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**Ward Howell**  
TALENT EQUITY INSTITUTE

# Board Chairs' Practices across Countries

## Commonalities, Differences, and Future Trends



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## About the INSEAD Corporate Governance Initiative

The INSEAD Corporate Governance Initiative (ICGI) harnesses INSEAD's expertise in multiple disciplines – accounting, finance, economics, strategy, risk-management, entrepreneurship, family governance, organisational behaviour and corporate social responsibility - for a comprehensive and sustainable response to the challenges facing directors today. ICGI is unique because of INSEAD's academic emphasis and international outlook. It combines faculty competence and institutional visibility with the aim of:

1- educating international board members to master corporate diversity;

2- conducting research with a global focus and developing innovative pedagogical materials on the most fundamental issues faced by boards;

3- hosting forums of peer-to-peer exchanges to address the many challenges facing boards and promoting the highest professional standards of conduct. The initiative brings an unmatched international viewpoint to its activities thanks to INSEAD's position as The Business School for the World.  
[www.insead.edu/governance](http://www.insead.edu/governance)

## About Ward Howell Talent Equity Institute

Talent Equity Institute is a research arm of Ward Howell, talent equity consultancy headquartered in Moscow and providing services to business and government leaders in Russian and other emerging markets. It operates through three segments: executive services (executive assessment, search, onboarding and development); corporate governance, and organisational development services that focus on building and enhancing talent management systems. Ward Howell is committed to accumulating and disseminating best management practices among its clients and beyond; in 2008 it started an in-house research center, the Talent Equity Institute, with the objective to create new, innovative models and tools for working with leadership capital.

## Preface

Relatively little is known about board chairs as most of their work is done behind closed doors. They deal with highly sensitive matters but rarely appear in public. They have no executive power but preside over the most powerful body in the organisation – the board of directors. Their performance is critically important for every company but they still need help to improve it. Yet they have no boss, no peers, no one to turn to for an advice. They learn mostly by trial and error.

To respond to this paradox, INSEAD launched “Leading from the Chair”, a specialised program held twice a year for individuals from all over the world who are keen to understand what makes a good chair. We discovered how chairs from different countries face similar challenges and that they all seek practical ways to deal with them. Our goal is to help them to identify and adopt effective practices to perform what is a very demanding job.

To provide hard data we launched a Global Chair Research Project, inviting more than 600 chairpersons to participate in a survey with a structured questionnaire. From the 132 responses received from 30 countries, we compiled the INSEAD Global Chair Survey 2015. Our research provided valuable insights into their demographics, motivation, background, remuneration and the challenges they encounter.

As a next step we wanted to identify and compare specific practices and instruments used in different countries. A team of experts were assembled to conduct interviews with professional chairs in different parts of the world – Belgium, Denmark, Italy, the United Kingdom, Russia, Singapore, Switzerland, Denmark, and the Netherlands. This report presents our preliminary findings. As the research continues, we expect to publish results for 16 countries by the end of 2017.

This publication can be read either as a whole or in chapters. Each country account can be read as a stand-alone without prior knowledge of what is said elsewhere. The introduction describes our methodology, some conceptual models which facilitate understanding of the work of a chair, as well as a summary of our major findings. The “Future Trends” section offers the research team's view on how the chair's role and function will evolve in the next decade. Practices identified in this research matched with the challenges that emerged from the INSEAD Global Chair Survey 2015 are listed in the Appendix.

This report is a collective effort and we wish to thank the following people for their contributions.

The core research team

Vincent H. Dominé,  
Steen Buchreitz Jensen,  
Mik van den Noort,  
Ekaterina Ryasentseva,  
Anne Samyn,  
Kai Foong Tan,  
Hande Yasargil,  
Alexey Ulanovsky,  
Anna Zanardi

for their tremendous job of identifying experienced chairs, convincing them to share their experiences, interviewing them, analyzing data and writing informative chapters. They provided a great learning experience and were fun to work with.

We would like to thank all 74 chairs who gave their time to be interviewed, without whom this report would not have been possible.

We are grateful to **Ludo Van der Heyden**, Chaired Professor of Corporate Governance and Academic Director, for the INSEAD Corporate Governance Initiative, for supporting the project, advising on the early stages, and making recommendations on improving the draft.

**Muriel Larvaron**, Assistant Director, for identifying and contacting respondents, coordinating with us, and giving us encouragement

**Hazel Hamelin**, Senior Editor, for copyediting

This project would not have been possible without the support of the INSEAD Corporate Governance Initiative and Ward Howell Talent Equity Institute, who provided the material and intellectual resources.

Stanislav Shekshnia  
and Veronika Zagieva



## Research Team

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**Ekaterina Ryasentseva** is Head of Leadership Development at Ward Howell International talent equity consultancy. She is responsible for a wide range of talent equity projects: from corporate culture transformations and corporate governance to team and individual effectiveness. As an associate executive coach at the INSEAD Global Leadership Centre, she works with top management across various industry sectors for both Russian and multinational clients.

**Anne Samyn** has been an executive leadership coach with the INSEAD Global Leadership Centre since 2004, coaching on open-enrolment, company-specific and board programmes across the globe. She collaborates with IMD (Switzerland), ESMT (Germany), and the Kets de Vries Institute (UK), in addition to working with the Vlerick Business School. She is head coach on a new Eglobal Master with Ecole Polytechnique (X) Université Paris-Saclay. She is also an associate director of Talking Talent, assisting organisations in retaining women and helping senior executives reach their full potential.

**Stanislav Shekshnia** is Senior Affiliate Professor of Entrepreneurship and Family Business and a co-director of "Leading from the Chair," a board development programme at INSEAD. He is a senior partner at Ward Howell International talent equity consultancy, independent chairman of the Russian Fishery, and an independent director of NLMK and NIS.

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# Part I

## INSEAD Global Chairs' Research Project 2016

Stanislav Shekshnia

## Work of a Chair

This project is based on the findings of INSEAD Global Chair Survey 2015 and aims to explore the following research questions at the national level:

- What practices do board chairs use to deal with the challenges identified in the survey and other challenges they face in performing their jobs?
- By practices we mean ways of getting things done such as “ringing every director two weeks before the board meeting to discuss its agenda” or “at the end of each board meeting asking each member to reflect on what well and what did not go so well” – strategies that chairs use to perform their duties.
- What is the purpose and scope of the chair's work in different countries and contexts?
- How is the chair's job evolving, and how will it change over the next decade in terms of content, scope and requirements for the incumbents?

To collect data we developed a structured questionnaire with 35 open-ended questions, incorporating the findings of the INSEAD Global Chair Survey 2015 and existing academic theories on chair's work. In each country, our researchers conducted face-to-face semi-structured interviews with experienced board chairs (who had more

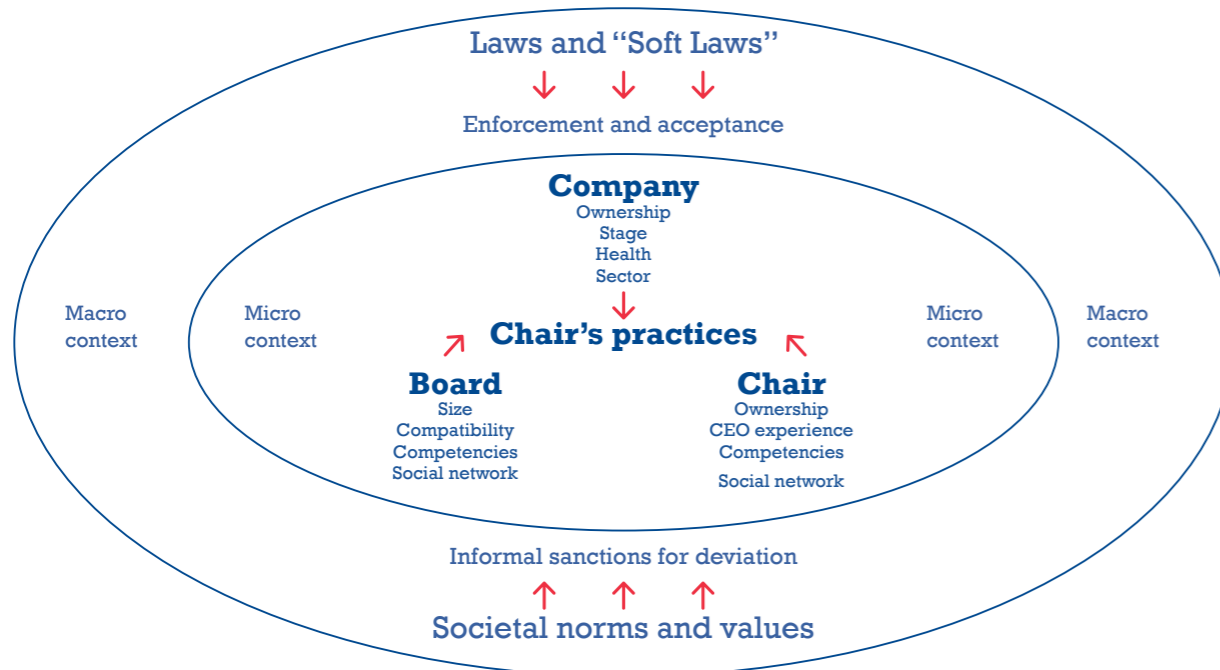
than five years' experience in chairing boards and chaired more than two boards). They spoke on condition of anonymity but provided demographic information. Interviews lasted from one to three hours, and in total the team conducted 74 conversations. The respective country reports are synthesised below and in the closing chapter.

### Chairing the Board: the Context

The board of directors is the highest decision-making body in an organisation. It consists of experienced individuals (board members or directors) who may or may not be employees (executive vs non-executive directors) and may or may not have a financial interest in it (affiliated vs independent directors). The directors meet periodically to debate and make decisions. Every director has the same rights and responsibilities, except in special cases such as a conflict of interest. The chair is one of the directors but is responsible for the smooth functioning of the board and communicating on its behalf with the firm's key stakeholder – shareholders, management, regulators, etc.

At least that's what the law stipulates in all countries that we studied. But, as we discovered, formal rules are only one dimension of the context in which chairs operate. To understand the playing field more fully, we need to take into account a number of other factors, summarised in Figure 1.

Figure 1. Context for Chair's Work



**Formal rules** are the laws and practices (including corporate governance guidelines) that constitute the legal framework within which the chair's work is carried out. In all the countries that we studied, corporate governance is actively developing, regulating more aspects of the work of the board (directly and indirectly) and the chair. Respondents from all countries reported the following trends, in addition to stiffer regulations:

- more public scrutiny
- more transparency for the company, the board and the chair
- more accountability for boards and chairs
- more reporting

However, levels of **enforcement and acceptance** of corporate governance laws vary among countries. Many chairs reported that although the new rules had changed the formal side of their work, their working methods remained intact.

**Societal norms and values** (national culture) are another influence on the chair's work. While we found culturally-specific practices in all countries, traditional norms are more dominant in those where society applies stronger **informal sanctions** for deviation.

The micro context of the chair's work is largely defined by the **characteristics of the company, the composition of the board, and the chair's personal characteristics**. Company characteristics include type of ownership, life-cycle stage (start-up, initial growth, maturity, decline, and revival), size, profitability and sector. All influence aspects of the chair's work such as its scope, focus and intensity, and thus practices vary from one country to another. For example, distinctly different contexts are created for the chair's work by public companies with dispersed ownership, family businesses, state-owned or government-controlled enterprises, companies with a controlling shareholder, joint ventures and non-for-profit organisations, giving rise to practices that are specific to each environment.

The composition of the board creates both opportunities and constraints for the chair. “Numbers matter” – i.e., large boards require a different style of leadership from smaller ones. Factors such as directors' complementarity and compatibility, as well as their professional and collaboration

skills, have an impact on the chair's practices. According to many respondents, the presence/availability of board members, their social network and status, as well as their other commitments influence the work that they do. The chair's relationship with the owner(s), CEO, their own CEO experience, number of years in the chair and their personality also shape their behaviour in the role.

### Work of a Chair

In all countries studied, the work of the chair consists primarily of interacting with the board, shareholders and CEO/management. Those three stakeholders take up the majority of the chair's time, energy and emotion, and to a large degree define the complexity of the chair's job, although the proportion varies from one company to another.

**Leading the board.** All respondents considered their main task to be providing effective leadership to the board. (In a small number of cases an equally important task was to provide leadership to the company, even when respondents did not combine the roles of chair and CEO). The specific form of leadership rotates around three functions: engaging, enabling and encouraging.

**Engaging board members** – using their talents in the service of the board – is no simple task, particularly as boards meet only a few times a year; members do not work in the same office, have multiple affiliations and have limited availability. As one respondent put it: “You need to make sure they are physically there, they are emotionally engaged, they know what we are talking about, and they put their brains to collective work.”

**Enabling board members** to work effectively as a group is the second chair's function. It requires pre-meeting, in-meeting and post-meeting work which goes far beyond discussion facilitation. According to one of the interviewees: “I have an enormous power without having any material resources. By controlling what goes onto the agenda, how the discussion question is framed, who gets to speak first, I can make a huge difference to the outcome. I have to use this power wisely for the benefit of the board.”

**Encouraging board members** involves keeping them motivated and productive by providing feedback, creating the opportunity for reflection and learning, and keeping them linked

to the board and the company is the third function. *“These people (directors) rarely get feedback – they are successful high-power individuals, but it does not mean they don’t need a slap on the back or a word of encouragement. I regularly let them know how I value their contribution and how they could make it even more valuable,”* explained one respondent.

While the functions of engaging, enabling and encouraging intertwine and reinforce each other, our research uncovered specific practices that board chairs use to perform them individually (see Table 1).

Table 1. Leadership Practices of Board Chairs

Leadership Function	Chairs' Practices
<b>Engaging</b>	<p>“I tell every candidate up front – if you are not ready to commit 40 days of your time to this board, let’s stop here.” (Switzerland)</p> <p>“I ask every new director to sit down with every other board member before her first meeting.” (Singapore)</p> <p>“Dinner with non-executive directors is a good way to re-engage them on the eve of a board meeting.” (The UK)</p> <p>“I ring every director and ask if they are happy with the next meeting’s agenda or would like to change something.” (Denmark)</p> <p>“I make sure it attractive for board members to come to the Netherlands taking care of all arrangements during their stay.” (The Netherlands)</p>
<b>Enabling</b>	<p>“I need to think very clearly about whom I ask to talk first and who talks last about the specific topics. Who is irritated by who or what? Who is brooding about what? I need to be very alert about recognizing body language.” (The Netherlands)</p> <p>“I start with an informal in-camera session. I want to know what goes on in their minds and what their current concerns are. It is a way for all of us to clear our hearts and minds before the official meeting starts.” (Belgium)</p> <p>“I try to take as little room as possible. My task is to help others to speak their minds.” (The UK)</p> <p>“I rarely express my position. If I do it – I speak last.” (Russia)</p> <p>“Asking questions in a Socratic way, even if you know the answer, is a good way to get other points of view to come alive.” (Denmark)</p>
<b>Encouraging</b>	<p>“We close every board meeting with a short reflection session. I ask each director three questions: ‘What went well? What did not go so well? What we could have done differently?’” (Russia)</p> <p>“Once every year, we go to an off-site dedicated to improving board dynamics. With the help of a facilitator we brainstorm how to improve and try out new approaches.” (The UK)</p> <p>“Once a year I invite every board member for lunch and we talk about what she/he wants to discuss.” (The UK)</p> <p>“I invite every board member to my home for a meal and we talk about his performance and how I could be more helpful.” (Singapore)</p>

**Relationships with shareholders.** Dealing with large shareholders was the number one challenge for board chairs according to INSEAD Global Chair Survey 2015, and our research confirmed it – chairs work hard at establishing and maintaining productive relations with the owners of the company, although what each chair means by that is defined by the context. In dealing with stakeholders, some give priority to compliance,

while others focus on performance. For some it is about the board’s effectiveness, for others about the company’s effectiveness and value creation. In working with shareholders, chairs use formal and informal tools and channels. The specific practices which we identified are presented in a 2x2 matrix with the chair’s priority as one axis and proactivity – the second one (see Figure 2, below).

Figure 2. Chair-Shareholder Relationship Matrix

<b>Performance</b>	<p>“I welcome shareholders’ ideas on improving business and always agree to have conversation about them” (Russia)</p> <p>“I prepared and signed an agreement with shareholders to establish formal rules and engagement” (Russia)</p>	<p>“I ask shareholders to fill in a structured questionnaire about their position on key dilemmas such as growth, dividends, acquisitions, owners’ pride” (Denmark)</p> <p>“I always consult shareholders’ representatives before we put important decisions on the board agenda” (Singapore)</p>
<b>Chair’s priority</b>	<p>“I always have Q&amp;A session at annual shareholders’ meeting and stay on to give minority shareholders an opportunity to ask their questions” (Singapore)</p> <p>“I always write back to shareholders when they write to me” (The UK)</p>	<p>“I invite representatives of large and small shareholders to the board meetings to hear their positions and concerns” (Belgium)</p> <p>“I consult with top 25 shareholders about executive compensation strategy and personally supervise our compensation report” (The UK)</p>
	<b>Reactive</b>	<b>Proactive</b>
	<b>Chair’s tools and channels</b>	

**Relationships with the CEO and management.** The CEO (and in some cases other senior executives) is an important counterpart of the chair. In most countries studied, the law or corporate governance guidelines oblige board leaders to maintain productive working relationships with their chief executive, communicate with them, and provide advice and feedback on behalf of the board. In others the demands go further than

this: chairs are expected to mentor the CEO. In most cases, we found the chair-CEO relationship to be intense, complex and more nuanced than prescribed by the regulations. Contextual factors, notably national culture, their respective relationships with ownership, and previous career experience and individual personality play a decisive role. We identified a number of “ideal types” of chair-CEO relationships, shown in Table 2.



Table 2. Chair-CEO Relationships: Ideal Types and Chairs' Practices

Ideal Types	Description	Chairs' Practices
<b>Collaboration</b>	A close, intense and well-structured interaction between professionals with equal status	<p>"We set every board meeting agenda together." (The Netherlands)</p> <p>"We go on business trips together – it helps to build trust and have the same picture." (Switzerland)</p> <p>"The CEO and myself conduct a debrief after each board meeting." (Belgium)</p>
<b>Mentoring</b>	Senior (chair) and junior (CEO): professional interaction with the main goal to help the latter perform functions using the knowledge, experience and resources of the former	<p>"We establish developmental objectives for the CEO and we have formal mentoring sessions with him once a quarter." (Russia)</p> <p>"The CEO develops strategy – I listen to him and challenge his assumptions." (The Netherlands)</p> <p>"The management team comes to me for advice since I am old! I mentor them. We have a Socratic encounter and I teach them to think by asking them questions." (Singapore)</p>
<b>Commanding ("boss")</b>	Superior (chair) and subordinate (CEO): the chair gives orders to the latter	<p>"I promote a healthy work/life balance with my fellow board members but also with the CEO and his team. Some need to be pushed away on vacation. Sometimes I have to push them to look broader than just the organisation." (The Netherlands)</p> <p>CEO prepares a "Chair Report" – monthly update for the chair (The Netherlands, Russia)</p>
<b>Advisory</b>	Junior (chair) and senior (CEO): professional interaction with the goal to help the CEO to perform functions using the knowledge, experience and resources of the chair.  The CEO shapes the relationships; chair is reactive	<p>"I come to see him every month; we speak one-to-one, very informally. I update him on the board's work, ask his opinion on important issues. He may ask my views on anything from Obama politics to the last remuneration committee meeting. Sometimes he asks for help in specific deals. I feel that he values my advice." (Russia)</p> <p>"Quite important in my relationship with the CEO, who is also a majority shareholder, is to help him keep his two roles separate. This leads to heated discussions sometimes." (The Netherlands)</p>
<b>Co-habitation</b>	Two professionals with equal status work independently towards goals defined by each of them separately.  Mostly formal interaction, cooperation limited to what is required by regulations	<p>"I never talk to the CEO's direct reports – it's the area of his responsibility." (Switzerland)</p> <p>"I write to all board members to solicit ideas for the annual board agenda, the CEO is one of them. I don't feel I need to do anything special for him." (Russia)</p>

## What Makes Chairs Effective?

While the question of what makes chairs effective was not a topic of this research per se, our respondents shared a number of interesting ideas. Those that resonate with the major themes of the project are summarised below.

**Humility and ego management.** One of the most experienced participants in the research put it this way: *"If you intend to use your chair position as a platform for self-aggrandisement, you are in for trouble."* The words *"restrain"*, *"non-domineering"* and *"leaving room for others"* were cited when referring to fostering productive board discussions which lead to effective decisions.

**Availability and presence.** The chairs' presence should be felt as little (see below) and as much as necessary. They should give others room to speak and yet be there to direct the conversation. In the words of one respondent: *"It may be called a non-executive and part-time job, but I have no illusion: I have to be ready to mobilise and commit all my time to this board if the need arises. And I stay in a permanent contact with the company to make sure I don't miss this need."*

**Passion.** A good chair not only does the job professionally, but cares about the company, the board and the people. In the words of one respondent: *"It's like any other profession – you can only reach the top when you are passionate about what you do. In this case it's the board and the company it governs."*

**Patience and reflectivity.** Passion creates energy, enthusiasm and a focus on achieving results. But in leading the work of a group of professionals it must be tempered by patience and the ability to pause and reflect. The chair should not rush to get things done quickly but focus on getting things done properly. Many respondents emphasized how this aspect of the job makes it different from the CEO's, and how the adjustment process was not easy for them.

**"Soft" and "hard" skills.** Although to an outsider it may look highly technical or even purely ceremonial, the work of the chair is almost exclusively about human relations – with specific types of people: senior, successful, action-oriented, performance-driven, sophisticated individuals from different backgrounds and countries. Managing these relations requires exceptional behavioural skills. Among them, the respondents most often mentioned the ability to listen, ask questions, frame issues, and provide feedback. Two other competencies they referred to were synthesising ability and systemic thinking, in the "hard skills" category.

## Commonalities and Differences

In multi-country research projects the question of commonalities and differences is one of the most interesting, and in the case of chairs warrants further investigation. We found strong similarities in how chairs from different countries define the job – leading the board and working with key counterparts – directors, shareholders and the CEO. Most leadership practices described by the respondents applied to more than one culture, but a small number were unique to one country. Cultural specifics manifested themselves in details such as which meal a chair shares with a director or how long the CEO's report is. In general, other contextual factors – primarily the company's ownership structure and relationship with the owners – had a stronger impact on chair's work than cultural differences.

## Future Trends

Corporate governance is a domain where tradition plays an important role and change is not always welcome. However, our respondents foresee a continuing evolution in the work of the chair. While this will differ from country to country, a number of global or general trends will develop over the next decade.

- In 2027, there will be more female chairs in the countries that took part in the research project and worldwide, yet they will remain in a minority everywhere.
- There will be more aged 40-something people in the chair, but professionals in their 70s and even 80s will continue to lead boards. The average age of the chair will fall, but not significantly.
- External pressure on chairs will increase and their work will intensify. Tenure will shorten and fewer will chair more than one corporate board.
- “Professional chairs” – people who do it for living – will increase in number.
- Chairs' backgrounds will be more diverse, but the CEO / general management route will remain the main career path for the job.
- Board chairs will work more with stakeholders – notably shareholders and management – but the board will remain their main focus.
- Succession planning and development will become an integral element of the chair's job.
- They will have a lot more specialised executive education than they do today. Business schools, consulting companies, national directors' associations and others will provide classroom and online courses for board leaders.
- Technology will actively move into the boardroom and become one of the main tools for the chair's work. Board meetings will increasingly be held on line, one-to-one communication will become mostly virtual, materials will be prepared, distributed and stored in digital form. New technology-driven methods of leading boards will emerge and become routine.

## Chairs' Challenges and Practices

Using challenges of board chairs from the INSEAD Global Chair Survey 2015 and findings from the Global Chair Research project we compiled the table below matching the challenges and the practices described by the participants in their interviews. The challenges are listed in the order of importance established by the survey; the practices are presented in the alphabetical order.

