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Corporate Governance Initiative

Meeting Report

Managing Crisis from a Board Perspective
Alumni Reunion Panel, October 13, 2012

As companies grapple with uncertainty of a magnitude that few have experienced before, their boards face challenges that many are unprepared for. Some INSEAD alumni, selected for their rich experience as non-executive board members, were invited to participate in a panel discussion on 'Managing crisis from a Board's perspective' at the INSEAD Alumni Reunion 2012 at a session organised at the initiative of the Alumni Career Services.

All alumni on the panel have considerable expertise and we herewith thank them for sharing their experience with us:

- **Michael Butt** (MBA' 67), Chairman, Axis Capital Holdings Ltd and Axis Speciality Ltd;
- **Christopher de Mattos** (MBA'87), Non-Executive-Director, RAB Capital, INSEAD Certified Director (2012);
- **Cornelius Alexander Grupp** (MBA'77), Chairman and CEO, CAG Holding GmbH;
- **Franz Haniel** (MBA'82), Chairman, Franz Haniel & Cie. GmbH and Metro AG ;
- **Ulysses Kyriacopoulos** (MBA'77), Chairman of S&B Industrial Minerals SA. , Chairman of Motodynamiki SA. , Chairman of IOBE (Foundation for Economic and Industrial Research) , Former Chairman of the Federation of Greek Industries;
- **Manfred Wennemer** (MBA'77), Chairman, Hochtief Ag and Non-Executive-Director, Bekaert SA

Stories of pride and shame

Under the direction of Professor Ludo Van der Heyden, Director of INSEAD Corporate Governance Initiative and Mubadala Professor of Corporate Governance and Strategy, the panelists candidly share lessons from their most gratifying - as well as disastrous experiences - emphasising the key role for governance from a crisis viewpoint. "*You have to be prepared and can only build confidence and trust in a board when you don't have a crisis; if divided in a crisis, the company will fall apart with either the management or external forces taking advantage,*" Michael Butt relates. Sometimes a crisis calls for a complete change in thinking. One of the panelists related how during a crisis, he had to step in as an executive chairman of the board and raise capital very quickly. He explained that there isn't always the luxury of time to get a consensus. But can a board create or fuel a crisis? "*Yes, it can!*" says Franz Haniel as he relates a story about a clash between the CEO and chairman which resulted in a serious separation between the management and supervisory board, adding, "*It is difficult to act quickly and decisively if you have to deal with egos and not with substance. Eventually we took the appropriate decisions, but we waited too long.*" Christopher de Mattos who pioneered a big fund restructuring, warns of the dangers of hubris creeping into a board when things are going great: "*When there is a crisis and major changes are required, there tends to be a sense of passive resistance and division within the board, which when coupled with hubris (related to position and past achievements), can block effective decision making.*"

The importance of the Chair, better practises and competences on the board

The panelists agree that the Chair plays a pivotal role between management and board, especially for them to work as one team during stress times. "*In Germany,*" Manfred Wennemer relates, *"this cooperative relationship is difficult and effective resolution will often depend upon* *the nature of the relationship between the CEO and Chairman; if this is not working well then the company is in deep trouble when it faces a crisis*." But how does one check for board capabilities that work well during crisis? Butt explains that getting the correct board composition and trust, with good support of executives, is no easy task. It is only possible to get this right if there is a serious investment in building this trust. He also feels that a well-balanced and well-prepared set of expertise is required to deal effectively with a crisis. de Mattos adds, "*In a crisis, sometimes the board has to step into the shoes of the management; the chairman might become the de facto CEO; at that time, intense communication and detailed orchestration need to be combined with a macro perspective to avoid the whole board going down into execution mode*." Haniel advises that a company is setting itself up for a crisis if it does not have the correct succession planning in place. Everyone agrees that neither directors nor CEOs should stay in one place for too long – and they need to especially avoid becoming too comfortable, going into autopilot and becoming risk averse which prevents the company form taking on new challenges. The other issue, according to Haniel, is that the board does not sufficiently understand the company's current business model, threats and challenges: "*There is much room for improvement in this domain.*" Generally, the panelists feel that boards are not good at managing crisis by themselves, and that this can only be done in cooperation with the management who has a much better set of skills; even in crisis the board's role ought to ideally remain one of orchestration, coaching and supporting – for selecting the right leaders. de Mattos advises that board assessment and the monitoring process is crucial, so that the non-executive directors don't become less effective over time. "*Looking at the macro environment, problems build up systemically and gradually over time, and go undetected by boards until they boil up into a major crisis. It is one of the jobs of boards to stand back far enough to identify these longer term trends. And to put in the necessary tension so that management remains 'on the ball' and sufficiently agile to handle the crises that will invariably occur."* A worrying negative in this regard – according to Wennemer is the 'box-ticking' compliance and corporate governance activity that, in his view, is creeping into Europe from the Anglo-Saxon countries. "*It is not good. There is no discussion on strategy or operational issues. We spend so much time in watching our backs that we short-change the much more needed and valuable looking-forward perspective, developing strategies and taking calculated risks*."

