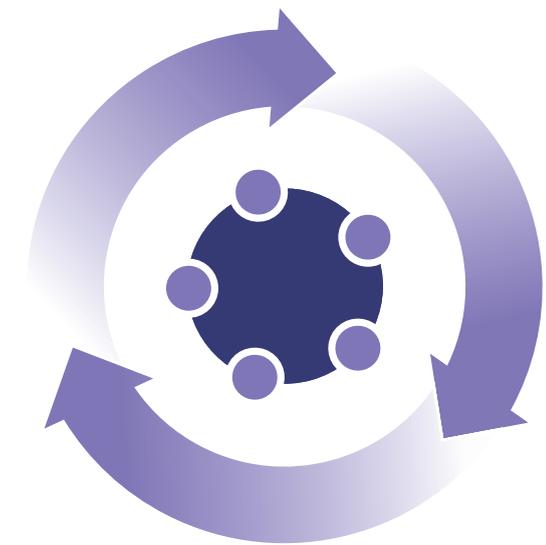


# Tomorrow's Corporate Governance

A tool-kit for improving the quality of boardroom conversations



| Underlying issue   | 'Red flags'   | Possible response  |  |   |   |
|--|---|--|--|---|---|
|  |   | Chairman   | SID  | CEO   | NED   |
| <b>The board has a process rather than business culture</b>            | <ul style="list-style-type: none"> <li>Overemphasis on compliance at the expense of strategy, performance, risk etc.</li> <li>Inappropriate allocation of time to critical issues</li> <li>Sense of pressure to get through the agenda</li> <li>Post-rationalisation of poor decisions</li> <li>Imbalance of risk control and opportunity development</li> <li>Board does not stand back from current issues and reflect on future drivers of success e.g. talent bank</li> </ul> | Involve non-executives in setting agenda<br>Differentiate agenda items by importance<br>Listen hard for discomfort signals<br>Park items for further review where there is discomfort<br>Use awaydays which have no formal agenda – 'blue sky' days<br>Discuss forward agenda with a 2/3 year horizon with the CEO and the board | Advise chair on NED discomfort   | Discuss agenda management with chair and prepare position papers to address NED priorities and areas of discomfort  | Raise concern either in meeting or offline with chair or SID<br>Offer to lead discussion on specific upcoming issue<br>Specifically cover during board review process |
| <b>Low commitment, engagement or capability of some board members</b>  | <ul style="list-style-type: none"> <li>Attendance in person but not in spirit</li> <li>Lack of preparation</li> <li>Consistent lack of contribution</li> <li>Focus narrowly on 'own world view'</li> <li>Too much 'shooting from the hip' by NEDs</li> <li>Executive debate tending to 'yes I agree BUT...'</li> </ul>  | Spend time outside formal meetings with each board member to really get to know them<br>Be clear with them about the contribution you want<br>Demand 'brains are switched on and mobiles off'<br>Upgrade the board as appropriate<br>Make sure CFO speaks to his board responsibility for balance sheet integrity                | Spend time talking with each board member. Point out why they were asked to join the board and encourage them to find ways to contribute | Be sensitive to board members feeling out of depth or marginalised<br>Discuss offline and encourage greater contribution, even in areas outside their domain specialisation<br>Share own 'thinking journey' with them | Raise any discomfort with the chair<br>'Move on' if not able to contribute  |
| <b>Lack of reflection time about board's own performance and style</b> | <ul style="list-style-type: none"> <li>Little discussion on how debate could be improved</li> <li>No opportunities to consider 'what might we do differently next time?'</li> <li>Process suggestions derided</li> <li>Annual board review does not get to the real issues</li> </ul>   | Encourage occasional wide ranging discussion on 'boardcraft' etc.  | Meet with each director to gather their views on quality of conversation and suggestions for improvement<br>Feedback to chair            | Work hard to ensure a productive conversation on strategic issues between the executive and NEDs<br>Embrace the opportunity to use the 'pause button' on all 'big bet' issues which affect the mandate                | Insist on the maintenance of standards and preservation of the character of the business  |

## Introduction

This ‘tool-kit’ accompanies the report – **‘Improving the quality of boardroom conversations’** – which illuminates the importance of good conversations to effective boards, identifies from survey results the scope for improvement, and is designed to stimulate thinking about how best to set up the different kinds of conversation.

It is a guide to how individual contributions might best apply in circumstances where the conversations are not as effective as they should be. The two left-hand columns indicate the concerns and likely symptoms, and the remaining columns the role that board participants might play in addressing these concerns.

