

## Are You Sure You Want to Join a Board?



By Gilles Hilary , INSEAD Professor of Accounting and Control

**So, you've been asked to join a board? You'll surely do your own due diligence, but beware of a potentially dangerous threat: your own brain**

I often ask senior executives and experienced directors if they want to join the board of a hypothetical company. I disguise its name but the company is Parmalat, a multinational Italian dairy company that collapsed in 2003 with a EUR14 billion hole in its finances. With all the information in front of them, typically about a third accept. It is not lack of data, of expertise or of ethics. It is deeper than that. Our brain wants to believe. So, before you accept the offer of a position on a board, consider the following pitfalls.

1. F is for fool. Imagine you are a Westerner living in Hong Kong and someone asks you to join the board of a Chinese company. There is only one catch, meetings will be held exclusively in Mandarin and you don't

Speak the language. Absurd? Maybe not from the point of view of the Chairman. Ask why you received an offer. If the answer sounds hollow, it is probably time to walk away.

2. O is for over-confidence. One of the reasons for being asked to join a board is your past success. But people grow over-confident and quickly suffer from an illusion of control. In one experiment, traders were asked to gauge how much control they had over a white spot moving on a computer screen when they move a mouse. The most common answer was 50% with many traders saying 100%. The real answer was 0%. Interestingly, individuals who suffered less from this illusion in the experiment did better in real life. One useful technique to mitigate this bias is to prepare a “pre-mortem”. Before you accept the offer, write a letter explaining why the company failed two years after you join.
3. I is for Icarus. As we all know, trees don’t grow to the sky. Often selection committees tout the recent company performance as a reason to join their board. For example, several high quality individuals were asked to become directors of OW Bunker, a large Danish company right before its IPO. And why not? Despite a very competitive environment, the company had done well over the recent years. Sadly, just a few months after a successful listing, it entered into liquidation in just three days. Risk management had been over-stretched to maintain growth. Not only ask “why me?”, but also “why now?”.
4. B is for blindness. We have tunnel vision when it comes to risk. We focus on the risks that are salient in our lives. Thousands of Americans died in car accidents in the months following the September 11 tragedy. People stopped using planes, a relatively safe mode of transportation, to use cars, a relatively risky one. Similarly, joining a non-profit board may sound like a low risk proposition. Unfortunately, this may not be the case. For example, fraud risk is typically exacerbated by weaker internal controls and this has not escaped criminals laundering money. Before accepting a director position, ask a person with a different skill set to play devil’s advocate.

5. L is for Life. Yes, we have one and no, it does not stop when we join a board. We over-commit. When Tidjane Thiam (INSEAD MBA '88J) accepted the offer to join the board of Société Générale, smack in the middle of steering his own company through a major take-over, furious shareholders at Prudential forced him to give it up. Before accepting the offer, ask your partners if this is feasible. And don't forget you also have one at home. An additional commitment can be the proverbial straw for a relationship stressed by external commitments.

Joining a board is often an exhilarating experience and no, not every selection committee is out to get you. But, do your due diligence and it starts with you. Don't let a foible be your demise!

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