Your Board is Your Best Insurance Against Turbulence

By Yves L. Doz and Keeley Wilson , INSEAD

Mobilising the collective intelligence of the board may be the best bet to weather any storm.

Under stress, good people can make bad decisions. Even CEOs, who are often exposed to contradictory demands, are not immune. Bad decisions can range from ill-advised stock buybacks to poorly devised cost-cutting measures to extremes like imaginative accounting or illegal practices. We've seen how **Nokia**, General Electric, IBM and many others have stumbled in the face of such existential crises.

During turbulent times, many CEOs may be tempted to **weather the storm alone**, but this is seldom a winning approach. Some may even deny or seek to hide the difficulties and shore up short-term results to the detriment of the long-term sustainability of their company. The experience of Nord Com* is instructive in this regard.

The cost of disconnect

In the 2000s, Nord Com had expanded from its European roots into Central Asia and the Middle East, where it obtained operating licenses to build services networks in partnership with local investors. The new operations quickly became profitable and grew to become a significant share of Nord Com's activities. Its CEO was well-regarded among investors for the impressive international expansion and cost reduction, which improved the company's results. The board, impressed with the organisation's success, took a back seat and played a limited fiduciary role.

However, a few years later, allegations of wrongdoing surfaced. Financial authorities raised suspicion that the company had paid commissions to local intermediaries to obtain licences and invest in new service networks. Such payments were illegal under the United States Foreign Corrupt Practices Act, and the company was at risk of being banned from the US and from carrying out dollar-denominated transactions. Doubts about money laundering in countries not known for their probity were also raised. These scandals caught the attention of the press.

Despite the successes under his stewardship, the CEO was in trouble. Questions arose about how the company's international success was achieved. Major shareholders expressed doubts about whether the board exercised its fiduciary duty: Were directors complicit in the payment of commissions to local intermediaries? Or were they simply too distant and uninvolved?

It seems the board had not followed the actions taken by management closely. This led to the resignation of most directors and the appointment of a largely new board. Shareholders also demanded the appointment of a new board chair, and this role was filled by a seasoned CEO who was retired from a major international IT services company. The new board quickly replaced Nord Com's CEO with a senior executive from another institution.

Enter a new chapter

The new board was composed of seven individuals with diverse backgrounds, mostly CEOs or senior executives of a diverse range of well-established companies in Europe. The board also included the founder and CEO of a new media entertainment company, in the hope that he might inject an entrepreneurial impetus and spur renewal.

Initially, the board focused on investigating past irregularities with the help of newly appointed auditors and consultants. The objective was two-fold: First, to determine the level of top-management involvement (although most senior executives had resigned by then). Second, to investigate the management of the international operations themselves. Although those joint ventures were still viable, the board decided to divest nearly all recent ventures since the ethics of partners and local investors could not be guaranteed.

For over two years, the directors put in an extraordinary amount of work to investigate the situation in each locality where Nord Com operated. In the first year, the board met as frequently as once every two weeks, with half of the meetings being full-day in-person events. It took nearly five years to conclude the last divestiture. Exiting attractive growth opportunities in various countries was a wrenching – but necessary – choice.

The board in action

Faced with these difficult decisions, the chair demonstrated great discipline in setting meeting agendas in a logical order, interacting actively with directors beforehand and discussing decision items on the agenda until a consensus could be reached. These preparatory steps ensured time could be devoted in the board meetings to discussing next steps and tasks ahead.

The chair and the CEO had frequent dialogues to chart a new development path focused mostly on Western Europe and new services. They learnt from each other and found their way around potential tensions between the directors and the CEO. They also sought support from all parties – not just board members but all major shareholders, key stakeholders, regulators, unions and employees. Taking a leaf from fintech start-ups and new media, digital service capabilities were strengthened and innovation emphasised.

As the Nord Com example demonstrates, there is much value in mobilising the support, wisdom and experience of a board. They can provide invaluable help to a CEO and top management team when navigating crises or difficult turning points. Rather than keeping the board at bay and maintaining an adversarial relationship, it can be beneficial for a CEO to engage with them early and tap into their collective wisdom.

Let the board in

Indeed, an effective board could prevent a crisis – but only if it is informed of brewing problems in a timely fashion. A strategic crisis often precedes its financial symptoms by years, and an engaged board may well be able to help turn the situation around. For Nord Com, however, a multi-country money laundering investigation caught the board by surprise.

When things go wrong, instead of covering up the problem and hoping that things will get better, management should take the opportunity to engage in dialogue with the board around strategic issues and foster commitment to an agreed direction. As in the case of Nord Com, once the board was renewed and a new CEO appointed, a more involved board participated in strategic deliberations and direction-setting. More importantly, it provided "air cover" for the CEO and bought time for the new leader to undertake the renewal process and manage the tension between remedying the shortcomings and progressing in the new direction.

It takes courage for a CEO to engage the board in dialogue; unseen weaknesses of the company may have to be confronted. But mobilising the collective intelligence of the board is well worth the risk.

A necessary allyship

As we explore in detail in our new book, ***Escaping the Growth Curse: Paths Toward Stronger Strategies***, the board can contribute to strategic planning by offering both altitude and a much-needed outside-in perspective. To be effective, they need to devote significant time and energy to monitor, assess and reflect on management's actions.

In reality, setting a new strategic direction is not an easy exercise. First, it requires the identification and characterisation of the challenges faced by the company. This step is crucial as studies have shown that more than half of poor strategic decisions stem from inaccurate problem definition. With their collective wealth of experience, boards are often well-placed to make sense of dynamic external conditions such as geopolitics, macroeconomic developments, evolving markets, new regulations, disruptive innovations and new technologies.

Second, setting strategic direction requires a sound understanding of the company's core business model and systems: what drives how well it performs. What's most important is not just to understand what is, but what could be, and be better at delivering performance. For example, Nord Com identified opportunities to provide new services, which prevented the company from being reduced to the basic “pipes” of telecom services. Determining the best way forward requires an accurate picture of the strategic assets of the firm, its competencies and capabilities, and the ability to imagine how they might be reconfigured and better deployed.

Directors can provide an external perspective on the value of the firm, while management can offer important insights needed for a more realistic assessment of the strategic assets. This collaborative process is even more important for companies with complex structures, such as diversified companies with a range of business-unit level and corporate drivers of performance. In fact, it might be beneficial for the board to extend its engagement beyond the CEO and reach out to other managers in the firm, unions and specialists.

Given what it takes to set strategic direction effectively, making this exercise a shared one between management and the board can significantly improve outcomes.

**Company name is changed to protect its identity.*

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About the research

This article is based on the book ***Escaping the Growth Curse: Paths Toward Stronger Strategies***.

About the series

Corporate Governance

Established in 2010, the **INSEAD Corporate Governance Centre** (ICGC) has been actively engaged in making a distinctive contribution to the knowledge and practice of corporate governance. Its vision is to be the driving force in a vibrant intellectual community that contributes to academic and real-world impact in corporate governance globally.

The ICGC harnesses faculty expertise across multiple disciplines to teach and research on the challenges of boards of directors in an international context. The centre also fosters global dialogue on governance issues, with the ultimate goal of developing high-performing boards. Through its educational portfolio and advocacy, the ICGC seeks to build greater trust among the public and stakeholder communities, so that the businesses of today become a strong force for good for the economy, society and the environment.