Non-executive director as a career and the key role of the nomination committee

According to Butt, today a director of a large company needs to spend a minimum of 30-40 days on a single board. Even smaller – and in particular not-for-profit – boards can be very demanding. So he limits the number of boards to 3-4, to do a decent job, and in particular be available precisely when a crisis hits. "*Though, realistically you have to be retired, to be able to give this level of commitment*," responds Dr Cornelius Alexander Grupp. "*This is a serious profession, not a hobby,*" confirms Haniel, "*with the growing practice to sit on fewer boards and invest more time on each*." The panelists agree that the nomination committee of boards carries a vital responsibility in selecting the right quality of members who can add real value to the boards, via thorough interviews and processes. "*Independence of boards is the key*," says Grupp, relating to a discussion in Germany, that board members legally lose this after 15 years; and in nine years in Ireland. Overall, the panelists feel that the competencies of non-executive directors are rising quickly, and are much better than a decade ago.

The distinct German model

There is a suggestion that the unique co-determination German model where half the board represents the shareholders and the other half the employees, is one reason why German companies avoid labour crisis. Though this is agreed to be positive overall, it is pointed out that this is a very peculiar model, since often there is no discussion on operational or strategic issues on the total board, due to separate meetings being held for each group of representatives. This again points to the key role of the Chair. For any decision, (s)he has to broker the deal between the two groups: if there isn't consensus, it can then go to a second vote, which normally goes according to the wishes of the shareholders. "*At the end of the day, it isn't really codetermination, but it is true that very rarely does the chair need to go for a second vote. If it is played right, a decision of the* *board is supported by 100% representatives of the workers, which is a real competitive advantage of having a business in Germany, one that France would gain from as it would certainly reduce the number of strikes in France,*" says Wennemer.

Diversity and Women on Board

Most directors believe in diversity and that women add value, however as one of the panelists explains that a board needs to have at least three women to really influence and optimise board performance. Some of the panelists voice concerns about quotas and the difficulty of finding women with the appropriate skills in certain industries, to which Professor Van der Heyden responds, "*It was found that boards who actively started looking for women were able to find competent women and there are many more than people realise; however, it requires boards to look differently and elsewhere.*" Wennemer confirms this; but also relates to his experience of going through multi-fold more interviews to eventually find a woman director for a construction company: "*It took us much longer than if we'd gone for the next best man*, *but we did indeed find excellent female candidates*." Furthermore, he talks about cultural diversity too adding, "*Today*, *it is very important to bring in the Asian perspective and have that view present at the table*."

The European Crisis: Finding the proper governance model between the corporate centre and the local units

The meeting ends with a final question on the European crisis from a governance viewpoint. The consensus view of the panel is that there is a governance failure, which largely explains the disconnect in European societies between their current views (largely national) and their views about the future, which is largely in federal Europe. This fundamental shift in views requires stronger '*leadership from the Board*' but also requires changes in institutions and systems to bridge the current gaps between people, their national 'boards' and their 'corporate' boards and executives 'in Brussels'. This is a problem that is also faced by most multi-nationals and is a difficult one. Undoubtedly, the method requires a lot of mutual listening and true dialogue, and persuasion over ultimatum. It is all about finding the 'right middle' between European 'corporate' needs and the realities faced by the national 'business units'.

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