Chairs' Challenges	Chairs' Practices
Relationships with controlling or large shareholders	<p>Asking shareholders to fill in a structured questionnaire about their position on key dilemmas such as growth, dividends, acquisitions, owners' pride;</p> <p>Creating group in WhatsApp for shareholders to exchange news;</p> <p>Emailing to the largest shareholders to enquire whether they would like a private meeting;</p> <p>Having informal dinner with large shareholders before every board-meeting;</p> <p>Informal meeting with shareholders discussing the questions a Chair is interested in;</p> <p>Inviting representatives of large and small shareholders to the board meetings to hear their positions and concerns;</p> <p>Inviting the five largest shareholders and independent directors for a working dinner once a year;</p> <p>Preparing an agreement with shareholders to establish formal rules of engagement;</p> <p>Trying to be always available for shareholders</p>
Managing difficult board members (special cases)	<p>Arranging a dinner after a board meeting;</p> <p>“Chair's minute” at the opening of the board: update on developments since the last board meeting;</p> <p>Convening off-site meetings with the help of facilitators;</p> <p>Creating WhatsApp group chats for the board' members;</p> <p>Dinner with non-executive directors on the eve of a board meeting</p>
Level of collaboration and teamwork among board members	<p>Arranging a dinner after a board meeting;</p> <p>“Chair's minute” at the opening of the board: update on developments since the last board meeting;</p> <p>Convening off-site meetings with the help of facilitators;</p> <p>Creating WhatsApp group chats for the board' members;</p> <p>Dinner with non-executive directors on the eve of a board meeting</p>



Chairs' Challenges	Chairs' Practices
Informational asymmetry with the CEO and management	<ul style="list-style-type: none"> <li>Arranging board meetings in different company' locations;</li> <li>Attending management meetings;</li> <li>CEO monthly letter to all board members;</li> <li>"Chair Report" – CEO monthly update prepared for the chair;</li> <li>Checking board materials before they are sent to directors;</li> <li>Defining format for board materials, digital board book;</li> <li>Encouraging directors to spend time at the company;</li> <li>Inviting external experts and consultants;</li> <li>Spending time in the company's office, having an office in the company;</li> <li>Talking to each of the executive team members once annually in a one-on-one conversation</li> </ul>
Relationship with external stakeholders such as clients, suppliers, government	<ul style="list-style-type: none"> <li>Arranging meetings for improving directors' knowledge of the company and its business, including customer visits;</li> <li>Interacting with media on a regular basis;</li> <li>Participating in industry conferences;</li> <li>Sharing information in local languages to reach the community;</li> <li>Supporting the CEO when necessary, for instance, in moments of crisis, to take pressure off the CEO</li> </ul>
Relationship with the CEO and management	<ul style="list-style-type: none"> <li>Conducting a CEO debrief after each board meeting;</li> <li>Establishing developmental objectives for the CEO;</li> <li>Going on business trips together with CEO;</li> <li>Having formal mentoring sessions with CEO;</li> <li>Having lunch with the CEO and CFO every quarter, meetings with hi-pos;</li> <li>Never talking to the CEO's direct reports vs Meeting with other executives;</li> <li>Setting board meetings' agenda together with CEO</li> </ul>
Managing diversity in board members' backgrounds	<ul style="list-style-type: none"> <li>Appointing an board member for his out-of-the-box approach;</li> <li>Individual coaching of new directors;</li> <li>"Round the table practice" – asking one director after another to state her position on a specific question;</li> <li>Talking to each of the executive team members once annually in a one-on-one conversation</li> </ul>

Chairs' Challenges	Chairs' Practices
Insignificant time commitment by board members	<ul style="list-style-type: none"> <li>Calling all directors a few days before the meeting to ensure participation and encourage preparation;</li> <li>Obtaining time commitment from every candidate upfront;</li> <li>Setting all board and committee meetings dates for the next two years</li> </ul>
Relationships with minority shareholders	<ul style="list-style-type: none"> <li>Appointing a special representative as a voice for minor shareholders in board discussions;</li> <li>Providing the same data to majority and minority shareholders;</li> <li>Staying on after the AGM to meet minority shareholders and answer any questions</li> </ul>
Facilitating effective board discussion	<ul style="list-style-type: none"> <li>Calling every director and asking if they are happy with the next meeting's agenda or would like to change something;</li> <li>Conducting an express evaluation at the end of the meeting;</li> <li>Distinguishing between subjects that need a discussion and subjects that need a decision;</li> <li>Following "30-20-40-10" rule – 30 percent of time spent on management presentations, 20 percent – on Q&amp;A, 40 percent – on discussion, 10 percent – on making decision. Or "30-70" rule – 30 percent of time on presentations, 70 percent – on discussion;</li> <li>Giving every director the same amount of air-time;</li> <li>Limiting numbers of slides of management presentations, setting specific special formats for presentations;</li> <li>Not indicating one's personal position;</li> <li>No voting;</li> <li>Prioritising important topics in advance;</li> <li>Soliciting opinions of "silent" directors before the meeting and presented them on their behalf;</li> <li>Taking as little room as possible;</li> <li>Writing proposed resolution on a flip-chart;</li> <li>Verifying materials before they go to other directors.</li> </ul>
Planning and preparing chair's succession	<ul style="list-style-type: none"> <li>Using external consultants for succession planning;</li> <li>Using headhunters for benchmarking purposes;</li> <li>Using shareholders and board members networks to identify potential candidates.</li> </ul>





# Part II

## Chairs in the National Context: Country Reports





01

# United Kingdom

Stanislav Shekshnia

The United Kingdom of Great Britain and Northern Ireland consists of England, Scotland, Wales and Northern Ireland, each with various degrees of autonomy. The UK has a constitutional monarchy, a parliamentary system of governance, and a developed economy. In 2015, GDP was US\$ 2.8 trillion (ninth largest in the world at purchasing power parity) and per capita GDP of US\$ 44,000. Of this total, the service sector represents more than 80%, industry 14%, and agriculture 6%. The UK is ranked 14th on the Human Development Index.

Five million businesses in the UK employ some 25 million people. Privately held companies account for 99% of all private sector businesses, 60% of private sector employment, and 48% of private sector turnover (BIS 2013). There are approximately 10,000 listed companies, in which financial institutions, foreign investors and private stockholders are the main shareholders, and form one of the most active shareholder communities in the world. In 2011, turnover at shareholder meetings of listed companies was 63%.

The UK has one of the oldest systems of corporate governance in the world, largely based on “soft law” (governance guidelines) and “comply or explain” principles, as defined in the UK Governance Code, updated in 2016. There is no mandatory structure for boards, but the single-tier model predominates, with both executive and

non-executive directors. As the highest governing body, the board makes key executive appointments and takes decisions about the remuneration of top-managers, strategy, major capital investments, risk management and disclosure.

In practice, board engagement varies greatly, as reflected in the number of meetings held per year. Boards of larger companies have a standard set of committees for audit, nomination and remuneration. Committees for strategy, environment, ethics, health and safety may also exist. The average number of board committees for a listed UK company is 4.4 (EU average 3.4).

UK boards are not small, with 12.4 members on average (EU average 12.3). The proportion of independent directors has steadily increased over the last two decades. Women represent 18% of board members in the UK (2014).

The UK Governance Code recommends the separation of the CEO and chair positions, as adopted by most publicly owned companies. UK companies can have executive, non-executive, affiliated and independent chairs, and the latter category is on the rise.

The Code provides detailed guidelines about the role, duties and responsibilities of the chair. As the leader of a collective body (board of directors), he/she has a responsibility for functions such as:



**GDP in 2015 –  
US\$ 2.8 trillion**



**Five million  
businesses  
employ more than  
25 million people**



### Creating the conditions for the board's and individual directors' effectiveness.

These include the timely provision of high-quality materials, setting a productive agenda for board meetings, facilitating board discussions, ensuring that directors update their skills and knowledge of the company, and that the board has a balance of knowledge, skills and diversity of backgrounds.

### Demonstrating the highest standards of integrity and probity, setting clear expectations concerning the company's culture, values and behaviour, and establishing the style and tone of board discussions.

The chair should promote a culture of openness and debate by facilitating the contribution of non-executive directors, and ensuring constructive relations between executive and non-executive directors.

### Developing productive working relationships with the CEO and other executive directors.

The Code emphasises the importance of the chair-CEO relationship for the company's long-term success, and the need for their respective roles to be well-defined and distinct. The chair provides support and advice to the CEO, respecting his/her executive responsibility.

### Guiding the company secretary.

The chair provides overall direction to the company secretary, evaluates his/her performance, and ensures he/she has an appropriate skill-set and knowledge of the company.

### Communicating with external stakeholders, including shareholders.

The chair ensures that directors are aware of the views of shareholders, facilitates dialogue between the board and shareholders, and discusses governance and strategy with major shareholders.

### Conducting periodical board evaluations.

The chair assesses its blend of skills, experience, independence and company knowledge, board diversity, and how members work together as a unit. On this basis, the chair proposes new members and seeks the resignation of directors when appropriate. Evaluation of the chair is conducted by a senior independent director, who also organises the succession.



## Chairs Interviewed for the Project

- Eight experienced professionals: three women and five men, aged from 54 to 72.
- Together they chair 15 boards of directors, including seven boards of publicly listed corporations, seven privately held companies, two charities, and a government agency.
- None hold a significant stake in the companies they chair. None are engaged in any private business or full-time employment.
- On average, they have occupied their current position for four years (maximum nine years, minimum two years).
- The business boards they chair consist of 5 to 11 directors; charity boards are much larger. Business boards meet between 5 and 12 times per year, charity boards meet every quarter.
- Board composition varies in terms of the gender, age and professional backgrounds of members, but all include executive, non-executive, independent and affiliated directors.
- All boards have nomination, remuneration and audit committees (sometimes audit and risk management or audit and control). Some boards have committees on strategy, ethics, and health/environment/safety (HSE).

In the past, respondents had collectively chaired 21 boards of directors and are therefore considered "professional" chairs. For our research, we asked about their practices throughout their careers, although most of their answers and examples refer to their current appointments.

INSEAD Global Chair Survey 2015 identified the following main challenges for the chairs of British companies (in descending order of importance):

- Managing difficult board members (special cases)
- Relationships with controlling or large shareholders
- Relationships with minority shareholders
- Level of collaboration and team work among board members (board dynamics)

All interviewees agreed that relationships with shareholders and collaboration among board members were top priorities. They shared both general strategies for dealing with those challenges and specific tools to implement them.



## UK Chairs: Global Challenges and Practice

## Relationships with shareholders

In dealing with shareholders, the chairs strive for a balance between pro-activity, equality and fairness. They want to be seen as available, listening, attentive but independent, non-partisan, and putting the interests of the company before those of individual shareholders, no matter how big or important the latter may be. As one stated: *“Shareholders have access to me. I make sure they know it, and I am always responsive.”*

Several respondents emphasised that they do not distinguish between majority and minority shareholders. They are careful not to give preferential treatment to any shareholder group when they chair the board of publicly listed companies. Some will not initiate consultation with a particular shareholder unless others are party to the discussion; they *“give them enough information, but not more than to other shareholders.”*

Respondents agreed that, for public companies, executive compensation is the number one topic in their interaction with shareholders. One formally consults with the top 25 largest shareholders on remuneration and personally supervises the preparation of the annual remuneration report. They are aware of activist shareholders but have limited interaction with them. Overall, respondents regard interaction with shareholders of public companies as a time-consuming, sensitive activity which does not always add value to the business but has to be done to avoid shareholder conflicts.

For private companies, the independence and equal treatment of all shareholders are important, although their smaller number and less strict governance allow for more intense interaction. The chair of a private company with three shareholders sends a board book and speaks to a representative of each of them a few days before the board meeting, walking her counterpart through the agenda. She does not look for *“input or guidelines, but makes sure shareholders are aware of what is on the next agenda.”* Ideas from each shareholder are shared with her at meetings specially convened twice a year. Another chair writes to the largest shareholders to enquire whether they would like a private meeting; about half take up the invitation. One chair of a public company invites the five largest shareholders and independent directors for a working dinner once a year to discuss business within permitted boundaries.

Chairs in the UK emphasise the importance of maintaining a constructive dialogue with shareholders for the benefit of the company, but not in the boardroom. They emphasise the importance of protecting the independence of the board and their authority over its workings. As one put it: *“We operate under the two meetings principle: one is for directors (the board), another for shareholders. If you happen to be both, learn to behave yourself.”* Another respondent shared his experience of threatening to put an unexpected proposal by a large shareholder immediately to a vote, so they would be outvoted by independent directors. We came across examples of written agreements between large shareholders and companies (legally binding) and between shareholders and chairs (informal).

## Managing difficult board members

According to INSEAD Chair Global Survey 2015, “managing difficult board member” was the number one challenge for chairs in the UK, although respondents seemed to take this in their stride. As one said, *“You have to work with what you’ve got – you are not a CEO selecting your team.”* Generally, “challenging directors” fall into two categories – (i) those who do not listen but speak a lot, and (ii) those who say little or do not speak at all. A common strategy for dealing with directors with “verbal diarrhea” is containment, and for the silent type engagement.

A number of steps were cited to contain vocal board members: having a private word in their ear, offers of help (sometimes calling it “coaching”), a direct confrontation in the board room (*“Bill, you talk too much”*; *“Margaret, I will have to ask you to stay quiet for the next quarter of an hour”*; *“James, thank you. Now we need to hear from other board members”*), suggesting professional help, or making a formal performance evaluation. If nothing works, they resort to recommending that the individual not stand for reelection. There was general agreement that if the chair is firm and consistent, most cases could be remedied.

Respondents pay a lot of attention to ensuring that every director contributes and that even those not inclined to speak at meetings are part of the collective work. One commented: *“My major task – to make silent directors speak – they are my major underutilised asset.”* Rather than calling on them in the boardroom, he solicits their opinions

## Board dynamics

Helping the board to reach good collective decisions is the top priority. Aware of multiple identities and commitments of directors, the respondents are modest in their team-building ambitions – *“I don’t think the board needs to become a team,”* or *“Perhaps it is a very special team.”* However, they deploy specific strategies to make this diverse group of people (which meets only a few times a year) work productively. These fall into pre-meeting, meeting and post-meeting categories, as summarised below.

before the meeting and then presents their views to the board, acknowledging the source. Others adopt a format of asking every director to state his or her opinion as a way to engage otherwise silent members.

In summary, “special cases” are dealt with in a tactful but firm way. Chairs do not hesitate to challenge directors since this contributes to what respondents identified as their main focus – board dynamics.

Table 1. UK Chairs' Strategies and Practices

Stage	Chairs' Strategies	Chairs' Practices
<b>Pre-meeting</b>	Set expectations	Induction interview with a director
	Reach out to every director	Induction program for a newcomer to the company
	Consult every director	Phone call before the board meeting
	Avoid surprises	Consult about the agenda
	Provide necessary data	Pre-board dinner for non-executive directors Pre-board dinner for the whole board Pre-board dinner for non-executive directors and CEO Defining format of board materials Checking board materials before they are sent to directors Digital board book Encouraging directors to spend time at the company, including customer visits Convening board meetings in different company locations Deep dives
<b>Meeting</b>	Get the right agenda	Consulting with CEO
	Focus on discussion, not presentation	Consulting with board members 30:70 rule
	Creating an atmosphere of trust	Starting a board meeting with a short in-camera session for non-executive directors
	Equal treatment	Closing with an in-camera session for non-executive directors
	Focus on taking a specific, actionable decision	Framing a discussion question
	Facilitation	No voting
	Self-restraint	Asking every director to state their position Writing proposed resolution on a flip-chart Speaking last Not indicating one's personal position Conducting an “express evaluation” at the end of the meeting
<b>Post-meeting</b>	Involve the whole board in finding ways to improve	Conduct formal 360-degree board evaluation Off-site meetings for the whole board
	Learn from formal evaluations and informal feedback	Open agenda one-to-one meetings Annual evaluation meeting with every director
	Stay connected with every board member	Personal call every month with every director Annual lunch with every director Skype meeting with every director

## For respondents, the success of a board meeting is a function of the right agenda, motivation and preparedness of the participants and the process instituted by the board leader

All respondents agreed that the **pre-meeting stage** is critically important, and invest time and energy in preparation, the ultimate goal being to ensure they have motivated, well-prepared directors in the board room. When a new director joins the board, they conduct an induction interview at which expectations are set. Their induction includes meetings with executives, site visits, product introductions, etc. As one chair explained: *"We organise induction programs for all new directors – they visit key units and functions, and spend time with risk (department)."*

The chair reaches out to directors before a board meeting to re-engage. Some consult with other members about the agenda. One said: *"I ring every director before approving next meeting's agenda to ask what they want to see on it."* While members rarely come up with drastic alterations, such conversations help to concentrate their minds on the upcoming meeting.

Pre-board dinners are another way to engage directors, review the agenda, and ensure everybody is on the same page. Most chairs limit these to non-executive directors; others extend it to executives. One noted: *"A board dinner is a good way to make sure we have no ugly surprises in the board room next morning."*

**The quality of materials** is critically important for effective board work. Respondents cited the need for clarity, for limiting volume, and allowing enough time to study the materials in advance. Some define the format of these, some co-define with the CEO. Some check the materials before they are sent to directors, others trust manage-

ment to produce a quality board book: *"I don't check materials before they go to the board members – too controlling and interfering. The company secretary has the power to turn them down."* A number of boards chaired by respondents have gone 100% digital (electronic communications rather than print).

To improve directors' knowledge of the company and its business some respondents facilitate company visits, meetings with employees, customers, site-visits, etc. The chair of a hospital board introduced a routine whereby "every non-exec spends one day with patients." Another described how: *"We conduct board meetings in different geographies and always visit operations and meet with customers."*

**Leading a meeting.** For respondents, the success of a board meeting is a function of the right agenda, motivation and preparedness of the participants and the process instituted by the board leader. Items on the agenda should be, in the words of one of them, *"strategic", "ripe for a decision", "material" and "no else in the company could make a quality decision"* about them. One insists there be no less than four and no more than six items on the agenda for one meeting. In most cases, the chairs we interviewed partner with the CEO to set the agenda. Others invite all directors to review the agenda and pitch their ideas.

Respondents believe the board should spend most of its time on discussions rather listening to management or committee presentations. One imposes a 30:70 ratio – 30% of time for presentations and questions, 70% for discussion and decision making. Others use similar but less strict approaches.

### 30:70 ratio

**30%** of time for presentations and questions

**70%** for discussion and decision making

For discussion to be productive it has to be candid and **involve all board members**. The chair's task is to create an atmosphere for productive exchanges. When asked how they approach this task our respondents spoke about *"trust, respect, and personal attention."* The most common strategies to achieve this were equal treatment, discussion facilitation and self-restraint. As one explained: *"I have two rules – every director has to have roughly the same amount of air-time, and we should reach consensus (I never allow voting). Sometimes one board member is more knowledgeable than another on the subject matter and wants to have more time, but I say: 'You are an expert – you should be able to make your point quicker.' Usually people smile and accept it."* Another affirmed that *"You build trust by demonstrating respect, and you show respect by valuing everybody's opinion and acknowledging everyone's contribution...I always thank every director who put forward an idea after the decision has been made, even if that particular idea was rejected."* Another strategy was to ask each of them to state their personal position on the subject matter before concluding the discussion.

Restraining their own participation in the discussion is another tactic used to promote trust and engagement. As one chair put it: *"I try to take as little room as possible. My task is to help others to speak their minds."* Another added: *"I always try to avoid indicating personal views and preferences. If I have to speak, I speak last."*

The **discussion facilitation** task includes stating the facts, framing a discussion question, providing every director with an opportunity to speak, summarising, formulating a resolution and making sure that every director understands it and

supports it. One respondent described how: *"As a novice chair, I underestimated the degree to which people participating in the same discussion and listening to the same proposed decision may have different ideas about what it actually meant. As a result we would have had some unpleasant conversations later on. I learned the lesson and now always take time to make sure everybody understands the proposed resolution the same way."* Another chair writes the proposed resolution on a flip-chart and walks the board through it.

Most conduct some sort of evaluation at the end of the board meeting. This reinforces respect for each director, builds trust, and helps them learn and improve. One respondent said: *"At the end of the meeting I ask every director to comment on how we did as a team and how I did as a chair person?"* Another puts three questions to the non-executive directors at the end of the meeting: *"What worked well? What did not work? What should we do differently next time?"* – and implements their recommendations at the next session.

**Post-meeting.** Formal board evaluation is a well-established practice. Board assessments are conducted every 12 to 24 months, sometimes with the help of external consultants, sometimes via an anonymous survey among board members (and, in some cases, senior executives). One respondent explained: *"We do 360 digital evaluation every year and every three years we invite an independent consultant to conduct a thorough assessment with the help of semi-structured interviews with all directors and key managers."*

Some chairs arrange off-site meetings to discuss how collective decision making could be improved: *"Once every year, we go to an off-site dedicated to improving board dynamics. With the help of a facilitator we brainstorm how to improve and try out new approaches."* Others combine these with strategic discussions. Overall, loosely structured off-site sessions are seen as an important tool to improve board's cohesiveness and performance.

Working with the board as the whole is complemented with one-to-one interactions. One chair rings *"each director every month to keep them concentrated on the company."* Another invites every board member for lunch once a year. Yet another has a Skype conversation every six weeks. One commented: *"They (directors) should feel that you are available, you care about them and their views, but you are not intrusive."*





## Other Challenges and Chairs' Practices

In the UK, unlike other countries, **informational asymmetry with the CEO and management** is not seen as a major challenge to the work of the chair. Most are philosophical about it: *"You should acknowledge it and live with it. You will never know as much as CEO does, but you have to trust him/her. If trust is not there, you should change him/her."* Some resort to *"asking the CEO to write a monthly one-pager for me"*, *"meetings with the CEO direct reports"*, *"lunches with hi-pos"*, and *"company conferences"* to improve their feel for what's going on in the company. One chair insists that *"other executives, at least the CFO, should be on the board."* Another described the *"chair-CEO-CFO triangle as a critical factor for the business's success."*

**The relationship with the CEO** is high on the chair's agenda. Interaction is intense and more complex and nuanced than the *"I run the board – you run the company"* approach, and go beyond the supervisory or mentoring functions prescribed by the Code. Although our respondents asserted that *"CEO development is one of my annual objectives"* and *"I question and challenge CEO both privately and in the board room,"* the notion of cooperation, partnership, and support emerged as more important ones. A very experienced chair put it this way: *"I am helping him to deal with loneliness, almost acting like a shrink,"* – they have an open agenda meeting or a phone conversation every two weeks. Another considers herself *"a sounding board for the CEO"*; they meet every two weeks and talk both about current business issues and the personal challenges of the CEO, who defines the content of their conversations. One respondent, who holds multiple chairs and has solid experience in executive development, lets the respective CEOs *"define the format of our interaction."* *"At the global food company we always have a one-to-one meeting a couple of days before the board meeting, he sends me a lot of SMS and I answer. At another company we have regular Skype meetings. At the third organisation, we exchange e-mails almost daily."*

One respondent described how he negotiates a *"non-aggression pact"* with the CEO: *"You never bump a board with an important decision without sufficient time to analyse it – I make sure they will know about all important concerns before the board meeting, rather than at the meeting."*

There was consensus among respondents that developing strategy is the CEO's business, which the board should *"endorse"* (unless there is a crisis, in which case it should take over temporarily as a collective CEO). The chair's role is to help by

The chair's role is to help by listening, asking questions, challenging assumptions, connecting the CEO with experts, and sharing personal CEO experience.

listening, asking questions, challenging assumptions, connecting the CEO with experts, and sharing personal CEO experience. Some respondents performed other services at the CEO's request such as meeting with customers, regulators, suppliers and the media. In general, however, respondents believe that chairs should not interact with third parties except shareholders. The only time they should step in is a crisis.

Respondents acknowledged that multiple identities and **a lack of commitment of directors** can become a real issue if not properly managed: *"This is a huge challenge. No matter how much you say upfront – people will fail you."* To deal with it, they make their expectations clear at the outset. One respondent said: *"I say at the recruitment stage – 'You need to commit 40 days a year to this board, are you ready?'"* Another went further: *"I set a rule at the induction interview: three missed meetings and you're out."* Enforcing the rules is critical, although it may be enough to remind the board of them from time to time. Some respondents are more candid in confronting directors who come unprepared or unfocused: *"I say 'It was obvious you did not read the materials. Is something special going on or did you lose interest?' or 'I need your voice in the boardroom!'"* Such conversations take place behind closed doors rather than in the boardroom.

On the enabling side, respondents emphasised the importance of thorough and long-term planning: *"Planning is critical. We set all board and committee meetings dates for two years, and I do everything to stick to them"*; the quality of materials: *"People prepare when materials are crisp, concise and have good visuals"*; and availability of resources: *"I make*

*sure directors when needed have access to company and external experts."* Setting an example to other board members is paramount: *"Although I try not to reveal my position, I always make sure directors see that I have done my homework."*

### Chair succession

The corporate governance guidelines say little about the role of the incumbent in the process of identifying and preparing a successor. Attitudes among respondents differed remarkably. From *"I am thinking about it from the day I became a chair"* to *"I should not mess with it; a senior independent director will organise the process when the time comes."* One fascinating story of succession deserves to be reproduced here in full:

*"When I had to go through that for the first time I looked at the Code and found nothing there. I spoke to other chairs and executive search consultants. There was no clear formula so I invented my own. First, I wrote a memo to all directors indicating my intention to step down and asking if they were interested in the position. Two said 'yes'. In the memo I made it clear I should have no say in choosing my successor, but I would organise the process. I put together a committee of two independent directors (those who did not want to be considered) and the CEO to oversee the process. They developed a profile (and ran it by me) and hired an executive search firm. Together with the head-hunters they assessed three external and two internal candidates, and picked one from within. We sat down with him few times before I left and it worked very well."*

## Summary

From INSEAD Chair Global Survey 2015 the following profile of the chair emerged (aggregated across 27 respondents):

- Aged just under 60
- Educated to Master's level (only one PhD)
- Chairs two boards
- Sits on another two or three boards as an independent director
- Very experienced as a board member
- Has worked as a CEO or senior business executive (or more rarely as an academic or civil servant)
- Receives around £70,000 a year per chair position

The people we interviewed for this project are somewhat more senior, more experienced both as directors and chairs, come from a variety of industries and companies, and are well paid. They come from an executive background and later become full-time board chairs and directors – a path that seems to be almost universal in the UK.

