

# How Corporate Boards Can Make a Difference

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*Highlights from the panel discussion at  
TMS Academy's Directors-in-Dialogue Forum on Board Leadership*

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*Moderator:*

**Michael Useem**

Professor of Management  
Director, Center for Leadership and Change Management  
The Wharton School, University of Pennsylvania

*Panellists:*

**Maria Mercedes Corrales**

Independent and Non-Executive Director  
Huhtamaki Oyj

**Lee Hsien Yang**

Chairman  
Civil Aviation Authority of Singapore



The principles of corporate governance are just as applicable in the ASEAN region as they are in the U.S. Yet there are subtle differences in implementation. In a panel discussion on board leadership at **TMS Academy's Directors-in-Dialogue** forum in Singapore, **Michael Useem**, Professor of Management at Wharton and director of the Center for Leadership and Change Management, had a dialogue with two international boardroom veterans – Maria Mercedes Corrales and Lee Hsien Yang.

**Maria Mercedes (Mercy) Corrales** is independent, non-executive Director for Huhtamaki Oyj, Finland, a member of the Board of Trustees of the Mapua institute of Technology, and a Regional Advisor for Abraaj Capital, Southeast Asia. She is former president of Starbucks Coffee Asia Pacific and representative director and CEO of Starbucks Japan. She has held a number of senior leadership positions in Asia and South America with Levi Strauss. Corrales was previously non-executive director of Fraser & Neave (F&N) and D.E. Master Blenders of the Netherlands.

**Lee Hsien Yang** is chairman of the Civil Aviation Authority of Singapore and the Islamic Bank of Asia Private Limited. He is also Special Advisor for General Atlantic. He was previously CEO of SingTel and non-executive director and chairman of F&N. Hsien Yang is also director of the Singapore Exchange, the Australian & New Zealand Banking Group Ltd. (ANZ) and Rolls Royce PLC. "Shareholders cannot look after the company," they tell . It is up to the board to do that.

An edited version of the transcript follows.

## The chair and the CEO should be separate, says an ASEAN panel on corporate governance.

**Michael Useem:** Mercy, let me begin with you. I'm thinking about your several boards. A simple and obvious question to get us going, for effective leadership of your boardroom – either as independent director or, if you have been an executive in your boardroom, or lead director or chair – what do you think it takes to lead a boardroom?

**Mercy Corrales:** I think it is very important to have a strong board leader – the chairman. You need a chairman who is respected by both the executive team and the rest of the board. You need an alignment between the executive team and the board around the mission, the vision and the strategies of the company. You need very clear delineation of responsibilities between the executive team and the board. But it is also important to know when to get involved to take leadership and to take a stronger position in terms of providing direction for the company.

**Michael :** Hsien Yang.

**Lee Hsien Yang:** Having served on both not-for-profit and public-listed boards, let me cite three examples. Early on in my career, I joined a board which had a very distinguished chair, but he was getting on in age. He came to board meetings with a script that the secretary prepared. He read the script. We all respectfully made one or two interjections. Then, he read the conclusion and he left the meeting. I must say my esteem for the chair dropped considerably.

I remember a public-listed board where the chair was very dynamic, hyperactive, and made all the decisions before we had even discussed the issue. Again, he was a distinguished business personality. I don't think he got any value out of the board, but he displayed lots of leadership.

I still serve on the board of the [Singapore] stock exchange with Kevin [Kwok]. I had the privilege of serving with [former exchange chairman J.Y.] Pillay. He was a very distinguished personality in both business and civil service who led the board very ably through sometimes difficult discussions. I learned a lot from watching the way he listened to us. He often had a view, but he would take on board the directors' comments. Sometimes, notwithstanding his own reservations, we took a decision which he was not entirely comfortable with. I think that the interaction on the board was better because of that.

**Michael :** Mercy, let me come back to you on this issue. In learning to lead, we learn from great leaders. But sometimes we learn more from people who are not great leaders. Having worked with such a boss, we swear that whatever the person did we are going to do the opposite. That is a way of saying life is always a classroom. Have you learned something about leading a boardroom from a negative example?

