

Effective Corporate Governance Practices in 2024

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As global markets become increasingly connected, dynamic, and complex, boardrooms worldwide are paying greater attention to corporate governance practices. Boards play a critical role in defining an organization's vision, overseeing senior management, and protecting shareholders and other key constituencies.

According to recent surveys conducted by The Conference Board and PWC among 600 public companies in the fall of 2022, there is a growing gap between expectations of boards and confidence in boards' abilities:

- An overwhelming majority (71%) rated the overall effectiveness of their board as *fair or poor*
- Only 26% agreed that their board has the right mix of skills and experience
- Only 20% agreed that their board has a sufficient amount of diversity
- Almost half think their board does NOT understand cybersecurity/data privacy vulnerabilities *very well or at all*
- Half think their board does NOT understand the impact of digital transformation/emerging technology *very well or at all*

Based on these findings, it's unsurprising that the most successful boards are proactively conducting self-assessments, identifying deficiencies, and taking corrective actions. From asking the most difficult questions to scenario planning, the board's work today is increasingly challenging.

Board Effectiveness Guidelines

-Work Closely with Management

To be effective, boards should work closely with management teams to ensure that relevant information is communicated successfully. Boards should receive financials and key strategic documents regularly, far enough in advance of board meetings to formulate questions and have management address issues before and/or at the meetings. Boards should have opportunities to interact with management on key issues outside packed-agenda meetings. Committees can help boards delve deeper on issues; then committee chairs report back to the full board. Further, once boards give feedback to management, management should be incorporating their guidance into operations.

-Prioritize, Set, and Adhere to Meeting Agendas

Particularly since board meetings are scheduled at the start of the year, and held regularly but not frequently, tight agendas are essential. The agenda should consider key business priorities, focusing on near-term issues and leaving space for longer-term strategic issues as well. The best meetings allow for some participation, some decision-making, and some information sharing. Board members should leave meetings feeling as though they were informed about key issues, brought their unique knowledge, and imparted their wisdom to management.

Skills Needed for Board Director Success Today

Today boards of directors are increasingly pressured to demonstrate their value, relevance, and impact. Executives need to be experienced and skilled in all the traditional areas of finance, auditing, and risk. Yet, in 2024, that is not enough. They also need to be knowledgeable about: customer-focused strategies, innovation, cybersecurity, digital transformation, artificial intelligence, and machine learning. And soft skills are critical: board members must bring leadership sensitivity, high emotional quotient, awareness of cultural perspectives, and a willingness to collaborate.

Fiduciary Responsibilities of an Independent Director

Healthy boards refresh their directors, with independent directors serving approximately 5 years. Directors should be evaluated annually. Are they delivering against the expectations set forth and are they acting with:

1. **Loyalty and Duty of care:** Directors must be loyal to the company and its shareholders, making decisions that are in the best interests of the company as a whole.
2. **Independence:** Directors must maintain independence and avoid any conflict of interest.
3. **Monitoring and supervision:** Directors are responsible for supervising and monitoring the management of the company, including strategic decision-making, risk management, and financial performance.
4. **Transparency and accountability:** Directors must promote transparency, ensuring shareholders access relevant information.
5. **Active participation:** Directors are not figureheads. They need to participate in board discussions and decisions actively, share knowledge to improve decision-making, and advance the business strategy.

In the year ahead, there will be increased attention to the complicated geopolitical environment and the challenges and risks of multiple factors from climate change to generative artificial intelligence. Board leadership is essential, and the board is only as strong as its members' knowledge, experience, and collective decision-making.

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