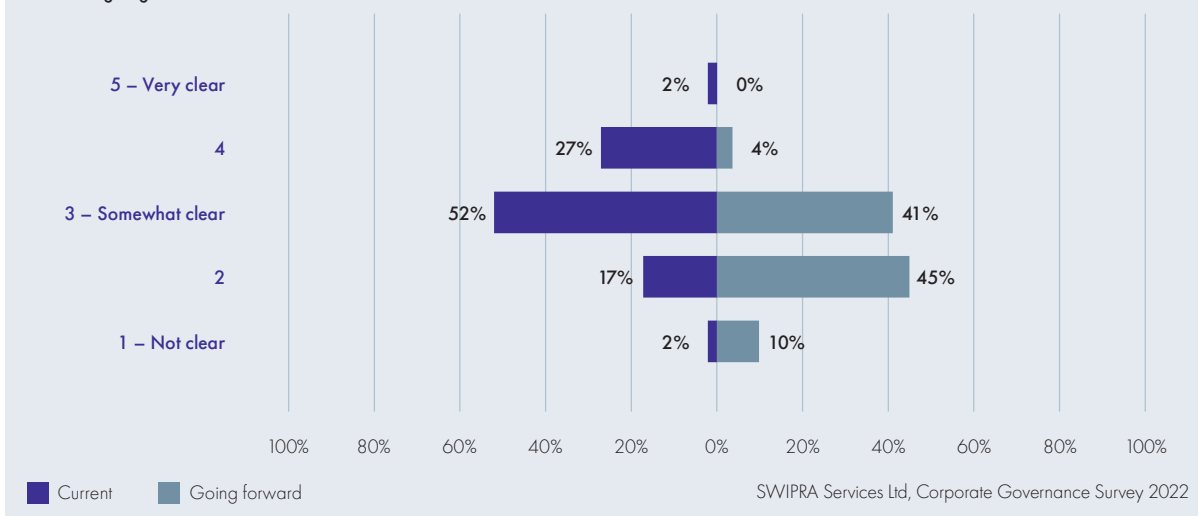
5. The gap: Contrasting outside perception

Understanding a board's work and effectiveness from the outside is very challenging, the assessment of an individual contribution almost impossible. Nonetheless, shareholders are asked to annually (re-)elect board members. Only about one in three institutional shareholders is really satisfied with the amount of information Swiss companies disclose on their board of directors' composition.³

Absent more specific information, shareholders often rely on more easily accessible but often less precise information when forming their view on these elections. The most often considered piece of information is the assessment of a director's independence. It generally refers to the extent to which a board member is free from any potential conflicts of interest and able to exercise objective judgment in the best interests of the company and its shareholders.

3 SWIPRA Survey 2019.

Figure 3: Is it generally clear from Swiss companies' disclosure which key skills and experiences the board of directors is expecting from its members going forward?



Only 25% of asset managers indicated that they believe boards of Swiss companies are set up appropriately to ensure independent decision making and functioning checks and balances.⁴ Institutional shareholders believe that independent directors are more likely to provide effective oversight of management, hold management accountable, and make decisions that are in the best interests of the company and its shareholders. This can also be observed at annual general meetings. For the 100 largest SPI® companies in 2022, the board members who received more than 20% AGAINST votes 57% did so because of shareholders independence concerns. This raises the question about how this gap could be closed?

6. The way forward: Make effectiveness visible

As discussed above, a professional and effective board should have the right skills and experiences amongst its members to discuss the company's strategy, risks, and problems of tomorrow while holding management accountable to execute the strategy of today. A dedicated leadership can support these tasks by ensuring that the board makes use of the collective intelligence when taking decisions.

In addition, a regular and company-specific board assessment is an efficient means to ensure that these tasks can be done effectively. It also informs the ongoing board refreshment process by raising awareness of changing needs in terms of skills and experiences to tackle future challenges.

In SWIPRA's view, having established these processes internally, boards should take the opportunity to also speak about these processes with their shareholders, explaining how they ended up with the current composition and how they intend to develop the board going forward.

4 SWIPRA Survey 2019.

Therefore, this will lead to more criticism in cases where investors perceive boards are lacking independence.

In SWIPRA's experience from supporting clients in their outreach to their shareholders, a robust internal assessment also allows to credibly communicate with the outside about why the current board composition allows the board to truly assume its responsibilities. Leading a discussion based on observable experiences and skills rather than on a simplified and sometimes dogmatic definition of independence will improve everybody's understanding of how a board functions and allow a more nuanced and informed decision, eventually also increasing the overall credibility of the board. Such information can be included in existing corporate disclosure and should be reinforced by shareholder engagement campaigns led under the board's leadership.