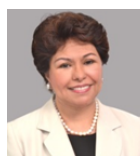
**Mercy:** I was CEO of a company with two dominant shareholders of equal weight. Both were public-listed corporations. They were represented on the board by their most senior executives. Those first few meetings were probably the most difficult situations I ever had to navigate. There were culture clashes, language issues, an obvious lack of trust and absence of empathy. It was hard to get agreement on anything. As the neutral board member and CEO, I chaired those meetings. There were days when I shuttled between two buildings trying to clarify issues and get alignment and literally beg one camp to come back to the table. The executive team members were unsure of how to present a plan that would not set off another round of disagreements.

**Michael :** You lost some sleep on that.

**Mercy:** Lost lots of sleep. We had a business that needed to grow profitably and a brand that needed reenergizing. Much energy was being wasted trying to bring the two camps to agree. But I learned valuable lessons. It takes time and lots of humility to build trust. It was only when one camp toned down its superior and aggressive stance and showed some respect and empathy that the impasse was broken.

**Michael :** Does it have a happy ending?

**Mercy:** A very happy ending. With everyone pulling in the same direction, revenue doubled in three years and the brand became undisputed market leader.



**“It takes time and lots of humility to build trust.  
— Mercy Corrales**



“It is a very delicate line as CEO of a company - between engaging the board and overreaching and managing the board.”

— Lee Hsien Yang

**Michael :** I am going to shift the vantage point here and ask about your service as CEO seen from the standpoint now of a CEO who gets the most from the board. For the board to “lead” with you, what do you want to see in the boardroom? What kind of directors do you most value in the boardroom?

**Hsien Yang:** It is a very delicate line as the CEO of a company - between engaging the board and overreaching and managing the board. When one starts as CEO, you tend to be much less experienced and people do not hold you in awe. So it is a different relationship with the board. By the time you finish your tenure as CEO, if you have had a successful time, the board is mindful not to cross you. That becomes difficult both for the board and for the CEO. It is human nature, but bad for the organisation. I am not sure what the solution is. I suppose board renewal is one way. But CEO renewal is the other way. I think there is an appropriate tenure beyond which CEOs should realise that change is good for the organisation no matter how experienced they are. Then you can continue to have that healthy tension. Shareholders cannot look after the company.

**Michael :** As CEO, you have a huge stake in how the board operates and who are on the board. But, in a formal sense, it is not your decision to make as to who are in the boardroom unless you are chair. As CEO, how much influence are you in favour of exercising in bringing people on to the board and how does the board operate?

**Hsien Yang:** If you take the sort of governance model we have -- an independent chair separate from the CEO -- the board composition should be the board’s prerogative and not the CEO’s.

I do not think you want to appoint someone who has an axe to grind because that creates a problem. But you do want to appoint people who will speak their minds. One of the key challenges in boardrooms anywhere, not just in Singapore, is that many of us know each other and we need to separate our personal friendships from our professional relationships. If you do not separate them you sometimes make suboptimal decisions because you do not want to be perceived to be difficult.

How much do I want to express a discomfort? Do I want to put down in the minutes of the meeting that I really thought this was a stupid idea, we should not do it, let’s have a vote. Or do I want to say, well, this is dysfunctional. I am going to resign from the board. And if you resign, you need to put down on public record because the listing rules require an explanation for resignation.

**Mercy:** As CEO, I would like to have members of the board know a lot more than me so that they can guide me. I would like to see diversity in the board reflect the diversity of our markets . I would like the board to be very honest and candid and not do or say something different behind my back, so that you know how you score and where you stand. But feedback should be given in a way that is constructive. I would like my board to be interested in the things we are doing. Not to participate in running the business, but to show real interest, to be scanning the environment, and sharing with us what opportunities or threats they can see in that environment. I would like them to be interested in the people that we have in the organisation, especially around leadership development and succession planning.

**Michael :** Picking up from what was just said, if we are thinking about leadership in the boardroom, then the choice of a lead director or chair becomes vital. Just to make a statement to sharpen the edge here, a couple years ago I attended an event. It was a one-day college for new chief executives of large U.S. public firms and one of the teachers was no less than Jack Welch. The topic for the 20 brand new CEOs in the room was: when it comes to people heading your audit committee, compensation committee and governance committee, what kind of persons ought to be the leaders? Jack Welch was the last to speak. He said that when it came to picking the chair of the compensation committee, it should be somebody extremely wealthy. I am not kidding, he said. The head of that committee has to be somebody who is not going to be jealous of the fact that you are getting paid a huge amount. What are the qualities most essential for somebody to head one of those committees?