Although most are independent and non-executive, they spend a lot of time at their companies – between four and ten days per month. Because of this significant time commitment, so-called “celebrity chairs” – who chair three or more boards at a time – are disappearing.

In the UK, chairs have two circles of interaction, both fairly small. The inner circle consists of a dozen or so board members, including the CEO and CFO and sometimes one or two other executives, and the company secretary. The outer circle includes large shareholders, company managers, in some cases important customers or vendors, representatives of regulators, the media, and professional associations. The chair interacts with the members of the inner circle relatively frequently – face-to-face every one to two months and remains in regular communication in between. Meetings with the outer circle happen a few times a year.

Unexpected finding of this research was that one of the most popular ways in which UK chairs accomplish their business is... to share a **good meal**. They eat out with board members, executives, shareholders and other stakeholders, at business breakfasts, tete-a-tete lunches, afternoon drinks or group dinners. This may have something to do with London's recently acquired reputation as the culinary capital of the world, but we believe that it reflects the importance of personal relationships for the job of the chair and the British tradition to foster them through a shared meal.

In the UK context, chairs are important figures but stay out of the public eye. The chair is responsible for and represents the board, while the CEO is responsible for and is the public face of the company. Our respondents are accomplished professionals with strong views, but they lead without taking much space and avoid the lime-light. They lead board members and executives by engaging them in a collective effort, creating an environment for effective collaboration and encouraging productive behaviour by providing feedback and opportunities for collective and individual learning and development. They don't give orders or issue directives; instead they steer or nudge followers by setting agendas, framing discussion items, soliciting opinions, seeking and providing feedback. They set clear expectations and establish rules, but the latter serve as guidelines rather than set-in-stone laws. Chairs provide exemplary leadership by consistently displaying the attitudes and behaviour they expect others to follow. “**Indirect**” is probably the most accurate term to describe their leadership style.

Yet when required – in times of crisis – they step forward, assume responsibility and demonstrate hands-on leadership. Understanding that such situations may occur and being mentally ready to take an active role is integral to the chair's mindset. While not seeking the limelight, they are passionate about the companies they chair and ready to go the extra mile (or more) to serve them. Corporate governance – where change is not always welcome and tradition plays an important role – will continue to evolve in the UK.

Looking ten years ahead, we expect to see the following trends with regard to board chairs' practices. Looking ten years ahead, we expect to see the following trends with regard to board chairs' practices.

- They will concentrate even more on the board and stay out of the lime-light.
- They will put in more hours and have fewer directorships; we will see more “exclusively committed” board leaders.
- The relationship with the CEO will remain a top priority. It will be more intense, and evolve towards partnership, mutual mentoring and collaborative work.
- UK boards will see more foreigners in the chair, but the majority will remain UK citizens.
- The board leaders will become somewhat younger.
- We predict that 20% of chairs will be filled by women.
- Most chairs will continue to come up through the CEO school, but more will have backgrounds in consulting, academia, and technology; fewer ex-government officials will lead company boards.
- They will have strong personalities, developed social skills, systems thinking, a global mindset, advanced listening skills and strong ambitions, but enough humility to channel these into the collective work of the board.
- They will lead indirectly: engaging, enabling and encouraging directors through nudging, creating an environment of mutual respect and trust, and walking the talk.
- Boards will take chair succession more seriously. The UK code will formulate comprehensive guidelines, and incumbents will have more ownership of the process.
- Technology will slowly but steadily conquer the boardroom. In the next decade, all UK boards will go digital and many board meetings will become virtual.
- Much informal one-to-one communication will move online. By 2026, technology will become what sharing a good meal is today – a stable platform for leadership.

## Resources for this chapter



UK Corporate Governance Code, April 2016

Financial Reporting Council (FRC) Developments in Corporate Governance and Stewardship 2015, January 2016

G20/OECD Principles of Corporate Governance, November 2015

Financial Reporting Council (FRC) Guidance on Board Effectiveness, March 2011





## 02 The Netherlands

Mik van den Noort

The Kingdom of the Netherlands, often referred to as Holland, has a constitutional monarchy founded in 1815. Today it comprises the continental Netherlands and six Caribbean islands: Curacao, Bonaire, Aruba, Saint Martin, Saba and Saint Eustace. It has over 17 million inhabitants and a population density of 415 people per km<sup>2</sup>. A fifth of its surface area is water and a large part of the country lies beneath sea level. It is a parliamentary democracy and a founding member of the European Union, NATO and the World Trade Organisation.

In spite of its small size, it is the fifth-largest economy in the Eurozone, the seventh economy in the world by GDP per capita, and is in fourth place on the Human Development Index. The economy is made up of a highly developed agriculture sector, a sophisticated services sector and international trade. GDP is US\$ 795 billion.

About 1.7 million businesses in the Netherlands employ more than 8 million people. Large organisations (of over 250 people) account for 3,000 of these firms. Family-owned companies play an important role in the Dutch economy – there are approximately 260,000, which employ 49% of the labour force and contribute 53% of GDP.

A system of workers representation (*ondernemingsraad* or company council) is obligatory in any company with more than 50 employees.

Larger companies, defined as any entity with more than €16 million in issued capital, at least 100 employees and a company council, adhere to the *structuurregeling* (structure regime) which provides for indirect representation of employees at supervisory board level.

The supervisory board appoints and dismisses management and approves major management decisions. This applies to Dutch companies with a majority of the workforce in the Netherlands (international companies with a majority of employees outside the Netherlands are exempt). While the above may explain why there are relatively few large companies in the Netherlands, the system makes for a highly skilled, highly motivated workforce that is largely aligned with company goals and targets. The productivity rate is surpassed only by the Japanese and the Swiss, with strikes a rare phenomenon.

The Dutch Corporate Governance Code was established in 2003 by the Tabaksblat Commission, and revised in 2008 by the Frijns. Based on “comply or explain” principles, companies have to report on observance of the Code in their annual report. Board structures in the Netherlands are complex and highly regulated. Board members are both individually and collectively liable if the board acts in an improper or illegal manner. For the chair, no specific “responsibilities” are listed by the Code. The board should be composed



GDP in 2015 –  
US\$ 795 billion



1.7 million  
businesses employ  
more than 8 million  
people

such that all members are able to act critically and independently of one another, of the management board and any particular interests. The two pillars on which good corporate governance is founded and which are the basis of the Code are: **good entrepreneurship**, which implies integrity and transparency of the management board's actions, and **effective supervision** of their actions. These are regarded as essential for stakeholder confidence in management and supervision.

Public and private limited liability companies can choose a two-tier corporate governance structure, with separate management and supervisory boards, or a single board comprising non-executive and executive directors. Most companies opt for the two-tier model, although some one-tier boards exist.





## Chairs Interviewed for the Project

We interviewed five experienced Dutch chairs, one woman and four men, aged between 54 and 74. Together they have chaired more than 18 boards in the past, including listed multinational companies. Currently they chair seven boards: six family-owned companies and one privately-owned organisation (a hospital) in the public domain.

One chair is a high-ranking government official. One is the owner of a company with three subsidiaries. One combines membership of the holding board with a chair role of a subsidiary and a CEO role of another subsidiary. Another combines his position with a CEO job in a different (non-related) company. The most senior of them recently withdrew/retired from most of his board positions and now chairs one family board. The companies vary in growth between €60 million and over €1 billion. In all cases these are two-tier governance structures.

On average, they have served in their current position for four years, the maximum being 10 years and the minimum one year. The boards they chair consist of three to five directors – the average in the Netherlands is 5.5 but is decreasing – and they meet from four to 12 times per year.

Board composition varies in terms of the gender, age and professional backgrounds of members, but every board in our research has only non-executive board members, both independent and affiliated. Only one board has formal nomination, remuneration and audit committees.

It is striking that four of the five chairs interviewed stated that *“bringing the organisation to the next level”* was a top priority. This may be a reflection of Dutch entrepreneurial spirit and the level of the chairs' involvement. For them it meant having close working relationships with the executive management about the strategy, the organisation/structure of the company, the right composition of the board, and the relationship with shareholders and fellow board members.

The relationship with shareholders and collaboration among board members was a priority (*conditio sine qua non*). In dealing with shareholders, all respondents strove for a balance between involvement, fairness and independence. They wanted to be seen as pro-active in their contacts with the shareholders, listening, non-partisan and looking after the interests of the organisation.



## Top Priority: Bringing the Organisation to the Next Level

For the chair of the hospital (part private, part government-owned), the top priority was to ensure that the majority shareholder balances the CEO and owner roles. Less strict governance rules in the family-owned companies allowed for more frequent interaction between the chair and shareholders.

One independent chair of a family company saw one of his top tasks (with their full support) as mentoring second-generation of the owners. He was working with five people, keeping them informed about the business and grooming them for the future: *“I have given the family a long-term commitment to take the company to the next level.”* Another said: *“My most important task is to assure that board members and the executive team (most of them are family) get along harmoniously.”*

## Relationship with fellow board members: board dynamics

*“The role of a chair is to be a chair,”* were the opening words of one interviewee, followed by *“It is a disaster to have a weak chairperson. It is hopeless when discussion remains vague – which can happen when there is lack of meeting technique or lack of courage. The chair's task is to prepare and ‘conclude’ and come to decisions. This means a clear meeting schedule, have all relevant ready papers in time, distinguishing between subjects that need discussion and subjects that need a decision, and sticking to the agreed time/duration of the meetings.”*

Our respondents considered the quality of their fellow board members to be quite good, although it had taken time and effort to reach this level. One of them had the specific task of *“shaking up”* an (old-fashioned) board, and was working on

replacing a member in a dignified way, giving him *“limited time to speak”* at board meetings yet handling the situation in a respectful way.

In **dealing with members who were “special cases”** they acted in a tactful but firm way, “challenging” them until the end of their term and setting clear boundaries during the meeting to preserve the quality of the discussion. One respondent, who was a former chair of a multinational listed company, described how: *“My fellow board members were extremely busy people. As chair I felt I had to ensure that coming to the Netherlands was seamless for them: it made it more attractive to come to our board meetings.”*

All respondents saw the need for **diversity** in the board, both in terms of gender as well as knowledge/experience. One commented, *“It is vital for me as chair to be able to have and to use all available experience and professionalism that we need in our board, not just for the quality of our decision making, but also out of respect for the qualities, capabilities, and experience of my fellow board members.”*

In the Netherlands, considerable efforts have been made to achieve gender diversity, although this is not yet fully visible in the boardroom. Since January 2013 there is a statutory composition of at least 30% women directors. However, for non-executive boards this number was only 17.8% at the end of 2015. Companies that do not meet the statutory number are expected to explain this in the annual report, but few comply.

Making good collective decisions was another priority. Our respondents used similar strategies or tools to be effective in the pre-meeting, meeting and post-meeting phases (as listed in Table 1.)

In the Netherlands, considerable efforts have been made to achieve gender diversity. Since January 2013 there is a statutory composition of at least 30% women directors

Table 1. Dutch Chairs' Strategies and Practices

Stage	Chairs' Strategies	Chairs' Practices
<b>Pre-meeting</b>	Prepare topics and themes with the CEO Consult every board member Avoid surprises Provide necessary data Involve executives	Phone calls before the board meeting Consult about and/or clarify the agenda Pre-board lunch for the whole board Defining format for board materials Checking board materials before it is sent Arranging for board members to spend time at the company Board meetings in different company locations Make sure that executives are invited to board meetings for specific subjects Organising informal dinner (annually) of board and CEO/management
<b>Meeting</b>	Right agenda Focus on dialogue, not individual opinions Creating atmosphere of working trust Equal treatment Focus on taking actionable decisions Facilitation Involvement of executives Self-restraint	Consulting with the CEO Dialogue/discussion with board members Starting a board meeting with a short session for executives Closing a board meeting with a session for executives Framing a discussion question No voting Asking every board member to state their position Speaking last Summarising the discussion Conducting an "express" evaluation at the end of the meeting Use humour when things get too serious or tense
<b>Post-meeting</b>	Involve the whole board in finding ways to improve Learn from formal evaluation and informal feedback Stay connected with every board member	Conduct formal 360-degree board evaluation Off-site meetings for the whole board Open agenda one-to-one meetings Annual evaluation meeting with every director Personal call every month with every director Annual lunch with every director Skype meeting with every director

All respondents invested time and energy at the **pre-meeting stage** to ensure that directors were motivated and well-prepared.

Some had informal telephone contact with their directors before each board meeting; others started the board meeting with 30 minutes of informal discussion. *"I want to know what's in their minds and what their current concerns are. It is a way for all of us to clear our hearts and minds before the official meeting starts, without the executives present."*

All emphasised the importance of information exchange with their fellow board members before the board meeting, for the benefit of the dialogue in the boardroom. Preparatory phone calls could last one hour per member, when complex or difficult decisions need to be taken. As one said: *"It is important that the board comes 'uni sono' to the table. We need a good dialogue; we do not fight in the boardroom or stick to our individual opinions."* Another said: *"Opinions may differ, but showing dysfunctional behaviour during the meeting is not done: we need*

*to show a consistent image towards the executive board members."* She added: *"Sometimes we need a short talk afterwards in order to smooth things over."*

Chairs also reached out to board members before the meeting in order to "re-engage them" and help them concentrate on the upcoming board meeting. Pre-board lunches were used to review the agenda and ensure everyone is on the same page. Most favoured lunch with non-executive members only; others extend it to executives.

The quality of materials was seen as critical for effective board work. Our respondents strive for limited volume, clarity of information, and sufficient time to study materials. Some of them define the format, some co-define it with the CEO. All checked the materials before they are sent to other board members.

To improve directors' knowledge of the company and its business, some chairs encouraged and facilitated company visits. These could include meetings with employees and customers.

**Leading the meeting.** *"Some subjects need only the stroke of a hammer, others need longer discussion."* In the words of one respondent, items on the agenda should be *"relevant to our task" and "ripe for decision."* All respondents partnered with their respective CEOs to set the agenda. In some cases they invited other directors to review the agenda and pitch ideas.

There was general agreement that for the board discussion to be productive it had to involve all the board members. The chair's task was to create an atmosphere for productive exchanges. As one put it: *"The fine art of the role is to be the performance director (regisseur). I need to think very clearly about whom I ask to talk first and who talks last about the specific topics. Who is irritated by who or what? Who is brooding about what? I need to be very alert in recognising body language."*

All respondents used common strategies to achieve a productive dialogue: equal treatment, discussion facilitation and self-restraint. All allocated the same amount of air-time to each board member. In the Netherlands, reaching consensus (*polderen*) is the norm. One commented: *"Sometimes it is better to postpone a decision when things are too complex; a bit more reflection on the topic often helps."*

All respondents used common strategies to achieve a productive dialogue: equal treatment, discussion facilitation and self-restraint

To engage the more "silent" board members, respondents solicited their opinions before the meeting and presented them on their behalf, acknowledging the source. Asking each director to state his or her opinion was another way to ensure diverse opinions in the dialogue.

When conflict or disagreement threatened to emerge, they considered it their responsibility to take avoiding action: *"The board is there to take decisions, not to dwell long on possible disagreement. That's not what we are here for."*

Restraining their own opinions was another way they used to promote trust and make room for all participants' points of view. All respondents said that they *"speak the very last."* One stated: *"My task, but also my pleasure, is to distill from numerous statements and opinions one clear line, in which everyone recognises him/herself."*

**Post-meeting.** All respondents conducted some sort of evaluation at the end of each board meeting (in the absence of the executive board), believing that it reinforced respect for each other, built trust and helped members to learn and improve. Among the questions they asked directors were: *"What did you notice? What will you take home to reflect about?"*

One had the habit of informing the CEO (in general or specific terms) what had been said during this evaluation: *"The evaluation never takes longer than 30 minutes. Time boundaries are important here, because I don't want the CEO to think that we are discussing 'important' issues in his absence."*

Work with the board as the whole was complemented with one-to-one chair-director interactions. One chair invited every board member for lunch once a year. Another had Skype conversations every six weeks. As one respondent pointed out: *"They should feel that you are available and you care about their contribution."*





## Other Challenges and Chairs' Practices



**All respondents said that developing company strategy is the CEO's business – the board should “endorse it” – but they were willing to help by listening and challenging assumptions.**

None of the respondents considered **informational asymmetry with the CEO and management** to be a significant challenge. The working relationship with the CEO was open and effective. One described how *“quite important in my relationship with the CEO, who is also a majority shareholder, is to help him keep his two roles separate. This leads to heated discussions sometimes.”*

Other means included *“asking the CEO to write a monthly one-pager for me,” “meetings with the CEO direct reports”, “company conferences”* to improve their feel for what's going on in the company.

**The relationship with the CEO** was important for respondents, although (or because) the chair is officially the boss of the CEO. Interaction with the CEO was frequent: an open agenda meeting or a phone conversation every two to three weeks. One called himself *“a sparring partner”* for the CEO, they meet every four weeks and talk about current business issues. Another had weekly Skype meetings with the CEO. All said that mentoring should come naturally and could not be forced, and thus could never be an official “role” for the chair.

In this respect, one respondent described how: *“For me it is important to have regular conversations with the CEO, who can then ventilate his topics or his concerns. I can then see whether the relationship between the CEO and his team in the organisation is healthy.. I have also made it a habit to talk to each of the executive team members once annually in a one-on-one conversation.”*

All respondents said that developing company strategy is the CEO's business – the board should *“endorse it”* – but they were willing to help by listening and challenging assumptions. When necessary they connect the CEO with experts and in some cases share personal experience.

**The time commitment by board members** was a non-issue for respondents: a specific number of days is a *“part of the deal.”* One said: *“I promote a healthy work/life balance with my fellow board members but also with the CEO and his team. Some need to be pushed away on vacation and sometimes I have to push them to look broader than just the organisation.”* If board members have a tendency to assume that the chair *“will take care of everything,”* this attitude is discussed in the annual evaluation.

Conducting board evaluations is officially part of rules and regulations. The Dutch Code recom-

mends the use of external specialists to conduct evaluations and to do it annually, but as one respondent noted: *“I prefer to do the evaluation myself because I think it makes us stronger both professionally and in our interactions as board. Besides, I enjoy getting a lot of additional information, with is valuable input for my role.”*

Once a year, the chair is also evaluated: *“I leave the room and let the vice-chair lead the evaluation. I like it this way, but I know that some of my colleagues don't do it this way.”*

**Chair succession** was vital in the family-owned companies chaired by our respondents. A lot of time, money and effort were spent on grooming the next generation for the task, including sending possible successors on (inter-) national business courses on governance. Only one of the five chairs interviewed in this project had recently been “actively” involved in finding a successor for his position. Another, who is an independent chair, has never been involved with her own succession: *“I do not want to rule over my grave.”*

### What Else do Chairs Do?

At times of crisis or other unusual events, our respondents increased the intensity of their involvement and interaction within the board. As one of them said: *“It helps enormously to fit in 15 minute phone updates as often as possible. It contributes to trust and commitment among the board members.”*

Building relationships with external stakeholders such as clients (patients), suppliers, government was seen as being not the responsibility of the chair, although some exceptions to this might be agreed upon with the CEO. For example, the chair of the hospital is specifically tasked with interacting with the media on a regular basis: *“The chair is the public spokesperson of the organisation and needs to be capable of reacting publicly in a responsible way.”*

The former chair of a multinational public company was invited by the majority shareholder to deliver an official speech during the Christmas dinner for the top 150 executives of the company: *“It felt a bit like stepping out of my role, but I also felt honoured and we ended up having a great evening.”*

### Summary

Most striking is the shared priority of our respondents in terms of *“bringing the organisation to the next level”*; a certain responsibility – and also appetite – for entrepreneurship in the chair is visible in the Netherlands. As the number of smaller companies in the Netherlands is growing, it is likely that chairs will increasingly share the entrepreneurial spirit of executives, and thus to challenge assumptions about business growth, and connect the CEO with (international) experts.

The use of humour is connected to the individual rather than to the role – some use it, others don't – but all share the conviction that “doing what is necessary” to keep a positive atmosphere during board meetings goes with the job. The comparison with a performance director (*regisseur*) is apt: who to invite to speak first and who last? Reading the body language of the directors and figuring out who is brooding about what to say and who is irritated by what, is clearly an important part of the role.

One practice appears to be specifically Dutch: ensuring consensus (*polderen*). In the Netherlands, where consensus and equality are the norm, this means that the chair allows same amount of air-time to each board member, and that discussion will take as long as is needed for a joint decision (or compromise) to be reached. This practice is engrained in the Dutch way of life.

## Resources for this chapter



The Dutch Corporate Governance Code, January 2009

Statistics Netherlands  
(Centraal Bureau van Statistiek)





## 03 Belgium

Anne Samyn

**B**elgium, officially the Kingdom of Belgium, counts 11 million inhabitants across a territory of 30,528 km<sup>2</sup>. Belgium is a federal constitutional monarchy with a parliamentary system of governance. It is divided into three regions – Flemish region (with 6.5 million Dutch-speaking community), Walloon Region (with 3.6 million French-speaking community, including German-speaking community in eastern part) and Brussels-Capital Region (with 1.2 million who are officially bilingual). Brussels is the capital of European Union (Belgium was one of the founding members of the EU) and the host for Benelux and NATO headquarters.

Belgian economy has capitalised on its central geographic location, highly developed transport network, and diversified industrial and commercial base. The GDP was worth US\$ 454 billion in 2015, representing 0.73% of the world economy, while GDP per capita (PPP) was estimated at US\$ 43,600 (the 33d in the world). More than 77% of the employees in Belgium work in the service sector. Family businesses represent a turnover of €70 billion and employ more than 320,000 employees.

The Financial Services and Markets Authority (FSMA) and the National Bank of Belgium together form the supervisory body for Belgium's listed companies. 178 companies are currently registered on Euronext, nearly a quarter of them have

a market capitalisation of more than a €1 billion. 60% of listed companies have a shareholder who, alone or in concert, holds more than 30% of the voting rights, so the concentration of ownership control is rather high.

In the wake of the global financial crisis, efforts were made to enhance the 1999 Belgian Company Code, monitor risk and optimise transparency. New rules were incorporated into the Belgian Corporate Governance Code in 2009. In 2015, Belgium was the first country to publish a code for non-listed companies – Code Buisse. Both codes pay particular attention to the role, composition and tasks of the board of directors. They advocate best practice rather than having the force of law, and are recognised by Royal Decree as the reference code for listed companies, thereby creating a “comply or explain” basis for corporate governance.

The Belgian Corporate Governance Code prescribes a one-tier board, although companies are allowed to adopt a two-tier board structure through installing a directors committee (*Wettelijk Directiecomité*), which is similar to the management board. Only a limited number of Belgian companies has established such a committee.

The boards of listed companies are generally composed of a mix of executive and non-executive directors. The Code of Corporate Gover-



**GDP in 2015 –  
US\$ 454 billion**



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nance recommends that at least half should be non-executive members. In principle, three of these must qualify as independent directors. For non-listed companies, the composition of the board should foster complementarity with respect to competencies, experience, knowledge and diversity. The Code Buisse recommends the appointment of several external directors as board members who do not represent management nor the controlling shareholders.

The board should appoint its chair on the basis of his/her knowledge, skills, experience and facilitation ability. If the board envisages appointing the former CEO as chair, it should carefully consider the positive and negative aspects in favour of such a decision and disclose in the CG Statement why such appointment is in the best interests of the company.



The Corporate Governance Code describes the chair's role and responsibilities:

- The chair should establish a close relationship with the CEO, providing support and advice, while fully respecting the executive responsibilities of the CEO.
- The chair is responsible for the leadership of the board. He should take the necessary measures to develop a climate of trust within the board, contributing to open discussion, constructive dissent and support for the board's decisions.
- The chair is responsible for ensuring that directors receive accurate, timely and clear information before the meetings and, where necessary, between the meetings.
- The chair conducts the general shareholders' meeting and should take the necessary measures to ensure that any relevant questions from shareholders are answered.
- The chair should lead regular (at least every two to three years) evaluation of the board's size, composition, performance and those of its committees, as well as its interaction with the executive management.



## Chairs Interviewed for the Project

### Interviewee 1

was until recently chair of the board of a global metals company listed on Euronext. He had also chaired boards of a number of private and public companies. Previously he held managing director positions at large multinationals.

