

Effective Boards; Effective Directors

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**PRESENTATION AT MENA ADMINISTRATORS'
CONFERENCE
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An Ineffective Board

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The example of the board of WorldCom

An Ineffective Board

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“(WorldCom’s) board was not an active or curious one. Despite experiencing a lawsuit in which employees with specific knowledge about the company’s accounting practices filed affidavits, the board made no further inquiries. In fact, the company dismissed the employees and ignored their affidavits when a judge dismissed the class-action suit.

An Ineffective Board

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“The board was not aware of \$75 million in loans to Mr. Ebbers or a \$100 million guarantee for Mr. Ebbers’s personal loans until two months after the loans and guarantees had been signed for him. Two board meetings went by after the loan approvals before the board was informed and approval given. Further, the board’s approval came without any request for advice from WorldCom’s general counsel.”

Marianne Jennings

An Ineffective Board

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Bankruptcy declared: July 22, 2002

Officers indicted

Bernie Ebbers, CEO, sentenced to 25 years in prison

Board members paid restitution: \$18 million

An Ineffective Board

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Would you have voted for the \$415 million in low-interest loans to Bernie Ebbers if you had been a member of the WorldCom board?

Board Processes Matter

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Effective board processes matter because:

1. Institutional success is ultimately the responsibility of the board/executive committee.
2. The most important decisions of the organization are made by the board.

Board Processes Matter

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3. Effective group decisions do not arise spontaneously. They require deliberate designs in structure and social dynamics.
4. Good governance builds membership trust.

Board Processes Matter

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The governing board:

- Has ultimate corporate authority
- Total authority is matched by total accountability
- Can be superseded only by the organization's owners or the state
- In SDA structure, the owner is the constituency

Fiduciary Duties of the Board

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The Fiduciary Duties of the Board are:

- Obedience
- Loyalty
- Due Care

Gearheart Industries vs Smith International
(741 F.2 707, 719 (5th Circuit Court) 1984)

Fiduciary Duties of the Board

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“Fiduciary” defined:

- Someone who acts for and on behalf of another in a relationship of trust
- Requires action at all times for the sole benefit and interest of the one who trusts

Fiduciary Duties of the Board

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Therefore, a “board of trustees” acts not in its own interest but in the interest of the “owners” of the institution or organization.

In the SDA structure, those with this compelling interest are the constituents.

Fiduciary Duties of the Board

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The Duty of Care:

The manner in which the board makes decisions and oversees the institution/organization.

Fiduciary Duties of the Board

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What to look for:

- Board education/orientation for new trustees.
- Trustees attend meetings regularly.
- Appropriate flow of information.
- Decisions reflect best interest of the organization.
- Access to experts and opinion.

Fiduciary Duties of the Board

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The Duty of Loyalty:

Faithfulness to the organization and its mission.

Fiduciary Duties of the Board

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What to look for:

- Position not used for personal advantage.
- Conflict of interest disclosures.
- Undivided allegiance when making decisions.
- Maintaining confidentiality of privileged information.

Fiduciary Duties of the Board

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The Duty of Obedience:

Faithfulness to the corporate purpose and mission; the board serves as a conscience, a keeper of human and moral values, for the organization.

Fiduciary Duties of the Board

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What to look for:

- Compliance with governance documents.
- Compliance with laws.
- Fulfilling all commitments to others.
- Monitoring the financial health of the organization.

Types of Boards

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The Passive Board

May become a rubber stamp for entrenched and powerful executives.

May be dominated by the CEO.

Types of Boards

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The Contrary and Confused Board

Unclear about what the organization is supposed to be doing.

Often plagued with conflicts of interest.

Types of Boards

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The Strong-minded Board

May be led by groups or individuals who have particular interpretations of what is good for the organization or the community it serves.

These individuals may be self-serving.

Types of Boards

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The Mission-Driven Board; The Super Board

This board understands the mission of the organization and seeks to remain true to that mission as it provides guidance to the organization.

The Super Board

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1. Embraces systems thinking.
2. Focuses on mission.
3. Maintains the SDA identity of the organization.
4. Selects, develops, and evaluates officers.
5. Leads change.
6. Ensures adequate financial resources and provides adequate risk management.

The Super Board

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7. Requests good governance information:
 - Insists on members' orientation and training.
 - Insists that information-gathering systems deliver the right information from the bottom to the top.
 - Insists that members understand the board decision-making processes.
 - Uses technology to communicate effectively.

The Super Board

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8. Holds board members accountable to performance standards.
9. Uses good governance structure.
10. Uses board job descriptions and appoints members to committees in accordance with their expertise.