**Mercy:** To be effective as the chair of the remuneration committee, you need experience in running compensation programmes so that you understand how executives are rewarded – both long and short term. It is a supply and demand situation; if you want to get the best talent, you have to offer highly competitive packages but this could sometimes lead to inequities in your compensation structure.

**Hsien Yang:** We all need to remember that ultimately we are accountable to the shareholders of the company, not just the dominant shareholders but all shareholders. And so as directors of the company, even if the controlling shareholders are quite happy with an outcome, we still need to satisfy ourselves that what we are doing is appropriate and sensible and that we are stewards for the shareholders who cannot personally make those decisions. The way corporate governance is going, we are going to be asked to justify the remuneration.

**Michael :** Occasionally in the U.S. I run into senior managers who say that during much of the year I am actually a bit overpaid. But there are about a dozen times per year when I am actually underpaid. That is a way of saying there are moments when I really do make an enormous difference.

Thinking back on your boards, if you could bring out a moment when a board made a very significant difference in where the company was going and they were underpaid.

**Hsien Yang:** I think directorships generally are not very well paid. In my view, they should remain not very well paid because, if it is important for you to keep the directorship and earn the money, then you should not be doing it. You need to be able to say I am here, but I am prepared to walk away if I do not think this company is doing the right thing.

Going back to the F&N (Fraser & Neave) takeover, it was a complicated multistage deal because it got started by a shareholder – the large shareholder in F&N, which is Great Eastern Life. That started a chain of events which was complicated and dragged on for a year. One key decision for the board was how do we deal with trying to do the right thing by different shareholders? We were put in a position where we had to agree to a break fee in order to get a second party to the table, which we assiduously refused to do until it became clear that unless we did it there would be no offer. Although the way events panned out it was clearly the right decision, it was a controversial decision. Was it right? I think it was. But there are some people who say you should not pay somebody to come to the table, which was effectively what we did.

**Mercy:** I was fortunate to have been part of that process and Hsien Yang is no longer my chairman so this is not brownnosing. But he did a wonderful job chairing the whole process, making sure all directors participated in all conversations. He was very transparent, informing the board immediately of any developments, not jumping to any conclusions unless he met with the board. We met at odd hours many times in a day as something developed. I think this is a very good example of an outstanding chairman – calm under a stressful situation, confident in his own skin, providing great leadership to the board and always bringing back the conversation to the issue of shareholder value. No matter how controversial the situation was – no matter what our advisors were telling us – Hsien Yang always asked the question – what is best for shareholders?



**“In learning to lead, we learn from great leaders. But sometimes we learn more from people who are not great leaders.”**

**— Michael Useem**



**Michael :** [Let us consider another issue] -- the merger or separation of CEO and chair. From your own personal experience, just talk through the advantages and disadvantages of having it each way.

**Hsien Yang:** Let me stir the pot a bit. I subscribe to the view that it is good to keep an independent chair from the CEO. Having said that, I think we need to put substance into the titles. When I joined F&N as a director and soon after took over as the chair, my predecessor had gone from being the CEO and chair to being a non-executive chair and finally stepping down. When I stepped in as chairman, the first thing that happened was there was a boardroom bust up. There was a takeover and the CEO left the company. We then chose not to replace the CEO for various reasons. The board asked me to be CEO, which I declined because I did not want to be CEO. In the end, it was a sort of hybrid solution where I agreed to do a bit more than what I should be doing as the non-executive chair. But I never became CEO of the company. Was that right? I think it does not tick the corporate governance boxes, but it was what was necessary at that point in time. So there is a dogma and there is the reality of how you make the best of the situation on the ground. But, in principle I think that having a separate chairman and CEO is the right model.

**Mercy:** I agree with Hsien Yang on that. From a governance standpoint, I think those two functions should be separate. If the CEO as chairman is also recruiting his board of directors, is this board really independent?

**Hsien Yang:** I think there has to be a healthy level of respect between the CEO and the chairman and an ability to engage. I do not think they need to be on the same page. If they cannot disagree, you have a problem. But you also must have an ability to disagree and reach decisions and move on.

