Board of Directors
Composition, functions, performance

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Why a Board of Directors?

• A response to agency problems between shareholders and management
  – How to work in order to align shareholders’ interests and management action?
  – How to design and provide an optimal structure?
  – How to measure performance?
What does a Board of Directors do and how?

• Monitors/advices the CEO/management and/or sets the corporate strategy

• How?
  – Meets at regular intervals
  – Adopts an organization in order to perform its functions effectively
How has the Board of Directors changed over time?

• Functions
• Composition
• Differences in different countries and corporate cultures
Composition: board size (1)

- Board size is not necessarily stable over time, it changes according to:
  - Changes in regulation
  - Crisis
  - Transformation of the company: as the firm becomes larger, more mature, transitions from the founder management (i.e. family) toward professional management, the board plays a larger role in corporate governance
  - Fashions (experts and consultants)
Composition: board size (2)

- **United States**
  - analysis on a sample of 81 firms survived as public companies since 1935 until 2000 shows an average size of 11 in 1935, 15 in 1960, 11 in 2000
  - SOX has increased requirements and workloads: boards have become larger and more independent and have more committees

- **Europe**
  - European firms have reduced the size and increased the independence of their boards over the last decade
  - Size differs from one country to the other
Composition: board size (3)

Average number of board members in listed companies in Europe (1,559 companies)
Composition: directors

- Outside/inside directors
- NED/executive directors
- Independent directors
- Minority directors
- Gender diversity
- Skills
Board dynamics (1)

- Chairman/CEO/LID
- Staggered board
- Independent directors and committees
- Incentives
- Information and time
- Expertise, skills, capabilities, affinities
Board dynamics (2)

• Chairman/CEO/LID
  – Different models from country to country
    • US, France, Japan: CEO often chairs the board
    • UK, Italy: a clear division of roles is recommended by CG Codes
      – CEO: responsible for day-to-day management
      – Chairman: leads and coordinates board meetings
      – Lead Independent Director: serves as an intermediary of other NEDs and provides a third leadership figure
Board dynamics (3)

• Staggered board
  – Different deadlines of mandate for each single director
  – Half of companies in 2007 in the US had staggered boards
  – Pros and cons (continuity vs. management entrenchment)
Board dynamics (4)

• Independent directors and committees
  – Play an effective role in key areas where the potential for conflict of interest is high
    • Nomination
    • Remuneration
    • Audit
Board dynamics (5)

• Incentives
  – Quality costs
  – Remuneration policies
    • Fixed pay/variable pay
    • Disclosure
    • Say on pay
Board dynamics (6)

• Information and time devoted to the board
  – Both are crucial for good governance
  – Good directors are usually busy, serving in more companies
  – Being too busy hurts performance
    • Attendance problems
    • Less time to get informed
    • CEOs have too much power
    • CG Codes usually recommend limits to the number of boards
Board dynamics (7)

• Role of directors’ skills and capabilities
  – Growth and innovation needs
  – Build relationships with governments, society, investors, suppliers, customers, workers
Composition: effects on performance

• Studies on correlation between composition and performance show no clear evidence
• Negative correlation between BoD dimension and performance:
  – Too big BoD become inefficient
  – Tendency to reduce number of directors
The Apple case study

• Jobs challenged the traditional way of thinking CG
  – Board serves as an extension of management providing outside expertise and experience when and where needed (Steve Jobs keynote presentation, Boston 1997)
  – More attention to experience in the computer industry, loyalty and passion for Apple products
  – Less attention to independence and risk-oversight qualities
• Stock price passed from $25.25 to $360.30 (1997-2011)
• No major transformation after Jobs passed away in 2011