### Interviewee 2

is a member of the board of directors of large listed holding group in Europe (the controlling shareholder of the group holds 50% of the outstanding shares). He has been chair of a major subsidiary of the group since 2015. He co-chairs two other companies and serves as supervisory board member, executive director and director for a number of others.

### Interviewee 3

is chair of the board of the Belgian division of one of the largest banks in the world listed on Euronext. He had for many years chaired a board of a global industrial specialty electronics group.

The data in this study were collected through qualitative interviews with the chairs of boards of Belgian companies, most of them listed. These consisted of a set of broadly defined open-ended questions designed to solicit their insights and reflections, and lasted on average from one hour to 90 minutes.

### Interviewee 4

is a chair of the board and a managing director of subsidiaries of a public Belgian industrial group.

### Interviewee 5

is an independent chair of the board of the Belgian division of a Dutch retail property listed on Euronext Amsterdam. He also serves as chair of two listed Belgian investment companies. He is Global Head of M&A for a major law firm.

### Interviewee 6

is chair and board member of several listed and private companies and has recently become a chair of his family business, a leading European FMCG producer. He has had a long international academic career in corporate strategy and M&A as a professor at leading business schools.



## Belgian Chairs' Challenges

INSEAD Global Chair Survey 2015 identified number of challenges that chairs face. We asked interviewees which of these challenges they consider the most important. Similar to their colleagues from other countries, Belgian chairs agreed that relationship with the shareholders is the most important challenge followed by relationship with the CEO and management. We will start by discussing these challenges and then will describe practices Belgian chairs use to lead the board.

### Relationships with shareholders

Respondents acknowledged that undivided loyalty to all shareholders, irrespective of their voting rights, was the cornerstone of their work. In light of that they considered the task of making sure that the positions of all shareholders are heard and understood as one of their top priorities. Common practice for Belgian chairs is to organise meetings with representatives of controlling shareholders before board meetings or to have regular phone calls.



**Respondents acknowledged that undivided loyalty to all shareholders, irrespective of their voting rights, was the cornerstone of their work**

There was consensus among the respondents on treating minority shareholders with equal respect and attention. Some chairs saw this as a matter "of conscience and a sense of responsibility." One said it was imperative to focus on this group and feed objective, accurate information. Another organised shareholders' presentations to the board – including from minority shareholders – to give to all parties the opportunity to listen and ask questions. He considered this to be a form of preparation for understanding and knowing the group.

All concurred that the board should focus on defining of the future of the company: "*What is the vision? Who can achieve it? When chosen, how should strategy be implemented?*" The board is mandated to decide to support the strategy and evaluate strategic options. With respect to strategy formulation, the sequence of the speakers as well as the order of topics to be discussed was seen to influence the process and the outcome.

## Relationships with the CEO and management

Belgian chairs consider productive relationships with the CEO (and in some cases other senior executives) a key to effectively playing their roles. “Trust”, “dialogue”, “respect”, “non-interference”, “equality”, “transparency” are the words they most often used in describing their model relationships. Intense two-ways communication seems to be the major practice to establish and maintain such relationships.

All respondents had regular interactions with the CEO, and some with the entire management team. The frequency and the format of the contact varied from a telephone conversation once every 2-3 weeks to a weekly meeting with the CEO and a monthly meeting with the management team. One chair believes that CFO is a critical member of the team and every quarter has lunch with the CEO and CFO together. One respondent added that he encourages CEO's development by providing specific recommendations and pointing out to external opportunities. Another interviewee emphasised that he is always conscious not to create extra barriers for the CEO's work.

Half of the chairs interviewed prepared board meetings' agendas and materials together with the CEO, and some with the CFO's participation. Many debriefed the CEO after the meeting not only to provide feedback but to receive it.

## Leading the board

**Before the meeting.** Respondents schedule board meetings according to the company needs and its structure. The actual number fluctuated from four to ten per year. In their view regardless of the number of actual meetings having time and availability to the company are the essential element of the chair's job. Advance scheduling is a common practice for Belgian chairs – all of them plan meeting for the next 12 months and try to stick to the schedule.

All interviewees regularly interacted with other board members to maintain an ongoing conversation, but actual practices varied. Half respondents have a board dinner the evening before the meeting. When appropriate, the CEO (and sometimes

the CFO) would be invited. One respondent had a “ritual” of having a board dinner the evening before the meeting, in a nice venue with fine dining and wines to create a relaxed, constructive atmosphere. He felt that these informal exchanges and (re)connecting moments were vital to a fruitful meeting the next day. Investing time in greeting everyone individually and creating a personal connection was also cited.

Respondents sent the board agenda one or two weeks in advance. Some prepared the agenda with the CEO, others on their own. Some chairs control the quality of material before sending them to directors, others trust management to ensure quality.

One respondent sent a short agenda with key bullet points one week in advance of the board meeting. He also sends materials to directors to read. This chairs told us that before every board meeting he reads from 120 to 600 pages, which can take up to 10 hours of his time.

**Meeting.** Belgian chairs spoke about their role in the board room as “facilitators”, “moderators” and even “mediators”, the strategies they mentioned most often were “managing time,” “managing the agenda,” “managing the flow,” and “creating productive context and productive culture.” As one of them said: “I consider myself a kind of a stepmother when I am chairing a board.”

Belgian chairs are meticulous about time. One respondent said that when a meeting is set at 10h, he starts at 10h 01 and the door gets closed. Others concurred that late arrivals are not acceptable, especially repeated once. The same applies to attendance – missing even one board meeting is a serious delinquency. Some chairs explicitly stated their expectations with regard to time and attendance while others believed that it goes without saying. In general the respondents did not favour formal conduct codes or board rules.

It is interesting that Belgian chairs were more relaxed with regard to the board meeting's end. While some chairs allocated a specific number of hours for the board meeting – on average 2 hours – half of the respondents did not predetermine the duration. In that case, meetings lasted on average 4.5 hours, often without a break. One of them practiced “no scheduled end” policy, so every voice could be heard. They took breaks every three hours though.

Although all interviewees agreed that digitalisation is inevitable according to them it had so far very little impact on how they chair the board and how the boards work

All respondents considered directors' preparation a critical component of an effective board meeting. Some make it a board norm, some do not, but all believe that setting an example is extremely important in enforcing it.

As far as the agenda some chairs followed the tradition and started with minutes of the previous board meeting and the progress report, others did not have a preferred sequence. One chair started with “comments” from directors and then moved to discussing company performance. Most respondents favoured dealing with difficult agenda items earlier in the meeting.

There was no common way for chairs to close a meeting, except for seeking to create clarity by repeating the decisions taken and formulating next steps. Some interviewees asked each individual participant if they wished to ask questions or express concerns at the end of the meeting. Most morning board meetings ended with a lunch, and rarely reconvened afterwards.

Although all interviewees agreed that **digitalisation** is inevitable according to them it had so far very little impact on how they chair the board and how the boards work. The reason according to one of the respondents is that chairs and other directors have no skills or experience in using information technology.

**Humour** is not in the Belgian chairs tool box either. The latter appreciate it, but rare use it in the board room.

**Post-meeting.** Some chairs review the minutes straight after the board meeting to ensure their accuracy. Many respondents conduct debriefing with the CEO, sometimes with the CFO, and, less often, with the entire management team.

Our question on evaluating of their own board effectiveness prompted very little feedback. With respect to measurable feedback, one chair worked with an external provider to deliver group feedback in order to enhance board effectiveness, although no individual evaluation was given. Some organised an annual review to reflect on their board dynamics and learn from feedback, which was conducted internally.

Most respondents organised an off-site or a strategic session for board members once a year. The sessions lasted from one to three days and covered various issues from company strategy to trust among board members. Some chairs invited external facilitators to help with such events.





## Other Challenges

**Managing difficult board members** did not represent an important challenge for the respondents. In rare cases of a conflict some chairs practiced leaving the board room to send a strong signal to conflicting parties. According to them it worked well. One respondent said he didn't devote much time if one board member disagreed (depending on the potential impact on the decision); he simply asked for their disagreement to be noted in the minutes and moved on to taking the decision. If a real problem remained, a conference call would be organised the week after the board meeting with that individual.

A small minority took a different approach, devoting time to "resistors" on the board. They felt that different opinions create healthy reflections; people should be encouraged to express themselves and be heard. The chair rarely intervened except where there was systematic negative opposition or when it added value. Only in exceptional circumstances would they suspend the vote and put the minutes "on hold."

For all respondents, a focus on **external stakeholders** depends very much on the organisation. Maintaining a healthy ongoing relationship was a strategic necessity, but relationships varied. Half considered external stakeholders as partners who were integrally involved in the success of the company. One chair added that ego had no place. All agreed that the chair should set an example to encourage all board members to build good relationships with outside stakeholders. Half of them highlighted the networking responsibility of the board; one referred to its lobbying and PR role.

**In rare cases of a conflict some chairs practiced leaving the board room to send a strong signal to conflicting parties. According to them it worked well**

## Summary

Even if levels of influence, power and attitudes vary widely between the chairs interviewed, clearly the role is crucial to the success of the board. In almost every case, they were people with charisma, clarity of mind, and unafraid to speak their minds.

Chairs take a more reflective approach than CEOs. They seem to be more relaxed and keep things in perspective. Although passionate, their foremost role is one of facilitation.

Common to all are the characteristics such as extensive knowledge and expertise, a long track record of management responsibilities and integrity – which are important to the stewardship function.

They all have a strong academic background, speak at least three languages and have international experience. All sit on several boards and many have years of management as well as board experience.

Given the small size of the country a limited circle of people tend to serve on most company boards, these celebrity directors and chairs are often referred to as "*the old boys' network*." In many ways the work of Belgian chairs is traditional, they reproduce practices of other members of the "network" and shy away from innovation. As an example, digitalisation is not a foremost concern for respondents, perhaps because it involves a different learning experience and a shift in mindset. Given their age (60-70 years old) and

## **In many ways the work of Belgian chairs is traditional, they reproduce practices of other members of the "network" and shy away from innovation**

decades of experience with traditional corporations they tend to think in terms of hierarchy, power structures, seniority and status symbols.

There are significant differences between practices of board chairs in Belgium and in other countries with developed stock markets such as USA and the UK (Anglo-Saxon countries), where conversations are more direct, confrontational and challenging. In Belgium, boards are less "sharp" – there is a culture of consensus and members are more diplomatic. More "muscular" conversations tend to happen outside the boardroom.

The generational change is one of the big challenges the Belgian boards are facing. Knowing from this study that succession is not high on the board leaders' agenda the transition is not going to be easy.

The same should be said about gender diversity and the internationalisation of boards – the chairs in Belgium are predominantly male and Belgian and the situation is not likely to change soon without external pressure.

## Resources for this chapter



Belgian Companies Code, July 2011

Belgian Code on Corporate Governance, March 2009

Code Buisse: Corporate governance for non-listed enterprises, September 2005

OECD Principles of Corporate Governance, July 2015 Edition

Shareholders' Rights Act, December 2010





## 04 Switzerland

Vincent H. Dominé

**W**ith just over 8 million inhabitants, Switzerland began as a loose confederation of cantons that in 1848 became a federal state with its own constitution. The Swiss confederation has four official languages (German, French, Italian and Romansh) and a system of direct democracy. Swiss citizens elect representatives at the level of the confederation, canton and commune.

GDP in 2015 was US\$ 677 billion, with per capita GDP of US\$ 84,000, the second highest in the world after Luxembourg. Switzerland has a highly industrialised economy but no significant natural resources. The agricultural sector accounts for a mere 0.7% of GDP, industry for 25.5%, and services constitute almost three quarters.

Although a member of the European Free Trade Association, Switzerland is not part of the European Union. In recent decades the country has become an attractive domicile for international businesses thanks to its politically stable environment, a favourable macroeconomic context, a highly skilled workforce, easy access to financial markets, low corporate taxes, modern infrastructure, and a business-friendly regulatory environment.

Switzerland has approximately 600,000 companies. Despite an impressive number of prominent global corporations such as UBS, Nestlé, Novartis, ABB and Swatch Group, 99.8% of the total is made

up of SMEs with less than 250 employees. These are the backbone of the economy, employing 80% of the workforce and accounting for 60% of GDP.

Exports account for 63.5% of GDP. Key markets are neighbours such as Germany, Italy and France, as well as the UK and the US. Swiss exporters struggle to cope with a strong Swiss franc relative to the euro, notably since the National Bank ceased intervening in January 2015, which has made exports significantly more expensive.

Switzerland topped the Global Innovation Index published by Cornell University, INSEAD and the World Intellectual Property Organisation (WIPO) in 2016. The government has made sustained investments in education and innovation infrastructure. The country's top-ranked universities include ETH (Swiss Federal Institute of Technology), EPFL (Ecole Polytechnique Fédérale de Lausanne) and the University of St. Gallen.

The principal rules of corporate governance in Switzerland are enshrined in company law and provisions are set out in the Swiss Code of Obligations. As in the US (following the Enron scandal), corporate catastrophes in Switzerland – such as the liquidity problems of ABB and the collapse of SAirGroup (parent of former Swissair) in 2002 – prompted the Swiss government to review and adapt the legal framework to meet international standards.



**GDP in 2015 –  
US\$ 677 billion**



**SMEs employ 80%  
of the workforce  
and accounting  
for 60% of GDP**

In addition, two major codes have entered into force:

- A directive on Corporate Governance, released by the Swiss Exchange in 2002 (binding);
- Swiss Code of Best Practice for Corporate Governance (SCBP) published by the Swiss Business Federation in the same year (non-binding).

Any assessment of Switzerland's corporate governance regime can therefore only be made by taking account of all three fundamental sources as part of one framework.



### According to the Swiss Code of Obligations, the board of directors has the following non-transferable and inalienable duties:

- Overall management of the company and the issuing of all necessary directives;
- Determining the company's organisation;
- Organisation of the accounting, financial control and financial planning systems as required for management of the company;
- Appointment and dismissal of persons entrusted with managing and representing the company;
- Supervision of the persons entrusted with managing the company, in particular with regard to compliance with the law, articles of association, operational regulations and directives;
- Compilation of the annual report, preparation of the general meeting and implementation of its resolutions;
- Notification of the court in the event that the company is over-indebted.

The implementation of the board's duties is also determined by the company's articles of association, which set out whether and how the board of directors can delegate management of the company to individual members or third parties.

The SCBP describes best practice and makes recommendations that go above and beyond what is required by law. Since its inception it has had a strong impact on corporate governance in Switzerland. Applying the principle of "comply or explain" it has been effective in encouraging boards to regulate themselves. The SCBP has been revised in recent years to reflect legal changes at the level of the federal constitution. According to the SCBP, the board of directors should:

- Determine strategic goals, general ways and means to achieve them, and the persons responsible for conducting the company's business;

- Shape the company's corporate governance and put it into practice;
- Ensure in its planning the fundamental harmonisation of strategy, risks and finances;
- Be guided by the goal of sustainable corporate development.

In March 2013, a majority of Swiss voters accepted the Minder Initiative, aimed at preventing excessive executive remuneration at listed companies. A year later, the Federal Council brought into force the "Ordinance against excessive remuneration in listed companies limited by shares." This requires that listed companies elect board members and seek approval from shareholders for the compensation of top management annually through a binding vote. Boards of directors should ensure that the remuneration of their most senior company representatives provides optimal incentives for successful corporate leadership and is in tune with the interests of shareholders.

Another topic getting attention in Switzerland is **board diversity**. A recent survey noted that Swiss boards are becoming more diverse. While understanding of "diversity" is expanding beyond gender, gender diversity on boards is still an issue: only 21% of board seats of Swiss Market Index (SMI) companies are currently held by women, and only one SMI company is chaired by a woman. For the Swiss Performance Index (SPI) the percentage of female board members is 13%.

Cultural background, age, education and experience also contribute to the diversity of perspective that impacts board work. At SPI companies, 68% of board members have German as their mother tongue, 13% French and 10% English. Board members speak a range of some 20 languages. Within SMI companies, the percentage of foreigners on boards has increased from 10% 25 years ago to 62% today. The majority of board members are between 45 and 65 years old, most have international experience and CEO experience in the relevant industry. Many boards also have members with a CFO or finance background, experience in M&A or a legal background.

As the case below illustrates, the **treatment of shareholders** has received international attention recently, not least in the Swiss context. →

In 2014, the family holding company that owns shares in the listed company Sika – a manufacturer of specialty chemicals for construction and industry – decided to sell its stake to the French industrial group Saint-Gobain for an 80% premium over the share price at the time. While the stake comprised 52% of voting rights, it represented just 16% of the share capital.

In Switzerland, as in other European countries, there is a rule that any investor who gains more than one third of the voting rights in a company must offer to buy out the remaining shareholders, at the same price or better. However, Sika, like a number other Swiss listed companies, has legally opted out of this rule.

In an unprecedented turn of events, the board of directors of Sika opposed the sale. According to the



## Chairs Interviewed for the Project

articles of association of the company, any change of ownership of at least 5% requires board approval. The board claimed that it was opposing the deal primarily because it was not in the best interests of the company. In this case, the family argued that it was not selling the shares but only the foundation holding the shares. Nonetheless, the Saint-Gobain takeover bid sparked controversy.

In October 2016, the court of the canton of Zug, where Sika is domiciled, said that directors of locally-based Sika were entitled to block the company's family owners from selling their controlling stake to its French rival. The family foundation decided to appeal the decision in the federal court. This is the latest twist in a takeover saga that will probably increase the pressure on Switzerland to review the status of companies with multiple classes of shares.

We interviewed nine chairs of companies headquartered in Switzerland and one chair of a company based in neighbouring Lichtenstein (no reference will be made to the differences in regulatory framework). Of these companies, four are part of the SMI, three are part of the SPI, one is listed abroad, one is a state-owned company, and one is a family-owned company. In four of the listed companies, significant stakes are still held by the founding families with various degrees of voting power.

The business activities of the ten companies include financial services, pharmaceutical, consumer goods, manufacturing, retail, and transportation. All but two of the companies are significantly involved in international activities, and the majority of them have their more important activities outside Switzerland.

Only one of the chairs interviewed is a woman. Their ages range from 56 to 72. Nationalities include Swiss (seven), Austrian (one), German (one) and British (one), and their educational backgrounds include a mix of economics, business administration and engineering. All chairs held CEO positions prior to joining boards and they currently hold an average of 3.8 board or chair memberships. The time dedicated to the role ranges from 30-40% to full time.

INSEAD Global Chair Survey 2015 identified the top 11 challenges for the chairs of international companies, and our interviews were structured accordingly.

## Relationships with shareholders

When the company they chair has a controlling or anchor shareholder, respondents invested a lot of time in meeting key representatives – often founders or family members. As one chair put it, *“What you absolutely have to do is you have to communicate. This is so important.”* Meetings ensure that the chair and the influential shareholders stay aligned in terms of company strategy, and connected at a personal level. The chairs arrange meetings mindfully and proactively, and acknowledge that they are appreciated by the shareholders since they give them a sense of control over the strategic direction, and ultimately the future of the company. As the Sika case illustrates, competing loyalties can nonetheless potentially play out.

Our respondents see their primary loyalty as being to the company rather than to the shareholders. If a chair has been “brought in” with the support of family members who have a controlling interest, this can create conflict in cases where the board’s objectives differ from the interests of the family. One chair said that he ultimately views the relationship between the board and large shareholders as collaborative: *“Don’t look at them as enemies,”* he said, *“they are your owners and they are your partners.”*

When a large stake is held by institutional investors, some chairs nurture personal relationships and organise annual roadshows to meet with their representatives and engage them in discussion – often about the governance of the company. While institutional investors do not receive any substantial information outside the formal notifications of all shareholders, they do have the opportunity to engage directly with key company representatives. In the case of a state-owned company, both the range of stakeholders increases – from political to union representatives – and the complexity of stakeholder management. One chair of the state-owned company we spoke to take a proactive communication approach by organising regular formal and informal meetings.

Contrary to their relationships with majority shareholders, respondents seldom had personal connections with **minority shareholders** beyond the annual shareholder meeting. While they took the concerns of minority shareholders seriously and provided written updates to investors and the press, communication with shareholders was handled by the investor relations team, or at times

the CFO. In the Sika case, even large institutional investors such as the Bill & Melinda Gates Foundation felt that they were put at a disadvantage by the diminished voting rights associated with their shares relative to the voting rights of the family foundation.

## Level of collaboration and teamwork among board members

Responses to the issue of teamwork built on the above observations. During the selection process, one of the cultural values potential board members were evaluated on is collaboration. Several chairs mentioned teamwork and openness as key values they expected to see in board members. “Know-it-all” or “know-better” types do not get to join the boards. One chair said that an absolute “no go” for him was someone with an overinflated ego. While they sought members who are knowledgeable and experienced, they also wanted directors who would constructively contribute to the work of the board and *“play as a team.”*

Beyond board meetings, some board members join field or company visits, which, depending on the location, can be a 2-3 day trip. These visits are unique opportunities for board members to spend quality time together and get to know each other better, which foster a collaborative spirit.

Although our respondents were not currently experiencing difficulties managing board members, the issue gave them an opportunity to underline the importance of vetting directors before putting them forward for election. They invest a lot of time assessing personality, character, communication skills and cultural fit of future directors, as this helps to avoid problems later on. When confronted with difficult directors in the past, one respondent had arranged a one-on-one meeting to address the issue head on; in another case one had expressed the view that they should leave.

In some instances, *“courting”* a future director took up to three years, during which time the chair assessed the fit with the company and the board. The values of potential directors are scrutinised to ensure alignment with those of the company. Respondents often mentioned integrity as a key attribute. One said, *“We need board members that are team players,”* while acknowledging that their voices had to be heard even if handling inquisitive and critical board members could be challenging:

*“I want board members to be engaged and speak their mind,”* he said. *“It just needs to happen within certain rules of conduct.”*

## Informational asymmetry with the CEO and management

There is obviously informational asymmetry between the chair and the CEO, given that the latter is closer to day-to-day operations. But where a chair is almost full-time, informational asymmetry can also exist with other board members whose participation is limited to attendance at board or committee meetings. One respondent said, *“When you just come in six times a year, the knowledge you have is limited compared to the chairman.”* In both instances, there is a need for trust and for regular information updates. In addition to regular written updates from the CEO or the board briefing – some as long as 25 pages – a pre-board meeting dinner offers a way to mitigate any potential disconnect. This explains why some chairs have moved away from PowerPoint presentations and like to articulate their point of view more personally, leaving less room for interpretation (see also Relationships with the CEO and management).

## Diversity in board members’ backgrounds

Besides the skills and experience that bring complementarity into the board, gender diversity and – particularly for companies operating internationally – cultural diversity are actively sought. The chair of an SME mentioned that his board members actively try to recruit women, but had so far been unsuccessful because the women approached already had other offers. Clearly, although the pool of experienced female directors in Switzerland is increasing, it is still small compared to that of men, hence the competition for talent is intense.

Several of the chairs of multinational companies see diversity primarily through the lens of where the business is operating globally. In such cases board composition should ideally take account of the ethnic diversity of the company. At the same time, for companies with a strong Swiss culture, ensuring that the chair and some members of the board are Swiss nationals is seen as critical.

## Relationships with the CEO and management

Several chairs mentioned mutual respect between the chair and the CEO as a sine qua non of effective leadership. One respondent said that board and management needed to be viewed as “one team”; executives and non-executives have their own roles, but *“The aim of what we are doing has to be the same.”* All invested a significant amount of time supporting their CEOs, for whom they served as mentors, supporters or sparring partners. All had been in the role of CEO, mostly in other companies, and thus knew how lonely it can feel at the top. One chair of a large company insisted that to be an effective chair you need to know what it is to be in the CEO seat but no longer want to play the role of CEO.

Two chairs had held the CEO post in the company that they were currently chairing. They mentioned that they had to adjust to their new role, particularly the respondent who had formerly combined both roles (CEO and chair). In this dual role he had to balance a tendency to make decisions with the facilitation and consultative approach required of the chair – not an easy transition, although he felt it was clearly the right approach. Another went as far as referring to the *“unit”* formed with his CEO – that he wants people to see – and was confident that this proximity would not blur his judgement. Many international trips are planned together and are seen as opportunities for the chair and the CEO to meet staff, potential hires and clients jointly. One chair who is based in a different country to the CEO, calls the CEO almost every Sunday to touch base.

Trust between the chair and the CEO is put to the test in tough times and crisis situations. One respondent’s number one rule is *“no surprises”* – and has made a pact with the CEO. This means that any troubling development within the company needs to be reported to the chair at once; success stories can wait. One chair said simply, *“I care for him as a CEO but also as a person, and I believe it is mutual.”*

Asked about their relationships with others in the management team, some made a point of meeting with every key executive on a one-to-one basis from time to time. Others did not, preferring to avoid what could be seen as interference in the CEO’s area of responsibility.