**Michael :** Hsien Yang, let me ask a question. The chemistry between the CEO and the chair is vital. The relationship is complementary. They are two different people; they bring different skills. In your own experience, how have you helped build the relationship?

**Hsien Yang:** It is very hard to make a broad sweeping generalisation because to me the board and senior management are a team. They need to know their roles and perform them properly.

Depending on the skills and capability of that team, you need to build around it. Sometimes when you have an inexperienced CEO who needs a lot of coaching and support from the board, the way you interact with the CEO is very different from a CEO who has been in situ for a long time and who is not very open to new ideas and feedback. It is a very delicate balance that you need to maintain depending on the individuals and sometimes the key decision that the chairman and the board must face is whether the CEO is functioning or whether it is time to go. And, unfortunately, few boards really take a very active look at that question in as candid a manner as they need to.

**Michael :** Mercy, go ahead.

**Mercy:** I have seen tension between CEOs and the chairman and, when that happens, it is very dysfunctional. It is not good for the executive team and it is not good for the board. But I think the most effective chairmen that I have seen are the ones who take the high ground. They stay calm. They try the best they can to coach the CEO.

There should also be turnover in a board, otherwise it becomes an old boy or old girl network which creates inbreeding and group think. I think it needs to be freshened every so often. We need to bring fresh perspectives – fresh experiences – fresh talent – so that the board continues to be dynamic.

**Hsien Yang:** Some amount of board continuity ensures that there is some stability in the board.

**Michael :** I am going to ask a question on board diversity. Mercy, do you want to start?

**Mercy:** I think that in many parts of Asia, because a lot of businesses are still family-owned, you do not get the diversity that boards should have. In Europe, in the last two boards that I have been on there were six nationalities on each one of these boards. They made every effort to have gender diversity as well. I find that when there are women on the board, the conversation takes on a different tone because they bring a different perspective as consumers. Also, having people from different parts of the world changes the dynamics. That is very healthy. So I do support and believe very strongly in board diversity.

**Hsien Yang:** I think the key requirement for board directors is to have people who are fully engaged and the challenge is if you get geographically dispersed boards, it becomes harder to get them together and to participate fully. Being at the end of a teleconference or video conference is not the same as turning up for a board meeting. I think it is good to get geographical diversity and gender diversity onto the board, but you need a level of engagement. Also, serving executives need to really think about whether they have the time and if it is in their own company's interest for them to spend time on boards outside.

**Michael :** I have a final question. I would like you to think about your first board meeting. To offer an illustration, a person I know well went to his first board meeting. He walked out of the meeting and turned to one of the long-serving executives and said, "Wasn't that a great meeting?" He was looking for a compliment. The veteran said it actually was a great board meeting, except for you. You were a complete disaster. The new board member came out of sales and marketing. He behaved like he was on a sales call. "The boardroom is not a customer and you acted like you were trying to do the deal."

There is a very important underlying point: Leadership has learned that nobody has it by birthright. When it comes to learning to lead in the boardroom, mentoring and coaching are some of the great ways in which somebody becomes better. So what guidance would you have as a mentor or a coach?

**Mercy:** Understand that it is very hard work. It is not easy. It is a commitment. You need to go to a board meeting well prepared in order to be able to participate intelligently. It is not something that you take on because it will look good on your résumé.

**Hsien Yang:** You have to listen carefully and say little – at least until you understand the dynamics of what is happening in the boardroom. You do not want to start on the wrong foot. It sets you back a long way. So I just sit there and keep my ears and eyes open.

**Michael :** Good advice. Is there an idea going forward that people ought to hang on to when it comes to leading in and around the boardroom?

**Mercy:** That you can make a difference. That an outstanding board can be a source of competitive advantage for a company. It does not pay well. It is hard work. Think of it even as a way of giving back – of sharing all the lessons that you have learned in your career.

**Hsien Yang:** Boards are dynamic and constantly changing. The key thing for boards to realise is they need to provide a constructive partnership to the management. They need to be constantly engaged with the organisation. If they need to make difficult decisions, they should do it in a professional manner regardless of the human consequences of having to reshape organisations, redraw turfs, or fire CEOs. Therefore, we need to go in as a professional and not as a friend of the management.

**Michael :** The summary from me has already been said. Number one, we do not do this for the pay. Service on a board is a calling. Number two, boards make a difference; they can be the source of sustainable, competitive advantage.

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