The Role of the Board of Directors in Corporate Governance

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The board of directors are the link between those who provide the capital, and who have the most to lose, and those who are employed in order to manage and create value for the investors. The corporate governance code is a market based approach with shareholder primacy which enables the board of directors to act in a flexible and responsible manner in exercising its responsibilities. A board's responsibilities will include determining the long term aims of the company, providing leadership to achieve these aims, establishing a supervisory process to ensure that the management of the business is effective and also to report to shareholders on its performance to date.

Directors must think comprehensively about their overall tasks and consider the skills and requirements of each individual member. Key to the success of the organisation will be the leadership provided by the chairman of the board with support from the Chief Executive Officer. There should be a clear division of responsibilities at the head of the organisation between the running of the board and the executive responsibility for the activities of the company's business. The board of directors is charged with developing the corporate goals and strategy and designing the implementation process in order to address any problems the company may have in growing in a competitive environment. The effectiveness with which board of directors discharge their responsibilities will determine the company's competitive position. They must be able to drive their companies' strategy forward but they must do so within a framework of effective accountability and transparency, not just to shareholders but to all stakeholders.

Within the US and the UK corporations operate on the basis of a one tier board of directors. A major flaw of the board of a one tier structure is of the high concentration of power which resides in the hands of the chief executive officer. To counter and balance this risk the board will appoint a number of non-executive directors. Non-executive directors are selected on the basis of their experience and market knowledge and their openness and ability to question where necessary. To ensure a diverse and well-balanced approach there should be a formal, rigorous and transparent procedure for the appointment of new directors to the board through an established appointment committee.

One of the main roles of the board is to establish the culture, values and ethics of the company. The directors must lead by example and ensure that good standards of behaviour permeate through all levels of the organisation. It is important that the chairman of the board establishes the tone in the boardroom in meetings so that non-executive directors are comfortable to raise concerns where they have queries about behaviour and activities. One of the most important tasks for a full board is to hold the chief executive and senior executives to account on behalf of shareholders and wider stakeholders.

Culture and values
Investors place increased importance on delivering long-term business and economic success and developing an appropriate corporate vision, ethics and working culture in the company is paramount, so at times of stress it can be relied upon to maintain a resilient performance. A performance management and reward system is necessary to encourage behaviour which is consistent with the businesses strategy model and values and the board is responsible for explaining this approach to stakeholders and shareholders. This role can be delegated to a remuneration committee which reports to the board and directly to the shareholders in the annual report. The board and executive management must insure that the decisions around value creation and the company's value system and culture are fully integrated. Corporate governance culture embedded in the organisation must have a degree of flexibility to enable companies to adapt to changing patterns within the business world.

Shareholder engagement
For shareholders to determine the effectiveness of the board they must be provided with appropriate financial and non-financial information in determining a fair and balanced assessment of the company's position and its prospects. The directors are tasked with providing information to give shareholders a clear and broad view of solvency and liquidity, the company's risk management approach and the long term viability of the business. The Chairman is expected to report in the annual statements on the role and the effectiveness of the board.

It is a requirement of the chairman to ensure that the views of shareholders are communicated to the board. The chairman should discuss key issues on governance and strategy with major shareholders and non-executive directors should have an opportunity to attend these meetings with the major shareholders

Risk management
The Board of Directors is responsible for identifying the nature and extent of the risks facing the organisation in achieving its strategic aims and the risks to its long-term viability. The board is tasked with ensuring that there is a risk management process, an information system and an appropriate internal control system in place to aid the operation of the company. The directors will need to monitor the companies' risk management and internal control system and carryout periodic reviews of their effectiveness and report on this review in the annual report. These responsibilities can be allocated to the audit committee which reports to the board and directly to the shareholders in the annual report. The board must consider the risks that affect the company and most consider that at times of risk what support structures exists to ensure that the values and the culture of the organisation are maintained throughout activities. The directors must include in the annual report confirmation that they have carried out an assessment of the risks facing the company considering its business model, its future performance and its risk to its continued existence. A description of the business, operational and financial risks must be presented and how the company intends to manage or mitigate the risks.

Boards continually need to monitor and improve their performance. This can be achieved through board evaluation, which provides a powerful and valuable feedback mechanism for improving board effectiveness, maximising strengths and highlighting areas for further development.