## Relationships with external stakeholders

Most chairs try to stay away from engaging with external stakeholders beyond the shareholders mentioned above. However, in situations of crisis or if the CEO is not available, they have more exposure. In some instances they do this on purpose to deflect attention from the CEO. One chair is the “*face of the company*” in its dealings with NGOs, governmental agencies and the public on the specific topic of the environment and climate change. However, he insisted that it was important that the chair not step on the CEO’s toes; there needs to be a clear separation of duties. Another was more inwardly focused, preferring “*to be seen more in the office than in the newspaper.*”

## Insignificant time commitment by board members

Lack of time commitment was not generally identified as a concern by any of our Swiss respondents. In one instance where a committee chair was clearly struggling to invest the time necessary to perform their additional chair duties, the respondent recommended changes in the committee’s composition. One mentioned that in a previous role he had asked someone who was not pulling his weight to leave the board (and affirmed that he would do so again if faced with a similar situation). Another evoked the “*one chance and you’re out*” rule, which he had enforced in the past by asking a board member to step down.

## Chair succession

A number of our Swiss respondents were approaching the end of their term and had put succession planning in place. If the chair was, for whatever reason, unable to assume the role, the vice-chair or the lead independent director – if there was one – would take over as interim chair, although they are not the only potential candidates to succeed. A number of chairs worked with external consultants to help the nomination committee with succession planning.

In Switzerland, the chair, board members and committee chairs are elected by the shareholders at the annual meeting. Whether succession is trig-

gered by age or other reasons, regular evaluations conducted internally or, more often, by an external consultant are a way to gauge both the potential interest of candidates and their suitability for the role. Once a successor has been identified, the on-boarding process is planned. One respondent’s onboarding included visits to subsidiaries and support from a coach experienced in board work in Switzerland.

## Facilitating effective board discussion

All respondents ensure that board members receive material in a timely manner before the meeting. They in turn expect board members to come prepared, having already formed a point of view, and ready to ask questions or raise concerns. They saw their role as effective management of the meeting, balancing the tension between sticking to the agenda and keeping within time limits, and giving everyone a chance to speak. Framing the agenda items and staying on topic were essential, yet, as one put it, “*One should not be a slave to the agenda.*” They stressed the need to stay humble and refrain at times from intervening, while also making sure all voices are heard: “*I listen. I also decide when it is time to decide, but everyone can express himself without fear.*” Most share their own views last. Asking questions in a Socratic way, even when one knows the answer, is a good way to solicit other points of view.

## Summary

Corporate governance in Switzerland is clearly being addressed in a professional manner. Our respondents were diligent about the technical aspects of good corporate governance such as frequency of meetings and providing good information materials ahead of time. When it comes to the more “adaptive” aspects relating to group dynamics, those with strong personalities at times default to a more directive, less facilitative style of leadership. One respondent, who works with a business school for onboarding of new board members, asks the board every year if they would like coaching, but so far they have declined. We anticipate that measures to address group dynamics, like board evaluations, will in future become a standard part of good governance.

Given the high number of foreigners joining the boards of SMI companies, many from countries that have a higher rate of female board representation, it is likely that the number of women joining the boards of Swiss companies will increase

Some feel that domain expertise for chairs is “a must” if they are to be effective, particularly in highly regulated sectors such as finance. Failing that, the CEO could have too strong an influence on the chair and, by extension, the board. However, some of our interviewees were not domain experts and – perhaps as a result of this – function in a very effective manner, ensuring that top-level domain expertise is properly represented and influential within the board.

The challenges around gender diversity will hopefully lessen as more women take on senior corporate leadership roles. Given the high number of foreigners joining the boards of SMI companies, many from countries that have a higher rate of female board representation, it is likely that the number of women joining the boards of Swiss companies will increase.

While shareholder democracy is receiving a lot of attention, we hope it will not be to the detriment of the many founders/family owners of companies who put the long-term interests of their companies ahead of short-term shareholder interests. Otherwise, such companies will choose to “go private,” as in the case of one of the successful family businesses whose chair we interviewed.

When asked how they would describe the essence of their role, our Swiss respondents saw themselves as “*primus inter pares*”, a “*shepherd*”, a “*conductor*”, a “*trusted advisor*”, the “*link between the board and the CEO*”, a “*servant leader*”, and “*an owner responsible for the well-being of the company.*”

## Resources for this chapter



Christophe Volonté “*Mehr Wissen im Verwaltungsrat*”, Finanz und Wirtschaft, September 2016

Corporate governance directive of SWX, April 2002

Swiss Code of Best Practice for Corporate Governance (SCBP), August 2014

The Global Innovation Index Report 2016





## 05 Denmark

Steen Buchreitz Jensen,  
Alexey Ulanovsky

Denmark is one of the world's oldest monarchies, with a history stretching back to the Viking Age (8th-11th century). The country has a population of 5.6 million people. It is classified as a high-income economy, with GDP of US\$ 295 billion. The Constitution of 1849 is the foundation of the current political system. Denmark has a number of political parties, none of which commands a majority in parliament. Since 1909 it has been ruled by coalition governments, making collaboration and consensus-seeking a hallmark of the political landscape.

Denmark is often cited as one of the best countries to live in. It ranked top of the "World Happiness Report" in 2013 and 2016, based on variables such as per capita GDP, social support, healthy life expectancy, freedom to make life choices, generosity, freedom from corruption, positive and negative affects (emotions). Denmark placed 6th in Forbes' annual list of "Best countries for business 2016."

The most common forms of enterprise in Denmark are:

- Public joint stock companies (aktieselskabskaber or A/S)
- Private limited liabilities companies (anpartsselskaber or ApS)
- Foundations (fonde)
- Agricultural co-operatives (andelsselskaber or Amba)
- Partnerships (interessentskaber)

The vast majority of Danish companies are limited liability companies, although many, including several listed companies, are ultimately owned or controlled by foundations (e.g., Novo Nordisk and Carlsberg). Our focus is on chairs of boards of limited liability companies. These are regulated by the Companies Act (*Selskabsloven*), which lays down the fundamental principles governing Danish limited liabilities companies, in line with OECD guidelines on corporate governance, e.g., equal treatment of all shareholders, protection of minority shareholders' rights, protection of creditors, election of governing bodies, transparency and disclosure. These also specify decision-making mechanisms and reporting requirements. The Danish Business Authority (*Erhvervsstyrelsen*) oversees compliance with the Act, and any changes in articles of association, composition of the board or management must be registered with the DBA.

In addition to the Companies Act, listed companies are subject to the Capital Markets Act (as of 1 January 2017) and to EU regulations concerning disclosure requirements and market abuse. They are also subject to the Recommendations for Corporate Governance issued by the Danish Committee on Corporate Governance on a "comply or explain" basis. The Recommendations, which are not legally binding, cover:

- Communication and interaction with investors and other stakeholders
- Tasks and responsibilities of the board of directors
- Composition and organisation of the board of directors
- Remuneration of management
- Financial reporting, risk management and audit

A separate set of recommendations for commercial foundations has been established.

The so-called "Nordic model" is the dominant governance structure for Danish corporations whereby shareholders exercise their influence via an annual general meeting to approve the accounts. Extraordinary general meetings can be called by the board or at the request of shareholder(s) representing at least 5% of the share capital, for transacting specified business. Public companies must have a board, or supervisory board, whereas private companies can opt to have a board only, or management only. Management is appointed by and reports to the board. Foundations are managed by a board and (if so decided) by management, but have no shareholders and no general meeting. Instead, the civil authorities and/or DBA have the power to intervene in the affairs of a foundation.





## Chairs Interviewed for the Project

For this project we interviewed seven chairs, one woman and six men, aged 50 to 70. Six of them chair the boards of limited liability companies, one heads a private foundation. Each has a minimum of 10 years' experience serving on professional boards and several years' experience as chair. One was a chair of several family-owned businesses and specialised in SMEs. Five are chairs of large publicly-listed companies. Six of them were formerly CEOs.

INSEAD Global Chair Survey 2015 identified the following as the main challenges facing chairs:

- Relationships with controlling or large shareholders
- Managing difficult board members (special cases)
- Level of collaboration and teamwork among board members
- Information asymmetry with the CEO and management

We structured our interviews and analysis accordingly.

### Relationships with controlling or large shareholders

**Internal locus of control.** All chairs emphasised the importance of being aligned with the key shareholder's expectations, while at the same time maintaining their authority as chair. Without shareholder respect for their authority, they insisted, they would not be able to continue in the role. In the initial stage of a new board, they invest a lot of time getting aligned with shareholders. Our respondents said they wanted to ensure that shareholders accept that they have the final say (as long as their decisions are in line with shareholder priorities).

**Clarifying shareholders' expectations.** All respondents spent significant time to understand shareholders' expectations before starting as a chair. At the outset, they clarify the vision, stra-

tegy expectations, the exit potential, and other fundamental questions with owners or their representatives.

All give high priority to having a **personal meeting with key shareholders**. Four held informal discussions about the business and the shareholder's expectations. Three took a more structured approach – which was effective for companies with several shareholders – to clarify differences within the shareholder group in regard to their tacit objectives, which can lead to conflict or a lack of focus in future board interactions.

**Matrix of expectations.** To make shareholder expectations more explicit, one respondent presented shareholders with a set of questions on a “from...to” scale (qualitative and quantitative) representing key strategic dilemmas. This so-called “matrix of expectations” was used as the basis of structured interviews with shareholders (see Table 1) and the dimensions changed depending on the context.

Table 2. Chair-Shareholder Relationship

Stage	Public company	Private shareholders	Family business
<b>Entry stage</b>	Formalised, structured, professional	Combination of formalised, and informal, depending on shareholders' sophistication	Mostly informal, clarifying professional and personal motivation and thinking of shareholder/family
<b>After the entry stage</b>	Formalized;alignment through shareholders' representation on the board	Active interaction between meetings	Formalized and informal interaction

Table 1. Matrix of Shareholders' Expectations

Scale and Comment
When should we sell, 1 => 50 years
Maximum consolidation – maximum dividends
Conservation – evolution – revolution
Profit – growth
Growth strategy: organic – buy
Focus: low-hanging fruit – long-term development
Ownership pride – rational professionalism
Adapt to changing world – influence change – make change happen

**Levels of complexity.** When a person becomes a chair, the pattern of interaction with shareholders changes, and to a large extent is defined by the ownership structure of the business (see Table 2).

When starting out, chairs actively work to align shareholders' expectations with their own (and repeat the process after a year or two) yet they expect to have a full autonomy within an agreed framework for how they run the board. They didn't want shareholders to interact with the rest of the board or with management, as one said: “I focus on what is the best for the company and I am in charge of doing it. If shareholders hire me, they should let me do the job.” This condition was vital for our respondents, who said they would be prepared to step down if shareholders interfered.



**All chairs emphasised the importance of being aligned with the key shareholder's expectations, while at the same time maintaining their authority as chair**

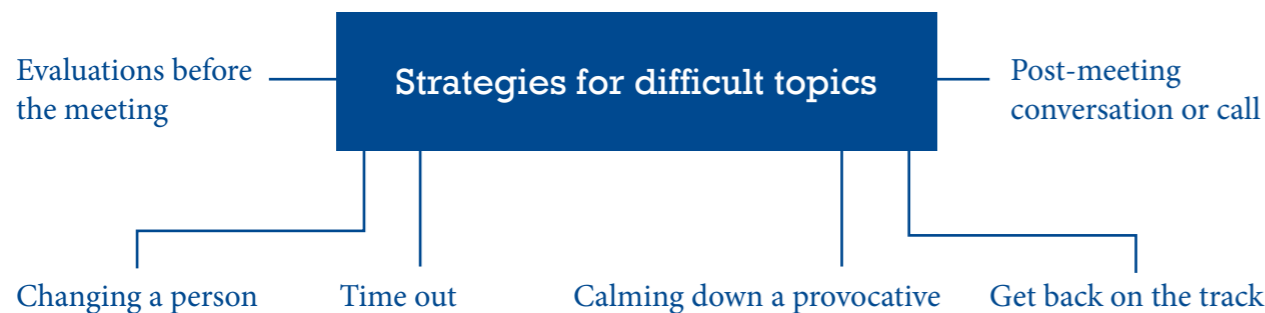
## Managing difficult board members (special cases)

Our respondents expected all fellow directors to give their best and contribute to the collective effort. They preferred to address cases of “non-conforming” board members proactively and to keep conflict and disagreements within the board, rather than expose other stakeholders such as management or shareholders to them.

Of several strategies identified (see Figure 1), the preferred one was to help the dissident member integrate with the board through an out-of-the-boardroom intervention. Most respondents would

start by having a personal conversation with a non-conforming member, and invest time to listen, question and understand the director's reasoning, assumptions and motivation. One chair would phone the dissident member after the meeting to ask for their views – in his opinion a “difficult board member” was not necessarily difficult by definition and often had something meaningful to say. Asking a question like: “*What are the main contributions you want to make to the board?*” helped him to understand the person. He might realise they had relevant views but that the board was biased against them. Or, if he did not agree with the member's view, he would move on by saying “*We agree to disagree.*”

Figure 1. Strategies for Dealing with “Special Case” Board Members



## Relationships with the CEO and management

All chairs interviewed worked closely with their CEO, an interaction that was often complex and followed no strict rules. Our respondents described their relationship with the CEO as professional as well as personal – not a “*personal friendship*” but one of “*mutual trust.*” One emphasised the importance of the human dimension: “*You need to know more details about the world of the CEO's everyday life, but you don't have to be an (industry) expert.*” Another chair stressed the mentoring element: “*It is your job to guide the CEO to be good at receiving and processing the response from the board, no matter if it is positive or negative.*”

Chairs understood that **information asymmetry** was inevitable – and treated it in a pragmatic manner, attempting to address the consequences of the asymmetry rather than reduce it. It was, they said, broadly accepted by the board as long as management and the chair kept the rest of the board updated.

One chair started meetings with “*the chair's minute*”, in which he summarised the important issues he might have raised with the CEO. He informed members about what had happened since the last meeting and took full responsibility for this. Another strives to keep the board informed, and to be honest with board and management about the level of information exchanged between him and the CEO. This suggests that he

has the board's trust that the principal issues will be brought to the board's attention, so there is no need to be informed about his every action. As one respondent said, the board should accept the fact that the chair and CEO can fix some issues on their own, but the degree of their autonomy should be aligned beforehand. In general, there was a certain *triangulation* between chair-CEO-board.

## Leading the board

Making the right decisions in the interests of the company and its shareholders was recognised as a complex and challenging task which required intensive collaboration among directors. We identified the following general principles and specific practices used in Denmark to create productive group dynamics on the board.

**Mutual respect and trust as a foundation for collective work.** Danish chairs do not consider the board of directors to be a cohesive team, but saw it as a group of professionals who know how to work together to make collective decisions. The underlying assumption is that such people respect each other on the basis of professionalism, rather than as the outcome of teambuilding activities organised by their leader.

**Integrating different interests.** One of the respondents shared her story of chairing a board of a large family fund. She could not influence the board's composition, which consisted of family and non-family members with very different backgrounds. She defined her main task as aligning directors' interests, and began by seeking to understand and then integrate individual directors' expectations into the agenda.

Other chairs were proactive in **shaping the board's composition.** As one said: “*If involving directors is too difficult because the board is too large, its size should be reduced. Effective boards are relatively small.*” The chair described a critical situation where a board of directors had to work closely with management but was so large that it was hard to get them together and make decisions. The chair approached the shareholders and they agreed to halve the board's size – the speed of decision making and quality of collaboration with management increased thereafter.

## Pre-meeting

New director's integration. Some respondents invested time on individual coaching to help integrate new and less experienced members, but it was not a universal practice.

Consulting key stakeholders. Before board meetings, the chair reaches out to key stakeholders – shareholders, board members, key executives – to know their positions and expectations. Many respondents underlined the importance of avoiding surprises and impulsive comments in the boardroom.

All respondents spent significant time preparing each board meeting. They believed the quality of materials played an important role in ensuring boards' effectiveness. Most chairs had intense discussions with the CEO during the preparation phase. Others believed that management should have more autonomy to express their position. This duality also pertained to management presentations: one respondent controlled all presentations before they go to the board members; others felt management should have some autonomy in presenting their views. The first group did a lot of homework to avoid surprises; the second believed that spontaneity could improve the quality of the final decision.

Board materials should be sent out neither too late, nor too early, since board members have multiple commitments and a limited attention span. The timing varied from one to two weeks before the meeting. Some defined the format and content of the board material down to the last detail. Many included the summary of the last meeting's materials in the board book, as well as of materials sent since the last meeting.

## During the meeting

Enabling others rather than dominating. Some respondents emphasised the need to avoid dominating or advancing a specific point of view as the most critical element of a chair's effectiveness. Although chairs often had an opinion about the “right decision,” they should let the board work it out collectively. A common practice was for the chair to start a board meeting by updating directors on recent events and interactions with management since the last meeting.



Managing airtime. Danish chairs ensure fair distribution and effective use of airtime during the meeting in a proactive way, for example:

- going round the table asking every member to state their opinion;
- giving the floor to the most knowledgeable director first, to set the tone;
- minimising irrelevant comments;
- placing items that require significant time earlier and before lunch;
- forbidding management presentations during the board meeting, or limiting them;
- establishing directions for board discussions;
- dealing with formal and less important issues off line;
- delegating important issues to board committees;
- encouraging directors to speak, while reminding them of the need for brevity and specificity.

Our respondents gave special attention to quiet directors. One asks whether the person *“agrees with our decisions, or keeps silent because they disagree? If the latter is the case we cannot move on, it will backfire in the future.”*

**Action-oriented minutes.** Minutes are action-oriented for management as well as for the board. They cover different views and opinions as well as conclusions. Such a style prevents the board from forgetting, ignoring or resurfacing key positions of the board members.

**Management participation.** Half of the respondents invite only the CEOs to participate in board meetings, others call in the CEO and direct reports from time to time. In most cases, executives attend only specific items. Most chairs conduct some in-camera sessions (without executives present) at the beginning or at the end of the board meeting.

**Conflict management.** Despite expressing a preference for handling potential conflict outside of the boardroom by talking to the parties involved, if a dispute arises they tackle it on the spot rather than break up the meeting. Respondents said they let each director present their side of the story and then involve the whole board in the conflict resolution. One said: *“I am not afraid of disagreement. You need a good deal of them for a healthy board. But I don't allow aggression or disrespect in the board room.”*

Table 4. Chair Leadership Guidance for Meetings

Provide enough time for preparation, sharing and making decisions;

Prioritise important topics in advance;

Ambiance is important, encourage everyone to contribute;

Avoid dominance or partiality;

Treat all directors equally;

Acknowledge the specific knowledge of each member;

Never forget silent directors;

Plan in great detail

### After the meeting

**Board evaluation.** Most respondents used board assessment as a method to analyse and improve the board's performance. One of them emphasised the collective competencies of the board rather than individual contributions. His approach is to ask the whole board to define the set of required competencies, and then each director evaluates the board along those dimensions. Then the whole board discusses the outcomes of the assessment and plans specific actions to improve effectiveness.

**One-to-one discussions.** Many respondents held one-to-one discussions with directors after the board meeting as way to preserve freshness of impressions and benefit from their engagement. One phoned board members afterwards and asked them to evaluate his performance at the last meeting, if anything went wrong, and what could be improved next time.

**Sharing information.** Respondents said they try to create and maintain a single information space for all directors in between meetings. One said that whenever he gets a question from one board member, he sends it to the entire board.

### Chair succession

There was consensus among all respondents that succession was not their business but the business of the shareholders. Danish chairs do not prepare their successor, leaving it entirely to the owners. As one put it: *“If the owner is not fully satisfied with the work of the chair, he will look for a new one.”*

## Summary

While many practices identified by our research are of a universal or global nature, some aspects of the chair's work have national roots and are specific to Denmark. We found traditional cultural values defined by the 19th century Danish philosopher Nikolaj Grundtvig such as a spirit of freedom, disciplined curiosity and equality had an impact on the ways chairs think about and execute the job

In Denmark, an important condition for being an effective chair is to feel that you “control your board,” its dynamics and workings, as opposed to under external control of other actors. This translates into relationships with shareholders, which could be paraphrased as: *“I actively interact with you – listen, inform, ask – but I am the master in the boardroom.”* Danish chairs see it as a dynamic relationship, which is not set once and for all, but should be regularly updated. They regard the board as a group of capable, mature professionals, whom they respect and trust as individuals and collectively unless proved wrong. And they expect the same respect from each member towards the board and the chair.

Transparency, putting all facts on the table, and shedding light on all matters are important to Danish board leaders. They encourage everyone to speak their minds with vigour and determination, are not afraid of conflicting views and disagreements, but prefer to deal with them in a proactive way.

Danish chairs run meetings in an interactive and lively manner. Procedural fairness is important for them, but formalities are of little value. They allow directors to formulate their opinions in mul-

iple ways but do not shy away from taking an active part in the discussion. They make sure that every director feels his/her opinion has been heard and counts. Above all, they are pragmatic and effectiveness-driven – the board has to make decisions.

They proactively ensure the quality of the board by conducting board evaluations, acting on them by personally coaching and mentoring directors, and even replacing board members (with shareholders' approval). Surprisingly this proactivity does not extend to their own succession – all our respondents left it to the shareholders.

### In the next decade, we foresee the following trends in Denmark:

- There will be more female board leaders, but their number will not exceed a quarter of all incumbents.
- The number of younger chairs will increase.
- There will be more non-Danish chairs in Danish companies than today.
- The diversity of the chair population will noticeably rise. We will see more chairs without CEO experience, though it will remain the main career path for future board leaders.
- The complexity of the chair's work will increase and will require more time and knowledge.
- Danish chairs will need to learn their business sectors better and use expert help to conduct their work.
- Information technology will become an integral part of the chair's work. Many meetings will move on-line, paper will disappear from the boardroom.

Andersen Paul Krüger, Corporate Governance in Denmark, Stockholm Institute for Scandinavian Law, 2009

European Commission recommendation on the quality of corporate governance reporting, April 2014

Recommendations on Corporate Governance, November 2014

## Resources for this chapter





## 06 Italy

Anna Zanardi

Italy is a parliamentary republic, a founding member of the European Union, and is defined as a developed market economy. In 2015, GDP was US\$ 1.8 trillion, US\$ 30,000 per capita. Italy is the only G7 country to register a negative percentage change (-0.2%) in per capita GDP since 1997. The service sector accounts for over 70% of GDP, industry around 24%, and agriculture just above 2%.

Italy has 4.5 million enterprises which employ about 13 million people. Privately-held companies account for the majority of active businesses, 95% of them are SMEs. Around 320 companies are listed on the Borsa Italiana (Italian stock exchange). The concentration of ownership is very high: 46% of listed companies are controlled by a shareholder with more than 50% participation. Family businesses dominate the business sector.

Over the last 30 years attention to corporate governance has significantly increased among government, shareholders and other stakeholders. The creation in 1985 of the Commissione Nazionale per le Società e la Borsa (CONSOB), an independent authority responsible for regulating Italian financial markets, was an important step in this direction. It has a division dedicated to corporate governance which monitors compliance by public companies with regulatory requirements and best practice. The latter are set out in a Code of Corporate Governance, last updated

in July 2015, based on the “comply or explain” principle, whose provisions have been widely adopted among Italian public companies.

The Code does not impose a mandatory structure for boards. The majority of Italian companies operate under a one-tier model, where executive and non-executive directors sit on the board. Only few financial institutions have a two-tier board model (supervisory and management boards). Under the one-tier model, the board is responsible for approving the strategic, operational and financial plans and monitoring their respective implementation, defining the risk profile of the company, ensuring an adequate organisational, administrative and accounting structure, approving extraordinary financial operations, and adequate disclosure and control as required by law.

The board has responsibility for making key executive appointments on the recommendations of three board committees for Remuneration, Nomination, and Control & Risk, as stipulated in the Code of Corporate Governance (Article 6). In practice, nomination and remuneration responsibilities often come under the purview of one committee.

An additional part of the corporate governance system is the Board of Statutory Auditors (*Collegio Sindacale*), made up of three statutory auditors and two substitute auditors. All statutory auditors are required to have professional certification.



**GDP in 2015 –  
US\$ 1.8 trillion**



**4.5 million  
enterprises employ  
about 13 million  
people**

Italian boards have 11.6 members on average (EU average is 12.3). The number of independent directors on boards has steadily increased over the last two decades, to 5.8 on average. Women represent 27.6% of board members, up from 11.6% in 2012. A new regulation requires one fifth of board members to be women, rising to one third when the board comes up for reelection. Since the enactment of Law 120/2011, directors have tended to be younger, more educated, and less tied to the controlling shareholder.

The Code of Corporate Governance recommends the separation of the CEO and chair positions – as is the case at most publicly-owned companies. Among the duties and responsibilities of the chair outlined in the Code are:



- To create effective board dynamics by the timely provision of quality materials, setting productive agendas for board meetings, facilitating board discussions, and holding induction sessions to ensure directors update their skills and familiarity with the company. The induction of new directors is also advocated by the Corporate Governance Code of the Italian Stock Exchange, to provide them with information on the company, its financials, management systems, risks, etc. Ten of the 15 chairs interviewed had implemented a full board induction process. The remaining five were in the planning stage and intend to implement it in 2017.
- To ensure effective liaison between the board and management. Chairs are

entrusted with organising the board's work, liaising with executive and non-executive directors and between the board and the management. They ensure that directors do not interfere with or influence management beyond the purview of the board.