Super Board's Crucial Questions

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- Do we have a profit or a loss?
- Do we have sufficient reserves?
- Are we liquid?
- Do we have strong internal controls?
- Are we operating efficiently?
- Are we meeting our budget?
- Are our programs valid?
- Are we competing successfully?

Super Board Director's Competencies

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Personal Competencies

Professional Competencies

Reputation (integrity)

Training and education

Time and commitment

Experience

Objectivity in thinking

Skill and judgment

Ability to function beyond self-interest

Team member

Social behavior skills for groups

Super Board Director's Competencies

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Seeks board members who:

- Attend meetings regularly
- Do their homework; come prepared
- Disclose potential conflicts of interest
- Understand the organization and its work
- Recognize and respond to warning signals
- Maintain confidentiality of “inside” information
- Challenge assumptions

Chairing the Super Board

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We have focused on the competencies of the members of the Super Board.

Now let's turn to the competencies required by the Chair of the Super Board.

Chairing the Super Board

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- Skilled leadership in group decision-making
- Has an attitude of commitment to excellence
- Is enthusiastic about the organization's mission
- Pays attention to the effective use of time

Chairing the Super Board

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- Focuses on strategic issues
- Creates an atmosphere where it is safe to talk
- Practices good group dynamics
- Deals with governance, not management

Chairing the Super Board

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- Has a big picture/future perspective
- Recognizes the risk of groupthink

Signs of Groupthink

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1. Deference to the view of the leader or influential spokesperson for an idea.
2. Uncritically supporting an idea because it appears popular.
3. Unwillingness to listen to dissent.
4. Unwillingness to express dissent in order to retain a favorable opinion of others.

Role of the Chairperson

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Before the meeting:

1. Orientation of new members.
2. Appropriate notice of meeting.
3. Supply agenda information and reports in advance.
4. Familiarity with agenda items.
5. Set pace and sequence of agenda.

Role of the Chairperson

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During the meeting:

1. Call to order.
2. Define the dimensions of success for the meeting.
3. Establish basic rules of conduct.
4. Keep group focus on the agenda.
5. Draft recommendations in advance.

Role of the Chairperson

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6. Maintain orderly processes (rules of order).
7. Encourage good social dynamics. *
8. Call for the vote.
9. Create opportunities for CEO to think aloud.
10. Arrange for board/committee education.
11. Close the meeting.

Role of the Chairperson

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***Social dynamics include:**

- Physical arrangements of the meeting place
- Cycle of respect, trust and candor
- Minimal impact of political factions
- A culture of open dissent encouraged
- Deliberately develop/examine alternatives
- Give board members meaningful tasks
- Regular evaluation of group's performance

Role of the Chairperson

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After the meeting:

1. Verify accuracy of minutes.
2. Keep in touch with absentees.
3. Maintain communication with the CEO.
4. Monitor implementation of actions.

Signs the Board is Astray

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1. Time consumed is not proportional to results.
2. Tendency to drift from strategy to operations, from long-term challenges to short-term performance.
3. Driving by the rearview mirror.
4. Reactive stance rather than proactive.
5. Leaking accountability.
6. Uncertainty over boundaries of authority.

10 Commandments for Board Chairs

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1. Thou shalt honor, respect and promote the organization's mission and structure.
2. Thou shalt serve as an ambassador of good will in the organization's interface with the community.
3. Thou shalt maintain regular communication with the President/Director.

10 Commandments for Board Chairs

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4. Thou shalt maintain board focus on governance, evaluate leadership, sustain financial stability, update plans for the future.
5. Thou shalt arrange for and do board member orientation.
6. Thou shalt ensure integrity in board processes.

10 Commandments for Board Chairs

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7. Thou shalt comply with the bylaws and policies of the organization and with applicable SDA policies.
8. Thou shalt fulfill board commitments.
9. Thou shalt have a crisis response plan.
10. Thou shalt be a personal model of excellence.

Back to WorldCom

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Would you vote to loan Bernie Ebbers money to cover his required margin on WorldCom stock?

Discussion Time

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Questions or Comments?

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The Role of the Chairperson

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A successful board chairperson will:

1. Receive the respect of his/her peers.
2. Manage effective meetings of willing, bright, and opinionated trustees.
3. Build consensus.
4. Make difficult decisions and cast a deciding vote when necessary.

The Role of the Chairperson

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5. Communicate/articulate ideas and positions.
6. Understand the role of the board as governance.
7. Allow the CEO to manage the institution.
8. Act as a sounding board for the CEO when decisions are required.
9. Develop a seamless succession plan for the institution.
10. Understand the business side of a non-profit.