



4 QUESTIONS FOR 2024

THE IDN ANNUAL BOARDROOM
PULSE CHECK

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Virginie Lagrange (IDP-C'15Oct) is currently Chair of ILA (Institut Luxembourgeois des Administrateurs). She is an ILA and INSEAD certified Director, a former certified Réviseur d'Entreprises and she sits on the Boards of Directors, Audit/Risk Committees and Remuneration/Nomination Committees of several banks, insurance companies and funds / management companies.



Anthony Smith-Meyer (AMP'00Jul) is a specialist within Governance, Compliance and topics relating to organisational behaviour and company direction. Anthony holds the Institute of Directors Diploma in Corporate Direction and is a Certified Director of the Institut Luxembourgeois des Administrateurs.

He is the Executive Director of the Institute of Financial Integrity and Sustainability. After a long career in banking, Anthony has lectured and taught management, governance and company direction for several years. He has published two books: "Surviving Organisational Behaviour" (2018) and "Unlocking the Potential of Diversity in Organisations: The Governance of Inclusion in a Racialised World" (2023).

Question 1:

Big Picture - From your perspective, what does a highly effective and forward-looking board look like in 2024, considering the evolving landscape of corporate governance and business challenges?

Anthony Smith-Meyer: This is essentially the classic question about board efficiency, the traditional answer, of course, revolves around board responsibilities. This entails ensuring good governance through risk monitoring, reporting systems, management accountability, and the crafting of a long-term strategy aligned with the company's objective of long-term success. We've all studied that, and we're familiar with it.

However, reflecting on the tumultuous events of the past decade, including geopolitical risks and pandemics, it's been a highly disruptive period. Even going back to the early 2000s, there was much talk about information overload. Many boards developed the bad habit of getting entangled in managing information and details, rather than keeping an eye on the horizon or contemplating what might emerge beyond it.

Therefore, a board for the 21st century must learn to read the writing on the wall. This involves preparing the organization for the next emerging reality, a concept we call foresight. Foresight means evaluating the potential evolution of the ecosystem in which the organization operates and preparing for a range of possible changes, considering the likelihood of each. It's not the same as scenario testing, which is based on past risk experience. Foresight is the art of anticipation, and once you start doing that, you work towards building resilience against the anticipated future. It requires a mindset of experimentation, and the role of artificial intelligence in this process will be intriguing to observe. This scientific approach aims to answer not just "what if" questions but centres around what is likely to happen and which possible futures we need to prepare for.

Virginie Lagrange: On my side, when I considered this, the traditional answer of having a diverse board for greater efficiency stands out. Diversity makes the board more suitable for the organization, especially in today's landscape with emerging factors like artificial intelligence, cyber threats, and ESG considerations. Expecting a 70-year-old individual on the board to stay abreast of all cyber risks is unrealistic. So, for me, diversity, not just in terms of gender but also age, experience, and background, is crucial. A board should be curious about emerging trends and their impacts. This goes

beyond geopolitics and includes understanding the societal impact of the company. Therefore, ESG aspects are vital, ensuring the right risk appetite and tolerance for these matters. The board needs to be curious and well-versed in these topics, setting a radar for emerging risks. It requires a long-term view, not just focusing on the next one or two years but looking ahead to the next 5-10 years. How can the company position itself for long-term sustainability? In essence, this is what I see from a highly effective board.

Question 2:

Board Dynamics - What strategies are in place to maintain healthy board dynamics, encourage open dialogue, and address potential conflicts in a constructive manner?

Virginie Lagrange: In my view, the role of the chair is pivotal in maintaining a healthy board dynamic. The chair facilitates dialogue within the board to ensure everyone feels comfortable expressing their views. Having a chair that ensures board members have ample time to speak without fear is crucial to me. Additionally, it's important for board members to engage with each other outside of formal board meetings. They should exchange ideas and views not only within the boardroom but also in joint meetings.

While I advocate for separate meetings for independent and executive board members, there should also be collective gatherings outside the formal setting. Building trust among board members is vital, and fostering this relationship is key. Maintaining a dynamic board involves ongoing communication with the management, creating an environment where both board members and management feel at ease speaking during meetings.

Disclosure of potential conflicts of interest at the onset is a best practice, and individuals should be encouraged to reflect on any potential conflicts beyond their board role, such as personal connections within the company.

Anthony Smith-Meyer: The primary consideration in maintaining a healthy board dynamic is the composition of personalities around the board table. It's not just about competencies but also about having directors with diverse experiences, open-

mindfulness, and a willingness to share and receive different perspectives. Choosing the right mix of people is crucial.

The board review process, introduced now many years ago, is a valuable tool when properly executed. It helps open up discussions on board and director performance. However, the success of this process relies on the personalities of the individuals involved. A high level of comfort among board members to speak up and engage in debate is essential.

Trust and respect are foundational and can be easily eroded by politics and lack of transparency. A collaborative spirit and individual independence of thought are necessary, especially among independent directors. Balancing the distinction between independent and non-executive directors is crucial to avoid confrontations. There will always be a conflict between those who seek to protect what is already achieved, and those who see opportunity in changing direction.

Building trust around the board table is essential, and the chair plays a significant role in setting the tone. The chair's personal behaviours and way of speaking influence the overall atmosphere. Strong governance, exemplified by the chair, creates stability and predictability in decision-making. It provides a safe space for challenging assumptions and encourages constructive challenges. The chair's role is to manage emotions and ensure a controlled environment for discussions.