In addition to the detail provided in the following pages, there are some important overarching considerations when preparing for meetings:

- **Arranging the space available in the board’s calendar for all the subject matter that should be covered involves mapping out the agenda.** It is important to make time available for both ‘hard’ and ‘soft’ subjects, for decision and reflection, for strategy and risk, for introspection and evaluation. It is important that the regular business of the board – typically things that are subject of management reports – does not crowd out things that are beyond the normal range of management attention, and that the overall agenda is not so tight that it cannot adjust to include individual board members requests. The ‘agenda setting’ task is centred on the company secretary and the chairman, but all participants should have their input.
- **Every conversation needs organising.** It needs preparation so that every board member has appropriate information available before the conversation takes place, it needs clear purpose and outcome – whether a decision or an agreed position or simply being better informed, follow-up – action, implication for the future, or revisit after reflection.

The whole subject of running a board and ensuring good conversations deserves careful thought. Our research and experience indicate that many boards could significantly improve their capabilities and therefore their decision making and leadership effectiveness through greater consideration of the style and content of the conversations they have.

| Underlying issue  | ‘Red flags’   | Possible response   |   |  |  |
|---|---|---|---|--|--|
|   |   | Chairman  | SID   | CEO  | NED  |
| <b>There are dominant personalities or groups in the boardroom controlling debate</b> | <ul style="list-style-type: none"> <li>• Dissenting voices marginalised</li> <li>• Difficult issues not sufficiently discussed</li> <li>• Debate becomes personalised not issue focused</li> <li>• Special insights not used</li> <li>• NEDs afraid to speak up</li> <li>• Third parties, i.e. customers and competitors stereotyped as stupid</li> <li>• Management team is defensive/aggressive</li> </ul>          | Actively encourage contributions<br>Give weight to the views raised<br>Demonstrate by own behaviour that uncertainty and questioning of assumptions is OK<br>Engineer a counter-case in the debate<br>Encourage and give ‘air cover’ to new board members<br>Review suitability of the CEO if dominance continues | Build trust and respect with all members by speaking with NEDs ahead of meetings and making sure they are sufficiently briefed to contribute effectively<br>Have an hour or so at beginning or end of meetings without executives present<br>Encourage chair to speak to director or dominant group offline to request behaviour change | Recognise different levels of information of NEDs and address their areas of discomfort<br>Specifically table difficult issues and ask for input and advice<br>Seek input from specific directors outside board meeting  | Speak up but don’t hog airtime<br>Encourage thorough stakeholder analysis<br>Add value by adding fresh insight<br>Build relationships with other NEDs, get fully briefed and ‘rehearse’ difficult questions or concerns with executives or authors of the papers before board meetings |
| <b>The board is being ‘managed’ by the executive team</b>                             | <ul style="list-style-type: none"> <li>• Executive presenting answers rather than options</li> <li>• Insufficient focus on the big picture/too much focus on operational matters</li> <li>• Probing challenge not welcomed by the executive team</li> <li>• Excessive emphasis on growth versus risk</li> <li>• Papers look like cut and paste versions of previous papers and not tailored to board needs</li> </ul> | Use the company secretary actively in preparation of papers<br>Pre-agree with the CEO how particular issues should come to the board<br>Personally demonstrate behaviour required by querying assumptions and options<br>Insist on NEDs meeting executives and their teams ahead of papers coming to board        |   | Test all recommendations against the board mandate as the reference point<br>Use scenarios to show the range of uncertainty<br>Demonstrate risk control by ‘reverse testing’ major proposals<br>Show willingness to suspend own assumptions<br>Create conditions for easy strategic conversation | Be an active conduit to the external world<br>Respect the executive need for a decision, but ‘push back’ in the discussion<br>Get to know the business and people below the executive team   |
| <b>The board lacks diversity of thought. ‘Groupthink’</b>                             | <ul style="list-style-type: none"> <li>• Constant drive to get agreement and ‘move on’ to next topic</li> <li>• Scenarios not typically used</li> <li>• Lack of any external input or challenge</li> <li>• Assumptions not tabled openly</li> <li>• Options not presented or evaluated</li> <li>• Discouragement of ‘out of the box’ thinking</li> </ul>  | Use a facilitative style<br>Manage the debate<br>Use third parties to increase insight, drive debate and facilitate opposing views (e.g. through strategy briefing sessions at board meetings or external speaker invited to board dinner)<br>Redesign the board on a timely basis                                | Review board agenda with the chairman to identify specific topics that merit debate<br>Review informally with chair the style and effectiveness of the boardroom conversation   | Present pros and cons of each proposal<br>Actively request debate and introduce difficult issues as ‘finely balanced’<br>Overtly welcome views from NED’s<br>Ensure full information to them<br>Recognise that markets are messy and that boardroom debate will reflect that uncertainty         | Use ‘intelligent naivety’ to ask the ‘non-obvious question’<br>Keep asking the question in different ways until satisfied<br>Suspend prevailing assumptions<br>Change the angle of debate  |