factsheet

The role of the board

This factsheet is based on the IoD publication, Standards for the Board, the leading reference guide on good practice for boards of directors.

Challenges for the board

Standards for the Board states that the board's key purpose "is to ensure the company's prosperity by collectively directing the company's affairs, while meeting the appropriate interests of its shareholders and relevant stakeholders". It is for the board to judge, on a case-by-case basis, which stakeholders it treats as 'relevant' and which of their interests it is appropriate to meet, taking into account the law, relevant regulations and commercial considerations. In pursuing this key purpose, a board of directors faces a uniquely demanding set of responsibilities and challenges. It also faces a range of objectives that can sometimes seem contradictory. The board:

- must simultaneously be entrepreneurial and drive the business forward while keeping it under prudent control;
- is required to be sufficiently knowledgeable about the workings of the company to be answerable for its actions, yet able to stand back from the day-to-day management of the company and retain an objective, longer-term view;
- must be sensitive to the pressures of short-term issues and yet take account of broader, long-term trends;
- must be knowledgeable about 'local' issues and yet be aware of potential or actual wider competitive influences;
- is expected to be focused on the commercial needs of its business while acting responsibly towards its employees, business partners and society as a whole.

Each board member is expected to recognise these challenges and ensure that they personally contribute to finding the right balance between these various competing pressures. In seeking to do so, executive directors may find it difficult to see beyond their direct focus on the business and its day-to-day problems; non-executive directors, on the other hand, may find it difficult to feel sufficiently informed about the direct day-to-day pressures faced by the company.

Tasks of the board

It is, of course, impossible to list every task that each individual board of directors has to carry out. Each board has to consider its own situation and circumstances. For example, small privately owned companies might not be concerned with many of the issues that preoccupy large listed companies.

However, Standards for the Board does attempt to highlight the broad tasks that are pertinent to every board and also the indicators of good practice that can help boards of directors reflect on how they are fulfilling those tasks. Hence, it is argued, boards can be helped greatly by focusing on four key areas:

- establishing vision, mission and values;
- setting strategy and structure;
- delegating to management;
- exercising accountability to shareholders and being responsible to relevant stakeholders.

Each of these can be broken down into separate elements (as seen in the overview at the end of this factsheet).

Each board should decide what it needs to do in order to achieve its overall purpose and identify any gaps or deficiencies in what it is already doing. The board is also encouraged to focus on those tasks that it must – or wishes to – undertake itself and to decide which should more properly be carried out by senior management. Many boards of larger companies devise a schedule of reserved powers that explicitly distinguishes between those tasks that are to be the sole responsibility of the board and those that can legitimately be devolved to senior managers.

The effective board

Within a company, the board of directors is the principal agent of risk taking and enterprise, the principal maker of commercial and other judgements. Discharging these responsibilities means thinking not only about particular tasks but also about ways of working as a board, and ensuring individual directors can be fully equipped to play their part. Again, there are four particular areas worthy of time and energy:

- determining board composition and organisation;
- clarifying board and management responsibilities;
- planning and managing board and board committee meetings;
- developing the effectiveness of the board.

These activities are normally undertaken by the chairman of the board, part of whose role is to manage the board's business and act as its facilitator and guide.

Where the managing director is also the chairman, it is important that these two distinct roles are properly separated and that sufficient attention is given to carrying out the chairman's role effectively. The board should not be just an executive team.

The non-executive directors play an important part in assisting the chairman to fulfil his role by regularly and rigorously assessing the effectiveness of the board's processes and activities. Given their outside perspective, they are sometimes best placed to ensure that the board focuses its energies effectively on meeting the demands described earlier.

The context for the non-executive director
Each board of directors is faced with unique problems and circumstances that must be addressed for the company to be truly successful. As this factsheet seeks to show, however, there are some universal challenges that are faced by all boards and a number of strategic tasks that any board must perform if its central purpose is to be achieved.

Legally speaking, there is no distinction between an executive and non-executive director. UK company law does not see the roles as distinct and therefore does not distinguish between their responsibilities. Yet there is inescapably a sense in which the non-executive director's role can be seen as balancing that of the executive director, so as to ensure the board, as a whole, functions effectively.

Where the executive director has an intimate knowledge of the company, the non-executive director may be expected to have a wider perspective of the world at large. Where the executive director may be better equipped to provide an entrepreneurial spur to the company, the non-executive director may have more to say about ensuring prudent control.

At the end of the day, however, it is important to be clear that the challenges and tasks discussed in this chapter are those of the board, not of individual directors. While each individual may have a distinct contribution to make, it is the collective responsibility of the board to ensure the company's successful operation.

An overview of the tasks of the board and indicators of good practice

Establish vision, mission and values

- determine the company's vision and mission to guide and set the pace for its current operations and future development.
- determine the values to be promoted throughout the company.
- determine and review company goals.
- determine company policies.

Set strategy and structure

- review and evaluate present and future opportunities, threats and risks in the external environment; and current and future strengths, weaknesses and risks relating to the company.
- determine strategic options, select those to be pursued, and decide the means to implement and support them.
- determine the business strategies and plans that underpin the corporate strategy.
- ensure that the company's organisational structure and capability are appropriate for implementing the chosen strategies.

Delegate to management

- delegate authority to management, and monitor and evaluate the implementation of policies, strategies and business plans.
- determine monitoring criteria to be used by the board.

- ensure that internal controls are effective.
- communicate with senior management.

Exercise accountability to shareholders and be responsible to relevant stakeholders

- ensure that communications both to and from shareholders and relevant stakeholders are effective.
- understand and take into account the interests of shareholders and relevant stakeholders.
- monitor relations with shareholders and relevant stakeholders by the gathering and evaluation of appropriate information.
- promote the goodwill and support of shareholders and relevant stakeholders.

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