Question 3:

Succession Planning and Board Renewal - What measures is your board taking to ensure effective succession planning and board renewal, and how are you balancing continuity with the need for fresh perspectives?

Anthony Smith-Meyer: The approach to effective succession planning and board renewal varies significantly between large publicly quoted companies and small and medium-sized enterprises. Larger companies, with their substantial resources and public profile, have an advantage in finding and attracting board members aligned with the company's objectives. They should follow best practices, casting a wide net for recruitment and planning. On the other hand, small and medium-sized enterprises face greater challenges due to a frequent blurring of lines between executive and non-

executive management and often a more operational focus. Finding directors with relevant perspectives becomes challenging. In such cases, leadership, possibly from the chair or sometimes the founder, is crucial in planning succession and initiating renewal.

The recent OpenAI situation highlights the consequences of neglecting governance and leadership planning leading to confusion of roles and mission. In smaller enterprises, candidates are often drawn from a smaller pool, relying on the networks of existing board directors. The chair should take on the responsibility of expanding beyond existing networks, either by personally and deliberately reaching out across new networks, or employing a recruitment agency familiar with the industry. The key is having someone in the boardroom committed to this responsibility, typically the chair or in larger companies, a formalized nomination committee.

Virginie Lagrange: I believe there's a clear link between succession planning and the company's strategy. Both should be considered together. When developing your strategy, you should also assess your board composition, ensuring it aligns with your goals. The global board skill matrix should be updated annually, just like your strategy. The responsibility for this may lie with the chair or the nomination committee, depending on the company's size.

Regardless of size, a skill matrix should be in place to identify missing profiles and devise a strategy to address them. Strategies may involve training existing board members or looking externally for new talent. In Luxembourg, there is a tendency to rely heavily on networks rather than utilizing headhunters and the broader European market. This could be a limitation in attracting diverse talents.

Additionally, I advocate for implementing term limits for board members, perhaps around 10 years. While not always popular, having a systematic tenure system allows for better succession planning. Knowing in advance when a board member will leave provides ample time to find a replacement and facilitate a smooth transition. Considering the evolving landscape, especially with the focus on cyber and ESG, it becomes crucial to ensure that the board possesses the right profiles for these specific categories.

Question 4:

The Chair - The role of the board chair is pivotal. In the context of evolving governance trends, how do you envision the responsibilities and leadership qualities of an effective board chair in 2024?

Virginie Lagrange: In my perspective, the role of the chair is akin to that of a conductor leading an orchestra. The board, much like a musical ensemble, requires meticulous management to avoid chaos. Understanding the board members is paramount for the chair – knowing their thinking patterns and reactions to various topics. This involves creating an environment that allows members to express themselves freely, tailoring the space given based on the specific topic at hand. An effective chair is not just a leader but also a keen listener, demonstrating empathy and a nuanced grasp of nonverbal cues in the boardroom. Clear communication and mastery of the agenda are imperative. Some chairs may struggle with time management, either allocating too much or too little time to certain discussions. I emphasize the importance of close collaboration with company secretaries, or CGOs, as they play a vital role in shaping and following up on agenda items, especially for independent chairs. This collaboration, in my opinion, needs to be further emphasized and utilized in the boardroom.

Anthony Smith-Meyer: The role of the chair, as highlighted in previous discussions, is indeed pivotal and demanding. To elaborate, the chair must embody a passion for the organization's purpose and mission, prioritizing long-term objectives over short-term gains. While ambition and a history of success are often associated with those appointed to the Chair, it is crucial that the chair accepts that they no longer should have their hand on the rudder. Their task is to navigate the course to be followed and to source the best strategy to reach the organization's broader objectives. Leading with a clear vision and instilling a boardroom mindset aligned with long-term goals are of paramount importance. The chair's personality, often characterized by strength and success, should be balanced with a collaborative and empathetic approach. The metaphorical 'iron fist in a velvet glove' underscores the need for assertiveness and decisive action in rare crisis situations, while maintaining a smooth and collaborative demeanour during regular discussions. Key abilities include effective listening, summarizing complex discussions, and mastering the art of diplomacy. The chair must adeptly steer discussions away from short-term operational matters, instead delegating

responsibilities to the management team. Furthermore, the chair, wielding the authority to call for hard discussions, plays a crucial role in addressing accountability issues when necessary. This multifaceted role requires a nuanced and strategic approach, balancing authority with collaboration to ensure the board functions effectively and achieves its long-term objectives.

Authors



Tony Whiteman (IDP-C'16Oct) joined the INSEAD International Directors Network (IDN) Board in 2021. A New Zealand native, Tony's career spans roles in London's advertising industry and project management consultancy. With an MBA, he assumed key positions with Blackstone investment vehicles and served as an Independent Director for global entities, including Deutsche Bank and Whirlpool. An INSEAD International Directors Program graduate, Tony actively engages in private investments, encompassing residential assets and Luxembourg-based startups. Beyond his corporate involvement, he has played a pivotal role in establishing the Australia, New Zealand Chamber of Commerce Luxembourg.



Hagen Schweinitz (IDP-C'19Feb, CGM'22) is leading Eric Salmon & Partner's Global Board and Governance Advisory Practice. He specializes in C-Level Executive and Board/Non-Executive searches across all industry sectors. A major part of his work is the recruitment and evaluation of Non-Executive Board Directors. Hagen serves on the board of INSEAD's International Directors Network (IDN) and the Armenian Institute of Directors (AIOD) in Yerevan, Armenia, and is the Chair of the Advisory Board of "European Women on Boards" (EWOB).



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