Responsibility in the boardroom

The Boardroom: this is the place for the select, the powerful and the well-remunerated, where the commercial activities of the business are overseen by its governing body, the Board of Directors.

They have three main areas of responsibility to:

1. transform the stakeholders' purpose into a mission for the CEO to follow;

2. take responsibility for the business to fulfil its legal obligations, including compliance with the governance procedures;

3. act as the sounding-board for the CEO when s/he creates the strategy and for all business related matters s/he wants to follow.

The rôle of a non-executive director (NXD) is a sought-after position, with individuals keen to expand their network and earnings and companies eager for high-profile, high-flying names to bolster their credibility and market profile. With only a few meetings a year of rubber-stamping oversight, combined with nice lunches and a nice fee, is a non-executive director (NXD) position on a Board a business executive's favourite job?

But what happens when the collection of people on the Board is from a similar pool of individuals, more interested in the dosh *[money]* than the delivery, happier to court fame than demonstrate competence and keen to follow the demands of the **shareholders** only? Is this really the right way to run a responsible company, where financial incentives for Board members would compromise fair decision making?

Actually, what should be happening is for Boards to be broader than they are, drawing on the wider group of a company's **stakeholders**, and engaging independent NXDs who take their rôles seriously and who are properly prepared to take individual, personal responsibility for any wrong doings of the company they are supposed to advise and lead. Their duties and responsibilities should be clearer - indeed the UK's Institute of Directors is focusing on training NXDs - the rewards and penalties for wrong doing more transparent: gaol for the wrong goals?

Given the responsibilities and oversight that a Board has, the board of Volkswagen (VW) should collectively have fallen on their swords and resigned alongside the CEO when the scandal of the emissions fraud broke out in September 2015. They did not have their eyes and ears open in a responsible way and did not scrutinise the CEO and his leadership team according to the governance procedures they should have been following. They absolved themselves of collective responsibility by simply blaming the CEO (who stepped down), despite, as the information later showed, this fraudulent emissions activity had been going on for several years. And the Board had not taken any action, claiming that they first heard of the problem the day before it broke.

In point of fact, we believe that their responsibility goes deeper than the responsibilities they had as Board members, responsibilities that they so disregarded that they ought to be gaoled, let alone dismissed. They failed on the level of Personal Responsibility.

What is it about Boards like VW's that makes them so likely to fail?

First, if you were to look at the composition of most Boards in listed companies they:

- often have a Chairman who is CEO of another listed company and sometimes s/he might be Chairman in several other companies as well;

- have NXDs who are CEOs of another company and maybe an NXD in a number of other companies;

- have good monetary incentives on top of their day job's salary.

Second, investigate the stakeholders and, in particular, the shareholders (the money) of the company:

- the shareholder community is predominantly faceless: less than 10% of shareholders have private ownership which means that the majority of shareholders are other companies or organisations;

- is there - as a result - a lack of unified and collective shareholder commitment, giving rise to mixed guiding messages to the Board?

These two areas essentially give far too much room for manoeuvre to the CEO and his / her leadership team, which is focused on delivering ever-increasing and improving results on a short-term, quarterly basis. This foments irresponsible behaviour and explains much about untrustworthy behaviour in our business community.

From a responsibility perspective, the first thing to do to improve this, is to stop the habit of appointing to the Board NXDs who already have a full-time CEO rôle. The next is to change the remuneration policies.

Then, on a personal level, these high-profile NXD individuals, the CEO and his leadership team AND the shareholders must start looking at their own values and ethics so they can stand up for their Personal Responsibility. This would require a shift in mindset so that they no longer compromised their human values and competence for money, power and, in some instances, a questionable fame.

Otherwise, the result is worse than the NOx fumes from a VW: poisonous to good and responsible business and stifling to the atmosphere any business needs - customer trust.

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