- To ensure efficient communication between members of the board of directors and the board of statutory auditors, and to guarantee the latter with access to key information.
- To conduct board evaluations. Valuations are generally conducted once a year, either as a self-evaluation exercises by the board or with the help of external consultants.



## Chairs Interviewed for the Project

We interviewed 15 chairs, one third of them women. Eight of interviewees chaired listed companies, seven presided over family businesses or mid-sized unlisted companies. None of them combined the role with that of CEO (i.e., they were non-executive chairs). Three had a mandate with regard to institutional communication. None were entrepreneurs or a shareholder in a listed company. Two were shareholders in a family-owned company. None had any other job – hence they can be defined as “professional” chairs. On average, they had held their positions for four years (shortest two years, longest ten years). Nine presided over two boards, two over four boards, and four over a single board. For two of them, diversity among board members required a special effort with regard to foreign languages.

Four of the 15 defined the role of the board as ceremonial. The other 11 defined its function as principally supervisory and highly strategic. All the boards had nominating, remuneration and risk committees.

The average number of meetings was ten per year (minimum six, maximum 13). There was a correlation between market capitalisation and the number of board meetings, probably related to the fact that higher capitalisation is often associated with larger size and complexity, making frequent meetings necessary. The rate of participation in board meetings was 92%.

Meetings on average lasted two and a half hours (shortest one hour, longest up to six hours). Banking advisors met more often and for longer,

Respondents underlined the need to provide the same data to majority and minority shareholders, to disclose the same information to all, and to behave in a uniform manner towards all board members

a trend we believe is a direct effect of regulatory provisions aimed at increasing directors' accountability.

The interviews revealed valuable insights into how the leaders of Italian boards operate. Our findings are aligned with the major challenges identified in INSEAD Global Chair Survey 2015.

### Relationships with shareholders

Establishing and maintaining good relationships with shareholders was considered to be one of the most important aspects of the chair's job. One-to-one conversations were the most common way to doing this, usually before board meetings – and especially when deliberating on crucial decisions. These mainly occurred over the phone to facilitate scheduling and logistics issues. While pre-board meetings were initiated equally by chairs and shareholders (or their representatives in case of minority shareholders' associations), the follow-up was mainly done by the chair within a week of the meeting: 14 respondents made follow-up calls within a week to update people on board decisions and listen to shareholders' reactions. *“It's very important to solicit follow-up without leaving too much time to distort memories,”* said one.

Respondents felt that meeting in person with shareholders was important to maintaining good relationships, and held meetings at least every quarter on average. As one said: *“Face-to-face meetings are very much part of the Italian culture. We need to sit at the same table and look at each other to reinforce the trust and sense of sharing goals. Often, I organise individual business lunch or dinner with shareholders. I understand that it's more than sharing updates – we need to share live moments to feel comfortable about discussing critical business issues.”*

Respondents underlined the need to provide the same data to majority and minority shareholders, to disclose the same information to all, and to behave in a uniform manner towards all board members.

### Relationship with the CEO and management

In nine cases, respondents defined themselves as “coaches” to the CEO or the board; six respondents felt that they were good “mediators” – with the board but not necessarily with the CEO, although none reported conflict with the CEO.

### Leading the board

The concept of “alignment” between different players emerged as a central theme: *“Alignment is the most important dynamic a chair can put in motion when arriving in a board. Alignment means that after having freely expressed own ideas and dissent, we make an effort to be convergent about the final version of what we'll present outside the board, without exception, so that people feel how strong we are, being all together in the same boat.”*

**Facilitating discussion** among board members was a main concern for 12 respondents, e.g., calling on more reticent ones to speak and containing those who talk too much. This is a delicate issue, requiring strong social skills and interpersonal sensitivity. All of the chairs interviewed had undergone some form of “preparation”, past or present, aimed at improving their soft skills. One said: *“I've spent some time in the recent past to know myself better, my deep-rooted beliefs, and also my reactions. It is time well spent to be more self-aware and available for the collective interest of the board.”*

Thirteen respondents opened board meetings by presenting the agenda and then gave the floor to individual participants to make a presentation; they concluded the meeting with a quick recap and an invitation to continue the discussion informally over drinks or a light lunch. Two respondents asked the first planned speaker to read the agenda.

Half of the respondents dedicated 70% of board meeting time to presentations and the remaining

30% to discussion; the other half tried to reach a 50:50 balance. As one said: *“The most difficult task is to explain effective rules for the executive presentations so that the time spent in the board is mainly on discussion, not on the narcissistic needs of the manager.”* Some chairs established formal rules for management presentations such as a maximum of three slides and 10 minutes.

For all respondents the preparation of board meetings required a substantial amount of time. In Italy it is considered best practice to send documents out six days prior to the meeting, although only two consistently followed the rule; others delegated the task to the board secretary, and three days ahead of the meeting was more common.

Pre-meeting dinners were usually well attended – by 75% of board members on average. For 13 respondents, dinners with board members were critical. However, they preferred smaller groups rather than a full board dinner. For example, they tried to rotate periodical dinners with independent board members and committee chairs, and leave full board dinners to special occasions (e.g., before an annual shareholder meeting or investor day). The decision was influenced by the location of board members and how often chairs had the opportunity to meet in person without advance planning.

The Code of Corporate Governance requires that the chair organise an **annual evaluation** of the board and its committees. Three respondents carried out a board assessment every year, while the other 12 once every two years. Twelve used external consultants, three did an internal evaluation. Evaluations covered items such as board size and composition, professional competencies and experience of directors, and proportion of female directors.

### Managing difficult board members

Four respondents shared their approach to managing a “special case” board member. They dealt with the situation by meeting the individual before and after board meetings to seek alignment, allowing dissent in the boardroom while containing the risk of open conflict with other members. One said: *“You have to give enough space for expressing own positions and also intervene with the right timing in order to avoid disruption. It's not very easy*

*to be unpleasant but sometimes it's needed. You have to cut in a gentle way but firmly.”*

When open conflict arose, the chair took on the role of an outside mediator who set up a one-to-one meeting with the dissenter. Thirteen of the fifteen chairs felt their role was central to maintaining good relationships between board members, and that it was important to give equal attention to the different interests represented. As a result, a large part of their work was performed outside the boardroom. The other two felt that the general atmosphere on their boards was good and did not require their intervention.

### Relationships with external stakeholders

All respondents considered institutional and external communication to be important tasks and constantly worked to maintain a positive image of the company in the eyes of the wider business community, not only shareholders. Meetings with institutional stakeholders such as regulators, banks, suppliers, etc. were carefully planned in advance but often held in an informal context such as over lunch or dinner. Some respondents met with their board counterparts during the summer holidays – professional and personal life and networks are often mixed in Italy.

### Chair succession

The Code recommends that boards of directors “evaluate the adoption of executive succession plans” but says nothing more specific about succession to the chair. Transparent and planned preparation of future leaders has never been a strong element of Italian business culture; succession decisions have traditionally been made when a sense of urgency prevails.

Our research found that some progress had been made but succession is not a major preoccupation of Italian chairs. Five respondents reported that they are working or have already worked out their succession plans, each time with the help of an external consulting company. Four had not concerned themselves with such plans, all from the banking and insurance sectors.

## Summary

In Italy, the chair's practices are defined by law, a constantly evolving code of self-discipline and by cultural traditions. The chair has two clusters of interaction: one with a dozen or so board members, including the CEO, CFO, one or two other executives and the company secretary; the other made up of large shareholders, company managers, representatives of regulators, the media and professional associations. The chair interacts with the members of the board circle relatively frequently – seeing them face-to-face every couple of months and communicating (by phone/email) more often. Interaction with the members of the second cluster happens a few times a year.

In Italy, the chair has a conflict-resolution function and assures smooth board dynamics. The most effective chairs identify and resolve/manage conflict outside the boardroom. Among board members, the chair is generally the most exposed to the media and certainly to shareholders. The chair has direct contact with internal audit, and thus a critical compliance role. As such, the chair has the dual responsibility to lead strategic thinking by the board of directors and to assure company compliance by upholding solid line reporting of the internal audit function.

Looking ten years forward we see a number of trends with regard to chairs in Italy:

- More diversity in terms of gender and age.
- Notable increase of foreign chairs, or chairs with substantial experience outside Italy.
- More attention to new technology, including digital and big data.
- Increased induction and education for the chair and directors.
- A broader role in the new member nomination process. Today this is currently within the scope of the Nomination and Remuneration Committees, and the chair takes a marginal role.

More formal settings for board work to balance the predominantly informal occasions that still consume much of the time chairs devote to the function. It is to be hoped that a more formal way of managing boards would reduce the risk of decisions being taken in an informal and emotional way rather than applying data and analytics in the boardroom.

## Resources for this chapter



Italy Corporate Governance Code, July 2015

Italian Stewardship Principles, July 2015

New Regulation on Banks' Organisation and Corporate Governance, March 2008





## 07 Turkey

Hande Yasargil,  
Alexey Ulanovsky

**T**urkey is a transcontinental country linking Europe, the Middle East, North Africa and Central Asia. It is a parliamentary constitutional unitary republic. The president, as a head of state, has mostly ceremonial powers; the prime minister is appointed by parliament and is head of government.

Turkey's population reached 78 million in 2016. The country has urbanised dramatically and opened up to foreign trade and finance. Many laws and regulations have been harmonized with European Union (EU) standards, and access to public services has been greatly expanded.

The country has a market economy with a diversified structure in which services represent 65%, manufacturing 27% and agriculture 8%. Family businesses of many different types, from mom-and-pop shops to multi-industry conglomerates, dominate the Turkish economy, accounting for almost 90% of GDP. Of these, 48% have been in business for over 35 years. In 2016 there were just under 400 companies listed on the Istanbul stock exchange, a majority of them large family businesses with a controlling shareholder. Dozens of Turkish companies are listed in London, Frankfurt and New York.

At the dawn of the 21st century, Turkey undertook impressive economic reforms, privatising state-owned companies, modernising public services,

opening up to foreign direct investment, and harmonising its laws with EU regulations. Its ensuing economic growth exceeded 5% per annum on average. The economy contracted sharply in 2009, but recovered swiftly the next year, only to shrink again in 2014 and 2015. In 2016 GDP was US\$ 730 billion and per capita GDP US\$ 9,400. Turkey is a net importer and FDI in 2016 represented less than 1% of GDP. It is ranked in the medium range in terms of human capital development (72nd in the world) and equality in income distribution (56th).

Corporate governance in Turkey has undergone profound changes in the last decade. The Turkish Commercial Code (TCC) and Capital Markets Law (CML) set out the main principles of corporate governance for public and private joint stock companies (JSC). Both largely reflect the spirit and the principles of corporate governance developed by the OECD.

The Capital Markets Board (CMB) is an independent regulatory and supervisory body overseeing Turkey's capital markets. It updates requirements for governance in listed and non-listed companies through communiqués covering different aspects such as information disclosure and conflict of interest, and is responsible for ensuring their implementation. The Turkish Capital Markets Association (TCMA), a self-regulating organisation, sets rules of professional conduct

and monitors its members' behaviour accordingly. Turkey has a one-tier board system under which both executive and non-executive members make up the board of directors, the highest governing body in the company. The board has full authority to manage the company. In practice, it delegates managing powers to the CEO or, in rare cases, more than one managing director. Non-transferable powers include the appointment of key executives, approval of the management structure, supervision of executives including appraisal and remuneration, compliance with laws and regulations, and organisation of shareholder meetings. The board is also responsible for effective communication with shareholders.

The Turkish code prescribes a board size for JSCs of no less than five members, with no less than 50% of them non-executive directors and one third independent directors. The average size of a Turkish board in 2013 was ten. The chair is responsible for setting the board agenda, providing materials, and ensuring directors' attendance, and conducting board meetings in such manner that every director contributes to the collective work. The responsibilities of the chair and the CEO should be clearly delineated – the Code recommends that these positions be filled by two individuals and stipulates that where combined, the board should disclose the reason.





## Chairs Interviewed for the Project

We interviewed five men and one woman for this project, aged between 55 and 65. With one exception, they all are based in Istanbul. While two are second-generation owners of the companies concerned, four are professional chairs who are (or used to be) the CEO in the organisation. Together they occupy 43 chair seats, all of them at privately held companies and three of them publicly traded.

Even though none of them chair an NGO/charity today, they have all served as chair in at least one charity in the past and continue to sit on the board. Without exception, they all have CEO experience, and two hold a controlling large share. All have a full-time engagement with the organisations they chair. Their chair experience varies between 6 years to 16 years.

Their boards meet either monthly or bimonthly, in most instances for half a day. In terms of governance, in some companies there are only shareholders, and in others there are executive, non-executive and independent members. In most of them diversity is important, although the diversity criteria vary. Diversity in functional expertise is number one. Industrial experience, governance experience and international experience follow that. Gender is a criterion for board diversity only for two of them.

Most of their boards actively use committees, especially those mandated by the Capital Market Board, such as risk and audit committees. Optional committees, such as for ethics and human resources, are used only in few of them. Three respondents chair boards where foreign investment, shares, representation exist. Two chair local companies where 100% of the shares belong to a foreign entity. One is chairing a fully local investment.

INSEAD Global Chair Survey 2015 identified main challenges for the chairs of international companies, as follows:

- Relationships with controlling or large shareholders;
- Informational asymmetry with the CEO and management;
- Level of collaboration and teamwork among board members;
- Managing difficult board members (special cases).



## Turkey's Chairs: Global Challenges and Practices

The following analysis covers these four topics with the goal being to understand the *leadership practices* applied by chairs in Turkey.

### Relationships with controlling or large shareholders

Turkish chairs consider this to be a real challenge and an important element of their work, especially when the chair is not a large shareholder. They are very involved with owners and use both formal and informal tools to interact with them.

Five respondents rely on regular reporting to keep shareholders informed. Most of them prefer to send very detailed materials before the meeting so the shareholder feels in control and also trusts the management because of their detailed openness. One chairman prefers to report only the basics and inform the shareholder verbally, with the management, during the meeting.

One respondent conducts an annual strategy meeting with shareholders to review and document strategy and board agenda for the next year. He then relies on agreed points to navigate the board during the next twelve months. Another goes to see a shareholder before each board meeting to prepare all decisions which have to be made by the board. Some chairs take shareholders and their representatives out for dinner to discuss the upcoming board meeting informally.

Turkish chairs interviewed for the project consider minority shareholders to be important and legitimate stakeholders who should be treated with dignity and consideration. As one respondent said: *"He can have a small share in a business, but be a wise and experienced man. I want him to feel that I value him as much as I do large shareholders."*

### Informational asymmetry with the CEO and management

One way to manage the informational asymmetry is to explain everything at the meeting, and this is mostly dealt with by the chair. Another way is to send detailed presentations of company news to the board members. The management is willing to "drill down" to any level of detail for those who want it. Board committees on ethics, governance and audit also help to overcome informational asymmetry.

The presentation reports are usually very structured, but in some cases one chairman says *"You may have overlooked..."* and points out where information is lacking. Where the asymmetry is between the chairman and the other members, he closes the gap. One chairwoman had no asymmetry because as the CEO she shares all information with everyone. Another said *"We call it 'integrity of the information' and are very sensitive about accuracy and consistency."* The chair sees and approves the pack that goes to the members.

### Relationships with the CEO and management

The research identified a number of specific practices Turkish chairs use to interact with the CEO, including some unorthodox ones.

**Clearly dividing areas of responsibilities.** One respondent called himself an *"executive chairman"*—under his model the CEO is 100% responsible for execution and the chair for governance and strategy. All executives report to the CEO, but audit and risk report to the executive chairman.

**Managing CEO performance.** One chair works closely with the CEO as a supervisor. The board has established formalised KPIs and the chair reviews progress in formal meetings with the CEO. In addition they have less formal mentoring sessions. Other respondents are also involved in directly supervising CEOs and providing performance feedback, in some cases after each board meeting, particularly when the chairs is the controlling owners or former CEO of the company.

**Mentoring.** Providing advice and patronage is often used in the relationships with the CEO. One respondent explained: *"Since I groomed and promoted the CEO, he consults me as he does with an older brother, and I mentor him."* This "mentoring from position of seniority" has its drawbacks as some CEOs try to devolve responsibility up to the chair. One chair said that he always pushes back on such attempts.

**Recognising.** Chairs make CEOs aware that their contributions are noticed and appreciated. They don't wait for a formal performance appraisal session but do it informally when the opportunity emerges, including during board meetings.

**Rehearsing with CEO.** One rehearses upcoming board meetings with the CEO. He considers



One chair provides mentoring not only to the CEO but to his direct reports. This allows him to understand what kind of leadership talent the company has.

it not only a good way to prepare for an effective meeting, but to motivate and train the CEO. He observed that *"Turks are less prepared than international CEOs and need more support."*

**Initiatives' sponsorship.** One chair uses the practice of assigning a board member as curator of a specific initiative which management has to implement. The curators work closely with the CEO and other executives, provide mentoring, advice and feedback.

**Mentoring sessions for CEO-1 level.** One chair provides mentoring not only to the CEO but to his direct reports. This allows him to understand what kind of leadership talent the company has.

## Level of collaboration and teamwork among board members

**Collaboration outside the boardroom.** One chair considers board committees to be an important venue for directors, and encourages and supervises committee work. He believes competition for excellence between the committees to produce high-quality work increases collaboration among committee members. He invites them to company-sponsored events like art exhibitions and award gatherings to enhance their feeling of belonging and togetherness. Chairs also organise lunch after the meetings. As one of them said: *"It is never enough just to come, have the meeting, and go. They need to enjoy each other as well."*

One board leader who emphasised the power of joint intellectual effort organises brain-storming sessions for board members with the participation of external speakers. He brings directors to product launches and customer meetings, and even sets specific performance-improvement projects. Another appoints board members (including independent ones) as sponsors of executive initiatives. Some chairs use a questionnaire for the board to assess each other, and when results do not meet expectations they discuss them at the board meeting.

## Facilitating effective discussion

We discovered three approaches to running board meetings among Turkish chairs, referred to as structured, semi-structured and delegated (professional) facilitation.

**Structured facilitation.** Proponents of this approach believe in planning, timing and controlling. They set the agenda and allocate time for each item in advance, establish the rules of engagement and enforce them. One chair always opens the meeting with procedural questions, tightly controls the time, the order and the flow of the discussion, disciplines anyone who deviates, solicits the opinions of silent directors, and closes the meeting. He does not allow meetings to be interrupted by phone calls or strangers. Another chair insists on sticking to the pre-defined agenda and timetable.

**Semi-structured facilitation.** One chair subscribes to a more flexible approach. She allows new items to be added to the agenda, but keeps them for the end. She organises breaks when she feels directors need some fresh air. Another said he leads with emotional intelligence: *"You should be in the meeting, but also look at it from the outside to see what's going on and intervene accordingly."*

**Delegated facilitation.** One of our interviewees is a controlling shareholder and a chair of several boards. He delegates the job of chairing board meetings at some of his companies to lead independent directors (LID), who are usually experienced professional directors and sometimes professional facilitators. Under this model, the LID runs the meeting while the chair participates in it as a director.

Another tries to create an inclusive, collaborative environment for active participation of board members, and in cases of non-constructive behaviour he intervenes with authority.

Table 1. Turkey's Chairs' Strategies and Practices

Stage	Chairs' Strategies	Chairs' Behaviour Practices
Pre-meeting	Informational and communicative readiness	Sharing high quality reports (very detailed or standard)
		Reaching a pre-agreement
	Networking activities	Getting together in a social context. Most of them organise a dinner or lunch before the meeting
		Encouraging some members to be in touch with executives. Only some chairs encourage members
		Sometimes the committee members or less participative members are invited to be closer with the management
		Creating social environment for ownership. Product launch, art exhibition, guest speaker event, etc.
Meeting	Process moderation and facilitation	Clear agenda
		Time allocation for each item
	Harmonisation	Encouraging every voice to be heard
		Equal treatment
		Interaction with presenting executives
Post-meeting	Wrap up & follow up	Sending minutes
		Being in touch and having mini discussions if an item could not be decided or postponed
		Questionnaire

## Managing difficult board members Respondents defined "difficult member" as someone who:

- makes challenging comments during the meeting;
- derails the agenda;
- is quiet;
- goes into too much detail;
- does not contribute in general.

We identified specific strategies and tools that chairs used to manage these different cases.

Table 2. Managing Difficult Board Members

Deviant Behaviour	Chairs' Response
<b>Challenging a board member in the middle of the meeting</b>	Replying directly to the "challenger" Cutting the "challenger" short
<b>Derails the agenda</b>	Controlling the track of discussion and asking to summarise
<b>Too quiet</b>	Paying attention to the member and encouraging him/her at pre-board meetings
<b>Goes into too much detail</b>	Providing individually more detailed materials
<b>Does not contribute in general</b>	Engaging the person in discussion

**Raising the engagement of the person.** One chairman said that difficult members get even more difficult if excluded; it is easier to manage those members by involving and engaging them more, having them meet with the CEO and ask questions before the meeting. Since they are a family company, they mostly resolve issues without tension.

**Asking to clarify the point.** Directors who derail the agenda and create inefficiency are more of a problem for the chair. Depending on their age and relationship with the chair, one tactic is to ask them to summarise or conclude the point – there is little tolerance of nonsense.

**Pre-meeting talk.** Another chair handles difficult members by having a talk before the meeting to try to reach consensus, or discusses critical issues at the pre-meeting dinner or some earlier social occasion.

**Prolonged encouragement of less experienced members.** Someone who is very quiet and not contributing may be simply lacking in industry experience, one respondent noted. In one instance of this, the chair sent him all the reports much earlier than the meeting and encouraged him to have pre-meetings with the executives to learn more. After over three of encouragement the member became more participative.

**Giving more detailed reports.** Equally difficult are members who are very “detail oriented”. They tend to be cautious and ask for overly detailed reports. Once they understand the structure, meetings go more smoothly. One professional chairman said the shareholders always seek clearance from the chairman before they appoint a member, so the possibility of having a difficult member is low from the beginning.

**Deep listening with a non-judgemental attitude.** Another professional chair said, *“The most important thing is to understand. If she/he gives a tough reaction, that means we brought him to that stage. When we listen and show that we understand the point, it resolves automatically, and we see points where she/he is right too. It is important to listen to someone who is labeled a trouble-maker with a non-judgemental attitude. When you listen to them genuinely, you deserve a right to say something.”* This calls for “emotional intelligence” from the chair.

**Interrupting the meeting.** One chair conceded that when a deviant director did not

behave himself after an initial warning, he might stop the meeting: *“When everything was clear, but one member wanted to continue about the topic ignoring my warnings, I stood up, told them that I was cancelling the meeting and walked away.”*

## Chair succession

Thinking about and planning for their successors occurs mostly among chairs who are large shareholders or CEOs of the company. One respondent shared that his successor is almost ready to take over after working together for several years. A chair-owner of a large holding takes his succession seriously – he selects external governance and business experts as independent directors for some of his companies and looks at them as potential candidates to succeed him in the future. One chair-CEO has two potential candidates to succeed him in both positions and another five years to make his choice. Independent chairs in Turkey are not actively involved in their succession, leaving it to the shareholders.

## Summary

Although the formal corporate governance framework in Turkey is very similar to those in Europe, our research revealed some remarkable specifics in how chairs of Turkish boards conduct their work. A number of factors have a strong influence on their conduct:

- A prevalence of private and family businesses with physical shareholders as key actors.
- A hierarchical, high power distance national culture, with such values as seniority, family and relationships.
- Dynamic co-existence of formal “global” governance rules and standards and traditional models and instruments of formal governance.
- Dominating male governance culture.

Our research found two ideal types of Turkish board leaders – chair-principals and professional chairs. The former concentrate power in the organisation because of their ownership stake, CEO position, social status, or all of the above combined. They are masters in their organisation, no matter what the organisational chart or bylaws say. They call the shots and directors often work for them rather than for the board.

Professional chairs have no additional power compared to other types of board chairs. They work for the board and in many cases for the specific shareholders who appointed them. The latter are very involved and influential in board matters, while the chair will sometimes play a more technical role.

Despite significant differences between the status and work of chair-principals and professional chairs, there are specific elements common to a “Turkish chairing style”:

- Attention and respect to the social status of a counterpart. The latter is defined not only by formal affiliations, but by the whole web of social ties the person is a part of.
- Relying on social contacts and informal relations to get things done.
- Family-style view of the organisation, where chair is the big brother and directors are younger siblings.
- Maintaining a focus on performance (making decisions) and relationships (keeping the board a happy family).
- High value of social events such as dinners, outings and conferences.
- Emotional style of interaction, including at official board meetings.
- A powerful and at times forceful leadership style.

