BEL Monthly Update

This month our regular contributor Jean Pousson (Director of Consultancy at Board Evaluation Limited) summarises some thoughts for directors to reflect on as we approach a new calendar year.

Teams are as old as civilisation itself, even Jesus had 12 workers and one turned against him so, maybe, even that Board was too big! The Board of directors is after all just another team, but a team of very highly paid individuals with immense responsibilities. It is, therefore, imperative that its performance be scrutinised.

We have, over the years, performed many Board evaluation exercises across a number of sectors, private, public and 'third sector', and we have observed a range of behaviours and practices that would amaze in some cases and terrify in others.

To assess whether your board is at risk from any of these issues, here are some thoughts for you to consider:

Do all directors contribute outside their area of expertise? If not, why not? At Board level it is 'one person one vote', and collective responsibility applies. A director is not there purely for his/her specialist skills.

What about the dynamics between the Chairman and Chief Executive? CEO's tend to be dominant characters and the Board meeting is one instance where his/her authority can be a little muted by the Chairman whose job it is to run the Board. Does the Chairman run the Board well or does he/she try to re-live his/her executive past? Having said that, the Chairman is a full member of the Board and not simply a facilitator. He/she should contribute as well and display good intellectual rigour and strategic nous.

The Institute of Directors has, since our previous newsletter, published its annual Good Governance Report (GGI).

The GGI is an innovative way for external stakeholders to assess the overall standard of corporate governance at the largest UK-listed companies. This initiative is an important component of the IoD's commitment to promote the study, research and development of corporate governance. It is intended to stimulate an ongoing debate about the importance of good corporate governance and how it can be measured and improved. The intended readership of the GGI is anyone with an interest in the design and application of sound corporate governance.

The full report can be seen by following this link: https://www.iod.com/news-campaigns/news/articles/The-2017-Good-Governance-Report

Does the Board evaluate itself regularly? Proper and rigorous annual evaluations aside, it is considered good practice for the Board to conduct a quick feedback session immediately after the Board meeting. This intervention should be chaired by a different director each time. Allow 15 to 20 minutes with a number of very simple questions; how did we do, how can we improve, what didn't work well???

Is the agenda well balanced? AOB should really not exist on a Board agenda. Is there proper time allowed for strategic discussions and what about the quality of such discussions?

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Too often strategic reviews become about checking numbers and KPIs. They should be more varied, covering items such as changing landscape, social media trends, competitor behaviour, customer trends etc. Is the company attracting new customers and, if not, why?

Once a year or so the following questions should be debated. Reflecting on the last 12 months, what has caught us by surprise? Should we have been surprised? Is the Risk Register still robust? Are new risks constantly captured?

Is the mix of the Board still relevant to the strategic aims and business model? The Coca Cola Corporation in 2017 ditched the Marketing Directorate function as it felt that this was no longer relevant to what is happening out there. Is your current Marketing Director ***au fait*** with the ever-changing developments of customer and markets? A website has effectively become surveillance, buying habits are changing all the time. The current millenia generation expects a lot for free and have knowledge in abundance at their fingertips.

Has the Board considered moving to the 'triple bottom line' approach being advocated by many corporate governance leaders? This requires Boards to look at not just the financial results but also 'social and community' performance.

During our one-to-one interviews with directors we like to ask the following questions: "What are people saying behind your back?" "What would make someone not get on with you?" There are, of course, many more questions that Boards need to ask of themselves and our online tool captures this very well; http://www.board-evaluation.co.uk/index.php/services/7

The Financial Reporting Council has recently published its proposed revisions to the UK Corporate Governance Code. The main areas covered are executive pay, stakeholder voice, governance in privately held businesses and boardroom diversity.
The revised Code acknowledges the wide-ranging impact of companies and the importance of how companies interact with the workforce, customers, suppliers and wider stakeholders. The revised Code is clear that two-way dialogue with stakeholders is necessary to achieve good governance.
The consultation also takes account of recent reports on diversity and also on specific changes requested in the Government's response to the Green Paper Consultation on Corporate Governance Reform; these are: consultation with employees, extension of minimum vesting and post-vesting holding periods for executive share awards from three years to five years, that chairs of remuneration committees should have at least 12 months' previous experience, and specifying the steps companies should take when they encounter significant shareholder opposition to executive pay policies and awards.

The full document can be seen by following this link: https://frc.org.uk/getattachment/f7366d6f-aa57-4134-a409-1362d220445b/;.aspx

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