Making corporate governance palatable is an issue for companies of all sizes

Sharing real-life experiences and learning more about the challenges of the board room to support good practice

For the second session of the Bitesize Governance series sponsored by Wedlake Bell, UHY Hacker Young, First Flight Non-Executive Directors and Bridgehouse Company Secretaries, the themes of sharing real-life experiences and learning more about the challenges of the board room to support good practice were further explored by a varied group of experienced executive and non-executive directors, chairs and company secretaries.

Getting the best from each other

- Leadership involves being aware of your own strengths and weaknesses, as well as those of others
- Communication is critical - board members need to understand their roles and limitations of their remits
- A balance needs to be struck between meeting analysts' expectations and protecting business sustainability

Building on the question of how all these groups can get the best out of each other, the delegates discussed whether the size of a company matters when it comes to governance. An example cited was the behaviour of a chair person in a smaller company, who can often be tempted to be more 'hands on' with what tends to be smaller boards of directors, whereas larger corporate boards typically have a more formalised corporate governance process involving multiple reports and members with wide ranging briefs. This led to the question of whether chairs of larger or listed organisations need to be more dominant due to the pressure of public scrutiny, whereas chairs of smaller companies that may also not be listed are less likely to be as knowledgeable about corporate governance - or at least may not require the same depth and breadth of corporate governance knowledge. Whatever the truth might be, all the delegates recognised that making corporate governance palatable is a

fundamental issue for companies of all sizes. The issue of leadership was also raised and, importantly, how it differs from management. As an example, the chair must maintain the balance of challenging and supporting executives in a way that complements the management focused role of a CEO or Managing Director. It was noted that leadership also involves being aware of one's own weaknesses and in the pursuit of balance, being aware that all members of a board operate differently and this needs to be understood and accepted - not least due the varying roles and briefs of the board members.

First Flight also observed that getting the right people on the board in the first place is key and the right attitudes and blend of personalities is crucial, plus the chair should lead by example; possibly an obvious point but one that has sometimes been ignored. Another point of note was the practice of 'walking the floor' and its importance for all organisations regardless of size.

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Being a chair of a board is akin to conducting an orchestra – some people need encouragement to speak more loudly

There was unanimous agreement that communication was critical and that all board members need to understand their roles and the limitations of their remits. One delegate suggested the use of strategy days as a way to reign in a more dominant chair, as this can be a good way to test out and air both long and short term objectives.

Comment was made about the UK legal system and whether it is optimised to deal effectively with corporate fraud which has grown in complexity in recent years and may require new more combative laws. It was also generally agreed that instead of creating new rules and regulations, existing rules and regulations must be followed and policed more effectively. Delegates noted that the boards of listed companies need to find a balance between meeting analysts' expectations and protecting the

company and ensuring its sustainability. This was felt to be particularly important following the recent demise of Carillion where there are clearly still lessons to be learnt.

This led to the topic of the personal liability of NEDs. It was noted that generally if an NED is uncomfortable about any decisions or processes, they may resign but no further action is then taken, so missing an opportunity to review or improve governance. The optimum experience level of NEDs was also discussed and it was suggested that a mix of those both with and without previous NED and potentially sector experience was ideal. This is a way to develop newer NEDs and avoid 'rubber stamping' where there are no seasoned or experienced NEDs on a board.

How to deal with a chair who is dominant rather than open to debate

- There is a need to explain the impact of their behaviour to domineering personalities after board meetings
- Chairs need to find a balance between managing their own time and responsibilities and maintaining open discussions with other board members
- Establishing good governance principles from the start paves the way for future difficulties

It was suggested that being the chair of a board is akin to conducting an orchestra; some people need to be encouraged to speak more loudly and others need to be suppressed at different times. Challenges arise for chairs when trying to find a balance between preserving their own time and managing their responsibilities as a chair, versus the importance of maintaining open discussions with all board members.

If a particular personality is prone to being domineering, delegates felt that there may be a need to explain and discuss this outside

of board meetings, especially with newer incoming board members. This was considered to be not only better for the board as a group, but important for the personal development of new board members. One interesting observation was that quite often, having one individual dominating the conversation often doesn't work as people can become disengaged with whatever point is being pushed on them. (This of course does depend on whether board members are brave enough to give the type of feedback which highlights the issues of domineering board

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members). Interestingly, it was also suggested that the opposite problem can be quite common; a NED who is too quiet and doesn't contribute enough and in acting this way, doesn't add the value that be achieved through a more open and questioning approach. For chairs, perhaps it's best to always steer the conversation away from going down a single track, by for instance playing 'devil's advocate' to encourage debate and ensure all voices and opinions are heard.

One question that was raised in the light of a number of high profile corporate failures was whether we can learn from the type of European board structure that can be found in listed companies across mainland Europe and Germany in particular. Such two tier structures separate the day to day executive management from a second supervisory tier with separate boards. In effect, the supervisory board is not burdened by day to day issues and perhaps can take a more objective longer term view that may better reflect the needs of shareholders as well as acting as a check on the management board. Either way, there seem to be merits in both the single or two tiered model depending on the nature of the organisation concerned.

Finally, it was generally agreed that if good governance principles are established as soon as the business is set up, this paves the way for any future difficulties when it comes to dealing with a dominant personality.

How to manage people with strong convictions on the board where individual voices have to give way

- Feedback after meetings can be helpful, or alternatively, periodic board evaluation reviews
- Assessing the impact of a dominant chair depends on how decisions are made, ie. by formal or informal votes
- Dealing with a chair who isn't forceful enough could also cause issues

> Feedback sessions after board meetings can be helpful, or alternatively, periodic board evaluation reviews

To prevent situations where the chair may be dominant, it was suggested that feedback sessions after board meetings can be helpful and will ensure that people are ready to give honest opinions and stick to any statements they make. If this is too cumbersome to be permanently on the agenda, perhaps these sessions could be replaced by periodic board evaluation reviews.

When discussing how important the dominance of the chair is when assessing their impact, it was suggested that it really depends on how decisions are made e.g. via formal or informal votes which can sometimes be too easy to steer in a particular direction by a dominant chair.

It was also stated that dealing with a chair who is perhaps not forceful enough could also present problems, especially if there are other board members with strong opinions or personalities. An interesting point came out of this question, in that delegates were keen to understand whether it is more common for chairs to be disengaged rather than dominant.

Conclusions

How to make corporate governance more palatable was considered to be a priority and perhaps one that requires occasional consultative external intervention to help oil the wheels to create smooth running boards. Leadership is also about understanding one's own weaknesses as well as strengths. In this way, it becomes possible to develop new behaviours that counter weaknesses as well as developing structures or board agendas that balance the strengths and weaknesses present in many boards.

Making feedback or reviewing a standard agenda item can help to promote ongoing continuous improvement in the functioning of boards. Such feedback can also support an important secondary objective of promoting open and honest discussion amongst the board members.

About the Bitesize Governance Series

The aim of the series of roundtables is to support a shift in perception: changing the views organisations typically have of what good governance is, encouraging investors to care more about an organisation's health, well-being and governance and reinforcing the role of the company secretary in ensuring an organisation is properly governed.

We all understand the need to think in a fresh, collaborative manner and this is why Wedlake Bell, Bridgehouse Company Secretaries, First Flight Non-Executive Directors and UHY Hacker Young have come together to create the Bitesize Governance Series.

If you are interested in any of the issues mentioned in this paper and you would like to take part in a future Bitesize Governance event, please contact Natalie Maskell at UHY Hacker Young, or your usual contact at one of the promoting firms, for more information.

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