Turkey is going through a dynamic political transformation under an authoritarian president who is amassing unparalleled informal (and soon to be formal) power. Tens of thousands of people from all professions, including businessmen,

are being jailed and traditionalists are gaining more and more influence. This change is already having a noticeable impact on Turkish business. At the same time, the forces of globalisation continue to impact business and corporate governance in Turkey. The tension between these two forces – local and global – will influence how chairs of Turkish companies conduct their business. While it is hard to predict specific trends, some of the following are likely to materialise:

- Informal elements of a chair’s work will increase in volume and importance. More meetings will be held off-site, without minutes and even without all directors’ present.
- Value protection for shareholders (rather than value creation) will become a top priority for Turkish chairs and their boards. They will use all their all resources, including personal networks, to secure business and ownership continuity.
- Government and government-linked individuals and institutions will require more and more attention and time.
- Most chairs will be reliable, predictable, well-connected, and loyal to the key shareholder, operator or owner.
- Turkey is unlikely to see more independent professional board leaders, in contrast to other European countries.
- Women will remain an absolute minority in the chair league.
- Although information technology will make strides in the boardroom, it will not become fully-digitalised in the next five years. Some chairs will stick to the traditional way of doing things.

## Resources for this chapter



“Infographic: Turkish family businesses,” Campden FB Issues 59, November 2013

New Turkish Commercial Code, February 2011

“Principles of Corporate Governance”, Capital Markets Board of Turkey (CMB), January 2014

Reports by TUSIAD (Turkish Industry and Business Association)

“Women on board 2013,” Independent Women Directors Project Sabanci University, 2013





## 08 The Russian Federation

Ekaterina  
Ryasentseva

Russia is the largest country in the world, extending across Eastern Europe and Northern Asia. With 146.6 million inhabitants it is the ninth most populous country; 77% of the population live in the European part (West of the Urals). Russia is a federation with 85 federal subjects and a presidential-parliamentary republic – the president is the elected head of state; the prime minister is appointed by parliament as head of government.

Russia's GDP in 2015 was US\$ 3.7 trillion, seventh in the world (using purchasing power parity), but in terms of per capita GDP (US\$ 26,000) it ranks 73d in the world. Russia is one of the world's leading producers of oil and natural gas, and a major exporter of steel and aluminium. Reliance on commodity exports makes it vulnerable to swings in global prices. On the Human Development Index, it ranks 50th in the world.

About 4 million Russian companies employ more than 60 million people. The government plays a significant role in the economy. State-owned companies account for 75% of the transport sector and constitute almost 70% of GDP, up from 35% in 2005.

The primary sources of corporate governance regulation are the law on Joint Stock Companies and the Law on the Securities Market. In 2001, a Code of Corporate Governance was adopted



GDP in 2015 –  
US\$ 3.7 trillion



4 million companies employ  
more than 60 million people

and implemented on a so-called “comply or explain” basis. On the initiative of the Central Bank it was revised in 2013 and a new Code enacted in 2014. This specifies the functions of a board of directors, the organisation of its work and that of its committees, the criteria for independent directors, and recommendations on developing a remuneration system for executives.

Russian companies operate under a one-tier governance system, with a single board composed of non-executive and executive directors. The functions of CEO and chair must be separated. Russian boards are not small (10.3 members on average). They have limited gender diversity – less than 7% of directors are women. According to the Corporate Governance Code, boards should have “a sufficient number” of independent directors; 70% of companies follow this rule, with two independent directors per board on average. The Code recommends appointing a chair with an impeccable business and personal reputation and extensive executive experience, but limits guidelines to the chair's role and responsibilities to the following:

- **Communication with shareholders.** The chair of the board of directors should make himself available to interact with company shareholders.
- **Management of the board.** The chair should ensure that board meetings are held in a constructive atmosphere and that all items on the meeting agenda are discussed freely. The chair should ensure effective organisation of the board's work and its interaction with the other bodies of the company.
- **Providing information to directors.** The chair should take “any and all measures required to provide board members in a timely fashion with information required to make decisions on issues on the agenda.”
- **Conducting board performance evaluations.** The chair and nominating committee shall organise periodical evaluation of the board's performance, and if necessary develop proposals on how to improve board and committee work committees, taking into account the results of such evaluations.





## Chairs Interviewed for the Project

We interviewed nine chairs (one woman and eight men), aged between 44 and 63. All but one (UK) are Russian citizens. They have an extensive corporate governance experience: together they have chaired or chair 28 boards of directors (and served and continue to serve in 57 other boards as directors). Currently they chair 13 boards: five of them currently chair one board each (three are owners of the companies; two others – formerly top-ranking government officials – respectively chair a state-owned company and a private company). Two of them chair two boards each (one is an independent chair of two private companies, the second is an affiliated chair in two joint ventures which belong to the parent company, where he is Deputy CEO). One chairs four large public companies, another is no longer active but previously led four boards. Five out of these nine respondents had been CEOs beforehand.



## Russian Chairs: Global Challenges and Practices

INSEAD Global Chair Survey 2015 identified a number of key challenges for chairs in Russia – such as relationships with controlling or large shareholders, managing difficult board members (special cases), relationships with other key stakeholders. Our research questions were organised accordingly, asking respondents to what extent they consider them relevant and how they dealt with them. We also inquired about other challenges, strategies and practices used to manage them.

### Relationships with shareholders

For all respondents a shareholder was the number one stakeholder. But that specific shareholder has to be big and powerful, not every shareowner will qualify. Many respondents admitted that they work for the interests of shareholders (not the company or all stakeholders). One even worked for a specific shareholder: *“I always remember who nominated me as chair!”*

Since relationships with shareholders were high on every chair's agenda, they spent significant amount of time interacting with these people or their representatives. Specific practices for dealing with shareholders were primarily defined by type – government, private owner, legal entity – although the individual chair's personality and attitudes play a role in shaping it.

In working with the government as a shareholder, chairs consistently used formal channels and instruments such as registered mail, official

minutes, written requests stating the shareholder's position and so-called “directives” – formal instructions from the government to its directors on how to vote on a certain item on the board's agenda. When the government is a majority shareholder, the chair is often a conduit of rather than a partner of government. One respondent commented: *“It is a highly political function. 70% of initiatives come from the government and only 30% are generated by the board.”* Another said: *“I try to act in accordance with government interests, but in rare cases the government can't see that its decisions contradict its interests – in this case I speak-up, clearly expressing my disagreement and vote according to my conscience.”*

In addition to formal communication, informal ties played an important role in relationships between the chair and the shareholder. Chairs with extensive social networks actively used them to build relationships with and influence the government-shareholder. One explained: *“Government is an institution, but there is always a real man behind the institution. There are people who are responsible for the government stake in our company and I have good working relationships with them. Most of the time we find common ground. In rare cases when we don't agree, I speak to people in my network who are above them or can influence them.”*

In the joint venture (JV) context, a chair who is a senior executive at one of the partners, considered himself a representative of shareholders, and acts to advance those interests. He did not interact with other JV partners directly, but had created a system under which junior staff members from each partner prepared board decisions in advance and had them approved by the parties before the board meeting. He had delegated the shareholder management function to a specially created JV management and coordination department.

At private and public companies, chair-shareholder interaction is intense but usually less formal. At one private company, the chair met the CEO-majority shareholder once a month to informally discuss various issues related to the board and the company. At each meeting, among other things they reviewed progress in preparing the CEO's successor. Conversations were candid but the chair insisted on retaining independence of action.

Another chair invites two large shareholders of a private company for an informal dinner before every board meeting and organises more

**Chairs with extensive social networks actively used them to build relationships with and influence the government-shareholder**

a formal shareholders' get-together every six months to ensure alignment between their expectations and the board: *“To be effective you need to be in virtually permanent contact with the key shareholders. They built this business and they care about it as if it was their baby, but they are also very dynamic individuals and develop new ideas quickly.”* He created a Whatsapp group for shareholders and they exchanged messages on a daily basis.

The chair of the board (who is also a large shareholder) of a private company in which a global corporation owns a 50% stake, makes an annual trip to meet the CEO of the major shareholder in person to discuss dividend distribution and the investment programme. They speak over the phone every six to eight weeks.

All respondents agreed that working with large shareholders was a top priority which required time, patience and flexibility. As one put it: *“You just need to be available. They may have what they think is a brilliant idea and want to share it with you at the most inconvenient (for you) moment, but if you are not there they will share with somebody else, and the whole governance system will be at risk.”* Another agreed: *“I think I spend 60 to 70% of my time working with shareholders. If you get it right, the rest is easy.”*

Respondents spent less time interacting with minority shareholders. Most did not consider this part of their work a significant challenge. They did what the law requires, but no more. One chair of a public company said that this was the responsibility of the Investor Relations manager, who informed the board on a quarterly basis, together with the CEO.

Three respondents emphasised the importance of regular communication with minority shareholders. As one put it: *“Minority shareholders are like a thermometer – they have no direct influence on the company but a sincere interest in its success. It is always interesting to talk with them and to listen to them. I try to make sure their rights are protected and their voices are heard.”*



## Board dynamics

According to INSEAD Global Chair Survey 2015, the second major challenge for Russian chairs was managing difficult board members (special cases). We discussed this within the larger topic of managing board dynamics.

Respondents took a pragmatic in their view of the board, its purpose and interpersonal dynamics: it exists to make major decisions in the interests of shareholders. One respondent said: *"The board should work for the company not for stakeholders."* The chairs we interviewed did not waste time discussing the board's mission or operating principles with directors – they got straight down to business. None had tried to turn the board into a "team", as the following make plain: *"The board is not a team! According to the law, each member has a personal responsibility."* Unlike their peers in other countries, Russian chairs did not organise strategic off-sites or team-building events.

However, Russian chairs believe that **work outside the boardroom** is crucial to the board's effectiveness. They start with themselves, their own preparation and positioning. It's less about preparing for a specific meeting, but making the board a platform for a long-term effectiveness. All respondents invested significant time in getting to know the company, its key players, and to become known and visible in the organisation.

One chair spent up to three days a week in the company, during which he worked with the CEO and other senior executives, attended management meetings, reviewed reports and worked with the company secretary. He had a personal office next to the CEO's, and used the CEO's assistant's help: *"When I was just a 'visiting chair,' things did not work as well as they do now. My relationships with management were a lot more formal, materials less convenient and board meetings long and poorly structured."*

Others likewise emphasised the importance of their physical presence at headquarters to be effective. One recalled: *"A few years ago I became a chair of the board at a large company. It was in the process of moving offices and planned to have one huge for me. I refused at first, only to reconsider six months later. When you have a permanent office you send a strong signal to all key stakeholders: 'I am here. I am real. I care, and you better collaborate with me'."* Another added: *"Physical presence gives you legitimacy in the eyes of shareholders, directors and management."*

In addition to presence, **substance** matters. One experienced chair said: *"In Russia you need to understand the business very well. Some directors are often founders or their representatives, who eat, sleep and breathe this business. In order to gain legitimacy in their eyes, a chair has to develop industry and company knowledge."* The chair of two JV boards used his staff to generate this knowledge: *"It gives me the opportunity to get any information and data I need."* Another used site visits, management meetings and interviews with executives. A number held meetings with the CEO to discuss the upcoming board meeting a couple of days beforehand.

Respondents considered **board committees** a vital tool for good board decisions. One said: *"We do three quarters of the work during committees' meetings. Committees are small, their members possess relevant expertise and discussions are always candid. Board meetings are more formal, so I try to have good discussions at the committees' level and ask the board to approve proposed resolutions."* Another added: *"Our committees are staffed not only with board members but external experts. We also invite consultants few times a year to be part of the process. Committees do all the analytical work; the board does not need to spend much time for the decision making."*

Some were actively involved in managing committee membership. One of them said that he did not try to influence who gets elected to the board, but cares about the selection of committee chairs: *"I look for competent and honest ones."* Although they relied on committees to prepare the decision, decision-making power was rarely delegated to the committees.

We found different degrees of involvement in **managing board materials**. One respondent had established strict rules for all boards he chairs – materials were sent to all directors ten days before a meeting (others had seven and five-day rules). Some verified the materials before they go out: *"I always look at the materials first and sometimes I ask management to rework them,"* and others delegated the task to management. Many reported that they no longer sent materials by e-mail or post, but posted them on the board website.

To ensure directors came prepared to the meetings, respondents used different approaches. Some scheduled an informal dinner the previous evening, when the meeting was held outside the company location, in some instances dining other directors one-to-one. Others saw no point to sharing a meal.

Two respondents reported that they include "Come prepared" in the list of formal board rules. One experienced professional chair said: *"In Russia you have very strict rules, but everybody bends them. You have to be flexible and use multiple tactics to make sure your board members come prepared."* Others called their directors a few days before the board meeting, not to discuss specific topics or secure support, but to remind them informally of their duties and encourage preparation and participation.

Our interviews revealed specific ways in which chairs in Russia **lead a board meeting**. They are quite formal and forceful: they sit at the head of the table, set a detailed agenda and have the board stick to it, keep detailed minutes, strict allocation of time for presentations, questions and comments, actively manage the discussion process, and insist on detailed board resolutions. However, they often demonstrate flexibility if they believe it is beneficial to the outcome of the discussion or social cohesion of the board. One commented: *"The (board) process is flexible. First people tread a path and then it gets covered with asphalt."* This blend produces a particular style which we refer to as "domineering facilitation" (see below).

A number of specific practices used by the chair use in the board room were identified:

**Establishing and reinforcing the rules of engagement.** Some chairs set formal rules for board work. One set a a **"30-20-40-10 rule"**, 30% of board time spent on presentations, 20% on Q&A, 40% on discussion, 10% on making and articulating the decision. Others provided a timeframe for every agenda item: *"When we have to approve the annual auditors' report, I would give 10 minutes to the chair of the audit committee to speak, allow 15 minutes for questions and 5 minutes for discussion – the committee has done most of the work. When we need to approve an annual business plan there is no presentation, we go straight to the Q&A and spend the lion's share of time on discussion."* Many respondents had a formal length of time for management presentations and numbers of slides: one limited slides to five, another allowed 12-15 slides for management presentations, and set specific formats for budgets and investment projects.

**Actively managing board discussion.** Within a formal framework, respondents actively managed board dynamics, sometimes breaking their own rules: *"Yes, we have this '30-20-40-10' rule, but when I feel that directors are well prepared I may ask the CEO*

*to skip the presentation and go straight to the conclusions."* They did not hesitate to interrupt board members who had spoken for too long or off-subject, or to call upon a specific director to speak when deemed necessary. Some regularly went "round the table" asking each director to state their position on a specific question. Postponing a decision or moving an item to the next board meeting was routinely used as a tactic.

Management participation in board meeting prompted controversy among interviewees. Those with CEO experience tended to have senior executives present throughout board meetings, except for confidential matters. Others were more selective, inviting the CEO and the most senior managers for a limited number of agenda items.

**Voting.** Reaching consensus was not a must. One respondent said: *"It's nice to have everybody aligned, but we have to be efficient. When I feel the majority supports a specific decision, I put it to a vote as some directors may have a different view. We vote and move on."* Another added: *"Voting is a legitimate instrument. When I use it, board members do not have bad feelings, even those who voted against the decision taken."* Two respondents were categorically against voting, as they believe it destroys board unity. Both had attended executive development programmes at top international business schools.

**Board evaluations** were not universally made by our interviewees. Three were champions of evaluation, five used it because they felt it had to be done, one was openly critical. The "believers" conducted a short oral assessment at the end of the each board meeting and a 360-degree on-line evaluation once a year followed by individual meetings with directors and discussion with the entire board. One said: *"The annual evaluation is a major tool for improvement. In one of my boards we let go of two directors and brought in three new ones following last year's assessment. In the other board we overhauled the work of our committees. I don't know how I would have done it without annual evaluation."* One chair-founder was dubious about board evaluation: *"How they could evaluate themselves? They will only say good things about themselves! I am watching them and I tell them what does not work."*

## Managing conflict within the board

Arguments and emotions often flare up in the boardroom, but our interviewees did not seem too worried about it. Coming from a culture

of open conflict and heated debate, they know how to navigate them. Respondents distinguished between “sincere” and “false” disagreements and debates. They praised the former – “*directors are sincerely looking for the best solution, albeit from different points of view,*” and encouraged healthy debates, even emotional ones. But they distinguished these from those where “*people argue for the sake of arguing, or, worse, want to advance some political agenda.*” When “false” disagreement emerges, they halt the discussion and deal with it outside the boardroom, working individually with the interested parties, and returning to the question at the next meeting.

While comfortable with a highly emotional style, one respondent stepped in from time to time to manage conflict in a forceful manner: “*I don't like surprises, but when the discussion becomes too emotional and not productive, I say 'Cards on the table,' give every director a minute to state his position, and then we vote.*” Another affirmed: “*There are no conflicts, no destructors, just different opinions. If you do your homework, prepare all issues in committees, and all members know each other's position, you don't need to debate – just make the final decision by voting.*” This chair, in some instances, formulated his position before the board meeting and sent it to the other directors in advance.

When it comes to post-board meeting practices, arranging a dinner after a board meeting is the most common. Some chairs organise New Year parties for board members and senior executives: “*At such events, real board issues are rarely discussed, but people get to know each other better.*” One left time for informal discussion after the board meeting finished. Some met with directors informally and privately, to discuss specific business issues and strengthen social ties. One chair spent a day a month at company headquarters, keeping the door open to both board members and executives. Several had created Whatsapp and Telegram group chats for their boards.

**Managing difficult board members** was not seen as major challenge. “*Talkative types,*” “*silent types,*” “*absent types*” and “*power types*” were mentioned. The latter is the most difficult, and included directors who are large shareholders, their relatives or friends, and important government officials. One professional chair said: “*These people are used to telling others what to do and doing it on their own terms. They have a hard time listening to others. Large shareholders have another problem: most of them forget that the board is not a shareholders'*

*meeting and put on their shareholders' cap in the boardroom. To deal with it you need to combine patience with firmness.*”

Ways of working with power types included holding a private meeting before the board, reminding them of the rules before and during the meeting, interrupting the meeting to have a word, and even conducting an emergency shareholders meeting. One chair shared his experience in dealing with a director-government official who considered himself an expert in everything and disagreed with everybody: “*Initially I would always let him speak at the board, then I involved him in committee work so he could speak there, and it helped to reduce his airtime in the boardroom.*” Another conceded: “*Sometimes you just let the power guy speak for as long as he wants, hoping that you will be able to bring the discussion back when he is done. Other directors understand.*”

There was less tolerance of “talkative” and “silent” types. Interrupting the talkers, and reminding directors in the boardroom of their duties as well as “cold calling” around the table were common practices. Some chairs pursued the matter outside the boardroom: one respondent had a one-to-one conversation with a deviant director and offered coaching help. Another applied a *muzhskoy razgovor* (men's talk) approach – a tough conversation with threat of dismissal if the behaviour did not change. Four chairs interviewed indicated they had had to ask a director to resign.

There were two distinct approaches to managing “absent” (non-attending) directors. The first tried all means available to get them to participate, such as allowing to participate via phone or Skype, soliciting their opinion in writing, and transferring their vote to other board members. The chairs who subscribed to this strategy wanted to keep absent directors engaged, and thus informed them about the meetings they had missed and reminded them of their obligations.

The second group subscribed to a more radical strategy: “*You are either in or out.*” One said: “*If a board member misses 2-3 meetings, she/he does not take the job seriously and should be removed.*” They asked shareholders to re-elect the director, or, in the case of a state-owned company, sent a written complaint to the government body. A softer option was: “*I jeer at him, emphasising that he does not know much about the problem under discussion.*” Another said: “*I call him on the phone and beg him to come. Sometimes I say 'I will send you a plane – please come to the meeting, it's very important.'*”



## Other Challenges and Chairs' Practices

The **relationships with the CEO**, and in some cases with other senior executives, is a top priority for all chairs interviewed, but takes different forms largely defined by the parties' backgrounds. We identified two distinguished backgrounds – the **principal** (the person is either a significant shareholder in the company or a fully empowered representative thereof (in this case the Russian government or a state-owned company) and the **professional** (a person who has no significant stake in the company and works for a salary). There were four resulting types of relationships between chairs and CEOs (see Figure 1).

Figure 1. Chair-CEO Relationship Matrix

<b>Principal</b>	Dominant mentoring	Professional collaboration
<b>CEO</b>	Partnership	Advisory
	<b>Principal</b>	<b>Professional</b>

The principal chair-professional CEO dyad produces an intense relationship which we refer to as **dominant mentoring**. The chair leads and the CEO accepts to follow. The former sets the agenda, chooses the forms of interaction, provides direct advice and feedback, and even gives informal orders to the latter. We came across three cases of dominant mentoring when company founders had handed over the reins to a professional executive and had become the chair. One was quite open: “*Of course, I know that I should not interfere in his (CEO's) work, but I know this business inside-out and sometimes I just have a better feeling of what should be done, so I tell him. Most of the time he is grateful.*” Another agreed: “*I have a lot of experience and know many important people the CEO does not know. It's natural that I give him advice and introduce to some people, not the other way around.*” With dominant mentoring, the chair acts not as a leader or a spokesman for the board, but as a person with a specific background and a powerbase unrelated to his or her formal position.



When both the chair and CEO are principals, a different type of relationship emerges that we call **partnership**. Both have a high degree of autonomy and room for independent action, but they have shared goals, align their agendas from time to time, and cooperate when it's required. A chair of a company where the government is the controlling shareholder described the relationship: *"We both represent government, the CEO is not appointed by the board, but by the Russian President. We both can open important doors, but we also can help each other to help the company. We agree on that, so he does his job and I do mine. But when required we join forces, as was the case with the business strategy, for regulatory constraints we had to overcome, and in other cases. Sometimes he gets grilled by the board, but he accepts it. He knows that I am his great supporter."*

When the chair is a professional and the CEO is a principal the relationship turns into what we call an **advisory model**. Formally the chair is in charge of the board, sets the agenda and conducts the board meetings, but everyone in the system understands where ultimate power resides. The board and its leader perform their functions but only up to a point, beyond which the power of the CEO-principal prevails. The chair advises and educates the CEO, brings important information to his attention, and assists him in preparing and making decisions. The CEO may also educate the chair about the business, share his concerns and challenges, and ask for advice or a favour. The two cooperate but not on an equal footing. One chair respondent described his relationship with a founder-CEO: *"I come to see him every month, we speak one-to-one, very informally. I update him on the board's work, ask his opinion on important issues. He may ask my views on anything from Obama politics to the last remuneration committee meeting. Sometimes he asks for help in specific deals. I feel that he values my advice."*

When the chair-CEO relationship involves two professionals, we call it **professional collaboration**. The chair of a JV who is a senior executive of one of the partners described his work with the CEO who is a former executive of the same company: *"I provide him all information I have and he does the same for me. I run all major decisions by him before they go to the board. You may call it informal mentoring, but he also mentors me in some areas such as regional politics or local markets."* One ex-government official turned professional chair said: *"(It's) partnership and cooperation, not mentoring! My office is next to the CEO's. It helps our close professional relations as I can easily ask him: 'Sasha, please come to my office as there are questions regarding the investment program'."*

In terms of specific communication between the two, respondents largely opt for informal (no minutes) one-to-one meetings on the company premises, phone and Skype conversations, and texting. Some wine and dine their counterparts, others don't: *"Dinner is useful to break ice and establish relationships, but when you know a person it's better to meet in the office."*

Most of our respondents did not claim to mentor the CEOs. One was categorical: *"A chair should not be a mentor to the CEO, otherwise they become friends and the chair will start protecting management interests."* However, they all willingly introduced CEOs to the people in their social networks and provided other resources.

Most regarded **relationships with external stakeholders** such as clients, suppliers as less of a challenge, with one exception – government. Chairs with a government background or high social status (large shareholders) take on a significant part of PR work in addition to fulfilling their direct duties. They meet with government officials, speak at summits and conferences, supervise charity projects and promote the company image in other ways, e.g., things that fall in the management domain. In contrast, professional chairs usually stay out of the public eye and undertake projects only when asked by the CEO.

**Planning and preparing succession to the chair** was not a priority for the Russian chairs interviewed. Only one respondent was working on getting a CEO of a JV ready to succeed him as a chair, but the decision in this case had been made by the chair's boss. Other interviewees mentioned *"shareholders"*, a *"respective board committee"* and even a *"corporate secretary"* among the parties responsible for finding their successor. It's worth mentioning here that there is no culture of leadership succession in Russia, which makes the above observations less surprising.

Respondents actively used **technologies** in their personal work and for the boards they chair, e.g., video-conferencing for individual work with directors, committees and even some board meetings. Most boards have their own portals, and some use digital voting.

Russian chairs work hard and feel a huge responsibility on their shoulders. One said: *"I am representing the company all the time and everywhere. It is a huge responsibility, which creates some constraints. For example, I cannot drink in public places not to damage*

*the image of the company I chair."* Yet they still find room for humour: *"I am not afraid of joking, sometimes even to the point of absurdity. It helps to keep spirits up."*

In a country experiencing "first-generation capitalism", the presence of the principal in every organisation is extremely important. It is too early to draw fundamental conclusions because professional chairs have existed in Russia for 15 years at most.

## Summary

Since modern capitalism is only 25 years old in Russia, corporate boards as we know them in the West only emerged about two decades ago. The Russian model of corporate governance is still a work in progress and the chairs we interviewed are at the forefront of this. While it's too early to make far-reaching conclusions, our key findings are as follows.

**Russian chairs work for shareholders, not all stakeholders or long-term interests of the company.** Public companies with dispersed ownership are virtually non-existent. Russia is dominated by first-generation private businesses or state-owned corporations. The owners or their representatives (in the case of government owned-companies) are powerful and have a strong impact on the work of board leaders in terms of their attention, time allocation and even style.

**Relationships are more important than institutions.** Institutions such as boards of directors are quite powerful in Russia, and their responsibilities and authority are well-defined and correspond to the global standards promoted by OECD and other international organisations. Behind the façade, however, the situation is very different. Ownership structures and the power networks of key actors such as shareholders, their representatives, board members and key executives create specific constraints for chairs, and largely define their roles and the practices they use.

**Authority and facilitation.** Russian chairs are pragmatic – they want their boards to be effective decision-making bodies – yet they are ambivalent in the way they try to achieve this goal. On the one hand they operate from a position of authority and often act in an authoritarian way. Yet they can instantly switch to facilitating mode, ask other directors to speak their minds and reach a common position – only to put the dictator's mask back on if things do not go their way. We believe that extensive use of voting is one manifestation of this ambivalence.

**Traditional ways of working such as drinking or sauna parties are not in the arsenal.** Russian chairs are modern in the way they work, opting for office meetings and Skype calls over drinking sessions, as one said: *"We all are busy people. I would rather spend my time on a one-to-one meeting with a director than arrange a big drinking party."* They are also quite health-conscious and strive for a healthy life style.

## Trends for the Next Five Years

Russia's history teaches us that it is hard to make accurate forecasts, but we believe the following trends will materialize:

- There will be more professional chairs who exclusively dedicate themselves to this type of work, but the percentage will be still lower than in developed countries.
- The "professional collaboration" model of chair-CEO relationship will spread to many organisations, especially private and public businesses.
- Many government officials and ex-government officials will assume chair roles; for some it will be an informal retirement plan.
- Women will remain an absolute minority in the chair league.
- Chairs and their boards will become technology-savvy. Information technology will have a transformative impact on how Russian boards work.

## Resources for this chapter



Federal Agency for State Property Management (Rosimuschestvo)' recommendations to Boards of Directors, 2013

Listing Rules of Public Joint-Stock Company "Moscow Exchange MICEX-RTS", 2016

Russia Corporate Governance Code, April 2014





## 09 Singapore

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The Republic of Singapore, a sovereign state in Southeast Asia, is one of the five founding members of the Association of Southeast Asian Nations (ASEAN). It has a parliamentary system based on the Westminster model, whereby voters elect members of parliament (MPs) in a general election. The prime minister (PM), who is the leader of the political party that wins the most seats in parliament, forms a cabinet by selecting ministers from among the MPs, with a five-year mandate. Parliament has three major roles: making laws, managing state finances, and holding the governing party and ministries to account.

Singapore is home to 5.6 million residents, 38% of whom are permanent residents and the others are foreign nationals. Despite a lack of natural resources, Singapore has developed rapidly to become a global hub for commerce, finance and transport thanks to its external trade and highly educated population.

Singapore's economy is consistently ranked as one of the most open, pro-business and corruption-free in the world. In 2015, it had a GDP of US\$ 307.9 billion. Its per-capita GDP in terms of purchasing power parity is the third highest in the world. Singapore's investment climate makes it one of the most attractive nations for foreign direct investment. As a strategic port, Singapore benefits from entrepot trade through the purchase of raw goods that are refined for re-export

to the rest of the world. Services account for 70% of GDP, primarily in wholesale and retail, financial and insurance industries, and business services (real estate, rental and leasing services). Goods include manufacturing (electronics, chemicals and biomedical manufacturing), as well as construction, accounting for the remaining 30%.

Government-linked companies play an important role in the economy. Temasek Holdings, one major sovereign wealth fund, holds majority stakes in some of the Singapore's largest corporations.

Singapore is well known for its business transparency and advanced corporate governance policies. In 2013 and 2014, the Asian Corporate Governance Association put Singapore at the top of its list for corporate governance performance. A global ranking by KMPG in 2014 put Singapore in third place, behind the US and UK.

The groundwork for its corporate governance was laid in the years after Singapore declared independence. The Companies Act of 1967 and the Monetary Authority of Singapore (MAS), which was established as a statutory board in 1970, played a critical role in regulating all aspects of monetary policy, banking and finance, which were previously handled by different agencies.

The Asian financial crisis of 1997, which saw assets devalued and stock markets' decline across

Southeast Asia, prompted the MAS to take a fresh look at corporate governance. It formed a number of committees to review existing practices and develop recommendations to improve business sustainability. In 1998, the Singapore Institute of Directors (SID) was established to promote high standards of corporate governance and steer corporations towards good practice. Its corporate governance committee issued a framework for a Code of Corporate Governance in 2001.

Following the global financial crisis in 2007, which led to tighter regulations in global capital and liquidity rules, a second revision to the Code was made in 2012, with a number of provisions designed to address issues such as transparency of remuneration, the board's role in managing risk and setting ethical standards, and many references to long-term interests, risk management and incentives. To understand the regulatory framework for boards, key elements from the Singapore Code of Corporate Governance (Monetary Authority of Singapore, May 2012) are outlined below.

The role of the board is to **“lead and control the company”** and it is **“collectively responsible for the long-term success of the company.”** According to the Code, **“The board works with the management to achieve this objective and the management remains accountable to the board.”** The chair's role is to **“lead the board to ensure**



**its effectiveness in all aspects of the board's role**" including: "Setting the agenda and ensuring adequate time is available for discussion of all agenda items, in particular strategic issues; promoting a culture of openness and debate at the board; ensuring that the directors receive complete, adequate and timely information; ensuring effective communication with shareholders; encouraging constructive relations within the board and between the board and management; facilitating the effective contribution of non-executive directors in particular; and promoting high standards of corporate governance."

While corporate governance in Singapore is considered among the best in the world, it still has room to grow. Remuneration disclosure for those



## Chairs Interviewed for the Project

at the director level continues to be low, with confidentiality and a fear of talent poaching cited as the main reasons for non-compliance. Diversity also continues to be a challenge for corporate boards; fewer than 10% of public companies have female board members. Moreover, since guidelines for sustainability reporting were released in 2011, companies have been slow to respond, despite recommendations that they implement changes on a "comply or explain" basis by 2017.

Despite these challenges, the SID and other governing bodies continue to review corporate governance in Singapore's companies to ensure they constantly strive to improve and keep abreast of best practice.

We interviewed 10 experienced chairs with diverse backgrounds, including three women and seven men, ranging in age from 46 to 73. Of our interviewees, five have a business education, three are CPAs (Certified Public Accountants), and two are lawyers by training. They chair an average of two boards each. Three of them chair government-linked corporations, two chair privately held companies, three chair publicly listed multinationals, and two chair non-profit organisations. Of the companies chaired, four have a market capitalisation over S\$ 1 billion, two are mid caps (S\$ 300 million to S\$ 1 billion), two are small caps (less than S\$ 300 million) and two are NGOs. As regards chairs' individual involvement, six devote at least 50% of their time to the entities they chair, three are involved only once every quarter. Five of the interviewees currently serve as chairs on multiple boards.

INSEAD Global Chair Survey 2015 identified the top 11 challenges for the chairs of companies, as follows:

- Relationships with controlling or large shareholders
  - Managing difficult board members (special cases)
  - Level of collaboration and teamwork among board members
  - Informational asymmetry with the CEO and management
  - Relationships with minority shareholders
  - Diversity in board members' backgrounds
  - Relationships with the CEO and management
  - Relationships with external stakeholders such as clients, suppliers, government
  - Insignificant time commitment by board members
  - Planning and preparing succession to the chair
  - Facilitating effective board discussion
- Interviews were structured to take account of these challenges and the various approaches used to deal with them.



## Chair's Role: the Participants' Views

In our interviews, chairs generally articulated the core functions of the board as described by the Code of Corporate Governance 2012. The way that each interprets the role is influenced by their personality, background, experience, and the company context in which they operate.

Government-linked companies, which typically operate in an oligopolistic and monopolistic context, have a specific role in preserving and building the wealth of Singaporeans for generations to come. In these companies, the values and culture of "Singapore Inc." prevail: company leaders focus on building for the longer term and creating a transparent and sustainable business environment by investing in human capital and life-long learning.

One chair of a government-linked company saw his role as that of a steward who guides the organisation on its journey to transmit values across generations. He talked about creating a "learning board," wherein members form an ecosystem for continuous learning to stay abreast of the latest trends. As examples, he cited conferences and overseas immersion trips to learn about the latest in digital strategy, how boards can bring about significant transformation, and how start-ups work. This fits with how he interprets the board's primary role: driving strategy and transformation

Another chair of a government-linked company saw his key responsibility as ensuring a smooth succession and renewal process for the board: "Getting good people on the board and ensuring the quality of people and diversity of the board are key."

An executive chair who is also owner of a family business viewed himself as a "sounding board" for management to debate with and receive collective wisdom on strategy and decisions. He played a more facilitative role, ensuring that all views on the board are heard and debated.

Another saw his role as that of a "gourmet chairman" who challenges the CEO and board to achieve greater performance and find ways of expanding the pie: "I introduce them to gourmet food and I teach them to be hungrier," he said. Another founder/owner chair saw himself as responsible for the vision, culture, policies and strategy of the company.



**In government-linked companies, the values and culture of "Singapore Inc." prevail: company leaders focus on building for the longer term and creating a transparent and sustainable business environment by investing in human capital and life-long learning**

Others described their roles variously as that of a “cheerleader,” a “moral compass” and a “mentor” for the board, shareholders and staff. One chair of a non-profit organisation said that he needed the “flexibility of an octopus”: he is regularly pulled into various roles and must be ready to spend extra time because non-profits generally have fewer resources than corporate boards. Another non-profit chair described his role as “sticking my nose in the pie, but keeping my fingers out.”

### Relationships with shareholders

Chairs saw managing their relationships with majority stakeholders as a critical responsibility. Practices differed depending on the nature of the relationships and how active the shareholders are. With larger cap organisations and government-linked companies, the relationship tended to be more formal, and their engagement more structured and less fluid. One noted that with government-linked companies, “They appoint you, so the trust is there.” The ongoing relationship is one of reporting and consultation on major decisions, including winning approval for the appointment of board members.

Chairs who are owner-entrepreneurs wear two hats: they are concerned with driving the performance of the business while at the same time ensuring compliance. At companies in which shareholders are more actively involved in the business, chairs found that interaction with shareholders – both planned and ad-hoc – were more frequent. One respondent had proactively engaged a private equity owner in investment decisions, succession planning and performance expectations, both by phone and in face-to-face individual meetings. She said that a “no-surprise” policy worked well in managing the relationship and ensuring alignment, and spent an average of five hours a month engaging with the owner.

A majority of respondents felt that minority shareholders did not pose a major challenge. All of them highlighted the need to balance the interests of the various shareholders, and all mentioned that they addressed minority shareholders through the formal annual general meeting (AGM), including them in their updates, and providing space to ask questions and their share concerns. One saw her role as that of an independent director looking out for minority shareholders. She stays on after the AGM to meet minority share-

holders and answer any questions. Others said that minority shareholders needed to be addressed in a way that ensures they are not “short changed.” In some instances, they had appointed a special representative as a voice for smaller shareholders in board discussions.

### Managing difficult board members (special cases)

Respondents generally felt that a proactive selection strategy of board members was the most effective approach for getting the “right person on the bus” and avoiding problems with difficult board members. A careful selection process – to identify the desired skill set, aligned values and motivational fit – was key for many of them. One raised a provocative question: “What drives the criteria for board member selection: is it more for conformity or performance?”

To manage disagreements, various approaches were used including “offline” strategies before a board meeting and “online” ones during the meeting. Chairs commonly engage with members before the board to ensure that there are no surprises during the meeting. If serious disagreements arise in the boardroom, some put the issue to a vote. One chair said of managing a difficult board member, “If he is a fussy spot with irritating behaviour, you live with it until he is up for renewal. If he is destroying the company, then I ask him to step down.” Another noted, “Most board members are friends. There isn't a lot of contention. Usually I am direct with them if it is not going to work out, and I find a face-saving way for them to exit.”

**Evaluation of board members** is common, but there were different ways in which the information from evaluations was used and disseminated. At one end of the spectrum is a process in which the chair himself is evaluated and can even lead to his removal. On the other end, the process is outsourced to an external consultant and includes self-assessments and peer assessments by board members. The information from these assessments is shared with the nomination committee and the chair, and the individual is then invited to discuss the assessment with the chair. Overall, our respondents gave the impression that their boards perform evaluations as required but there is wide variation in the extent to which they hold members to account and generate learning.

“Gourmet chairman” who challenges the CEO and board to achieve greater performance and find ways of expanding the pie: “I introduce them to gourmet food and I teach them to be hungrier”

### Collaboration and diversity among board members

Respondents used a variety of ways to build relationships and collaboration. Many of them plan corporate retreats to which the board and senior staff are invited, at which strategy sessions create opportunities for the board to meet the management team, both formally and informally. Spouses are sometimes invited to attend dinners and, on occasion, working trips, where there is an element of informal bonding. Some respondents described personally inviting board members to their home for a meal during the festive season, so that they were “no longer a digit.”

Chairs increase interaction between board members and management through project work, subcommittees, and business travel. One mentioned an onboarding process for new members that included a guidebook describing what is expected of board members in their new role.

Almost all respondents cited the challenges involved in creating a more diverse board. Gender diversity is a big focus in Singapore, which ranks near the bottom in terms of women's representation on boards compared to key developed markets. All acknowledged the challenge of gender diversity, but one felt that true board diversity went beyond this: “I think of diversity as what would help the company, for example, the type of skill sets required (private equity, lawyer, accountant). I do not necessarily think of diversity in terms of gender.” Chairs recognised the importance of continually

seeking new members who could enhance the age, functional experience and cultural diversity of their boards. However, one commented that achieving cultural diversity and international representation on a board was expensive given the higher director fees and travel costs, and that only larger companies could afford to do this.

### Informational asymmetry with the CEO and management

Informational asymmetry is unavoidable in organisations, and respondents reported a variety of practices to deal with it. Differences in their strategies were due largely to contextual factors such as degree of ownership, culture and structure of the organisation.

One affirmed that since the CEO was confident and secure in position and the senior management team were transparent with the board, there was a transparent culture where the CEO and management team hear messages from the board directly. Board papers are comprehensive and sent in advance of the meeting to allow time for review. Management presents the company strategy to the board annually, which enables mutual understanding and dialogue on key issues.

In smaller companies, all directors are included in subcommittee meetings as observers. The actual board meeting is short, since all the work has been done in subcommittees.



On the other end of the spectrum, some saw their role as that of an intermediary between the board and management: the chair decides what information is shared and how it will be shared. One said, *“As an active chairman, my role is to intermediate offline. If the board is not happy with the performance, and there is a difference between the board’s view and that of the management, I have one-on-one conversations with the CEO offline.”*

A chair from a family-owned business said that he asks what will be in the best interests of the company when he decides what and with whom the information will be shared. Others saw it as the chair’s role to decide which agenda items should be discussed and how information is disseminated: *“The chairman is the first person the members of management come to, and I decide whether board members need to be involved or informed. It is counter-productive to share every single thing with them, as the board members will give you less value.”*

## Relationships with the CEO and management

One respondent’s remark sums up the relationship: *“The role of the chair is to develop constructive relationship between chair and CEO, where there is enough challenge and support. In Asia we lean towards more support. You also need challenge, because without it, you do not get improvement in quality.”*

On the supportive end, many viewed their role with the CEO as that of a mentor and coach. They sought to nurture this kind of relationship by establishing trust, providing support and acting as the CEO’s thinking-and-learning partner in the management of the business and people issues: *“The management team comes to me for advice since I am old! I mentor them. We have a Socratic encounter and I teach them to think by asking them questions.”*

Some saw the role of the board as one of providing challenge, such as offering checks and balances to the CEO and management, bringing an outside perspective, asking tough questions, and driving the performance of the business beyond compliance.

Most were clear that their role was separate from that of the CEO and the executive team, and stressed the importance of having clear boundaries. While the executive team’s responsibility was to shape the strategy and direction of

the business, their primary role was to preserve the long-term growth of the organisation and set a clear vision for its future.

Where the chair is also the owner and CEO, as is the case in many family businesses, the relationship with management is very different, since decision-making power is concentrated in one person who can make quick decisions. As one put it, *“We do or die.”* In such companies, the board’s function is more to provide formal legitimacy vis-à-vis outside stakeholders, and less that of a truly independent body.

## Relationships with external stakeholders

As to who represents the organisation and in what context, more than half of respondents said that they had little to do with external stakeholders, leaving that function to management. However, they do meet key customers and vendors at international trade or road shows. One mentioned that he would step in to support or complement the CEO when necessary, for instance, in moments of crisis, to take pressure off the CEO.

For some government-linked companies, in which Singaporeans are stakeholders, attempts are made to share information in local languages which reach the community, often using simplified and engaging means such as cartoons to reach out to the less literate. To address sustainability issues, a key question put to external stakeholders is whether they invest in companies with a “no burn” policy, a major environmental issue given the presence of haze and pollution generated annually by forest fires in neighbouring countries.

## Insignificant time commitment by board members

Few respondents had problems managing the time commitment of their board members. They generally felt their members were able to devote adequate time to their board responsibilities, and that they would warn board members if they were not honouring their commitments.

Some saw the role of the board as one of providing challenge, such as offering checks and balances to the CEO and management, bringing an outside perspective, asking tough questions, and driving the performance of the business beyond compliance

## Chair succession

Our respondents viewed board succession as a key priority. Most highlighted the critical role of the major shareholder in both recommending and endorsing a candidate. While the nomination committee might be responsible for screening and recommending people, the major shareholder was the ultimate decision maker. Some believed it was their role to actively solicit and find talent, while others left it to the major shareholders. One said he would never nominate anybody because it would send the wrong impression to the shareholder and the potential candidate. The difference is largely driven by company culture – whether it is more hierarchical or involves a collaborative decision-making style.

One cited the *“three Rs”* (rotation, renewal and retirement), which serve as a mechanism to develop board members and also to ensure renewal, with new members coming on board and older ones retiring.

Tenure of board members varies. Some boards set a limit of six years (two terms); others are more flexible and allow two or three terms (6–9 years). The 2015 SID-SGX Singapore Board of Directors Survey, which provides insight into corporate board structures and practices based on input from listed companies in Singapore, found that 84% of companies did not impose restrictions on length, probably in an effort to maintain the independence of board members. For the few that did have restrictions, the specific limit was nine years, in accordance with recommendations in the Code of Corporate Governance 2012.

Given Singapore’s tight labour market, finding board members that fully meet both their independence and experience requirements is likely to be challenging. This underlines the importance of the efforts made by the SID in directorship training and education.

## Facilitating effective board discussion

Among the variety of approaches to facilitating board discussion, we see three areas of difference, namely how the agenda is shaped, how chairs act during the meeting, and how much of the board work gets done inside the boardroom (online) versus outside (offline).

**Shaping the Agenda.** Our respondents shaped the board agenda in a variety of ways that include letting management decide the agenda items, co-creating the agenda topics with management and board members, and the chair deciding the agenda items. The approach chosen is largely driven by the company’s decision-making structure, the chair’s interpretation of the role, and the culture of the board.

**Acting at meetings.** The respondents led board meetings in different ways. Some facilitate discussions by playing the role of devil’s advocate (challenger); others bring in their domain expertise, e.g., finance and legal, as a way of adding value to the discussion. Some take a facilitative role by focusing on board dynamics and ensuring that everyone is heard. Various factors explain this, such as their professional background, role models, company needs and cultural norms, as well their understanding of the role.

For example, one chair-owner of a family business facilitates discussions in such a way that all voices are heard and there is an environment of debate and challenge: *“My board is active because that is what I want. I want the board to debate on strategy, and to test my thinking, leading to collective wisdom.”*

Along with globalisation and increased demands for transparency, boards in Singapore are under pressure to embrace diversity and develop a more robust culture of debate. These changes could challenge the established “old boy network” that has in the past been quite effective

An ex-CFO chair contributes a financial perspective as a way to debate and challenge the performance of the business: *“I am financially trained. A lot of CFOs are under pressure when I am the chair. I am here to offer a second opinion and they should not feel threatened.”* A lawyer chair mentioned a core focus on governance and leveraging domain expertise.

**Online vs Offline.** A key difference how much active debate happens in the boardroom (online) or outside the boardroom (offline). This is largely determined by the culture of the organisation and, again, how the chair views his or her role.

In some cases, discussions occur offline and the chair tries to actively facilitate conversations between the board and management. If there are disagreements among board members, they are handled offline. This seems to be largely driven by an organisational culture where relationships and face-saving is paramount and direct confrontation is uncommon.

One described how, *“Management lets the board know with board papers, and this is discussed before the board meeting. A lot happens before the board meeting.”* He went on to say, *“When the board is not happy with performance and there is a difference in view between the board and management, it is taken offline. A key role I play as active chairman is to intermediate offline. We do this by informal lunches to have the CEO meet board members to discuss issues in a more relaxed environment.”*

In cases where an open and direct culture of debate prevails, the chair's personality and background drive the discussion. One said, *“I tell it like it is and I get away with it. If you are truly independent, you can afford to walk away. I worry about performance, so I will play a challenging role.”* Another was *“big on boardroom dynamics. Everybody has to comment and we do not always agree. We thrash it out in the boardroom and move on a majority basis. It is solidarity after that, nothing personal.”*

## Summary

Singapore has been proactive in seeking to establish itself as a role model of corporate governance in Southeast Asia. The combination of pragmatism and long-term vision – in a country that is itself managed largely according to meritocratic principles – has had positive results, notably the efforts made by the SID to train and educate current and future board members and to provide opportunities for best practice sharing.

Nonetheless, critical voices, mainly from the owner-entrepreneur scene, have expressed concerns that some chairs do not really have enough “skin in the game” and hide behind overly formal corporate governance processes to safeguard their own reputation. Their approach aims at mitigating the risks inherent in building and expanding businesses in challenging and uncertain times.

One founder commented that *“Boards don't run companies and too much regulation kills businesses.”* There is some concern that Singapore could be marginalised as a business hub if it introduced too much bureaucracy.

Along with globalisation and increased demands for transparency, boards in Singapore are under pressure to embrace diversity and develop a more robust culture of debate. These changes could challenge the established “old boy network” that has in the past been quite effective.

All chairs of the boards we interviewed are Singaporean nationals and, with one exception, were born and raised in Singapore. Given the small size of this city-state, there is a natural tendency for board members to be selected from a pool of people that know and trust each other. All but one of the Singaporean native chairs we interviewed were of Chinese ethnic background, and so were the majority of directors in their boards. This concentration of board chairs and board members that have gone through the same educational system allows for mutual understanding and shared values. However, despite the undeniable benefits of belonging to the same community (and to some extent intellectual elite) in terms of communication and loyalties, the diversity of thought generated through cultural diversity may not be fully leveraged. One of the most experienced chairs we interviewed was a foreign-

er and true outsider yet had managed to gain the trust of the Singapore establishment and had turned his difference to his advantage, bringing an outside perspective. Such individuals are likely to become more common as efforts are made to bring more diversity into boards.

Given the increased level of scrutiny of corporate governance internationally, unprecedented disruption in the geopolitical arena and Singapore's unique position as an island with huge interdependence with contemporary global political and economical forces, the stage is set for a shift in how its boards will function in the future.

Aspiring to stay “top of the class,” Singapore will move towards bringing more diversity into boards, balancing the tension between retaining a sense of control while empowering chairs and board members with outside perspective and experience. This will be particularly challenging for companies that are controlled by Singapore investment vehicles. If this tendency is confirmed, the renewal and extension of the pool of possible candidates for chair positions will become more diverse in terms of gender, cultural background and age, in favour of younger candidates. We can assume that more diverse boards will further drive the professionalism of board work and make board meetings the main platform for decision making, in contrast with the current preference for offline pre-alignment.

## Resources for this chapter



KPMG and ACCA study “Balancing Rules and Flexibility,” December 2014

SGX Guide to Sustainability Reporting for Listed Companies, June 2011

Singapore Code of Corporate Governance, May 2012

Singapore Institute of Directors – SGX Board of Directors Survey, October 2015



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