Chartered Secretary

roundtable

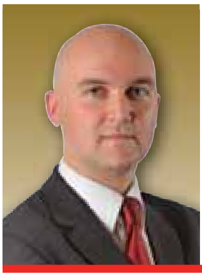
Issued as a supplement to the **ICSA** magazine
Summer 2010

Strategic management

Making the right moves in the boardroom

In association with

EQUINITI



Kevin Eddy, Editor, *Chartered Secretary*

The central role of the board in ensuring both good governance and business success has never been more crucial than in the current environment.

The financial crisis, however, has raised several questions about the effectiveness of boards – and, indeed, what an effective board really looks like. These questions don't just retread old ground about structures, processes and methodologies – although these aspects of governance are key to the good running of a company – they go to the very heart of what a board is and how the people on a board should carry out their responsibilities.

It's for that reason, therefore, that we gathered a group of experts from all parts of the governance community to discuss the twenty-first century board and what, if anything, might be done to enhance its effectiveness. It was a fascinating discussion, with some truly innovative – and practical – ideas. I'd like extend my personal thanks to all of our panellists for giving up their time to contribute to the discussion, and I hope this publication provides food for thought for you too.

Wayne Story, Chief Executive, Equiniti

This roundtable, the second in a series which Equiniti is running with *Chartered Secretary*, looks at the topical issue of what makes an effective board.

The session, chaired by Julia Casson, Director of Board Insight, and attended by our very own Peter Swabey and Stuart Ellen, provided a fascinating and lively debate on what can be done to improve the usefulness of boards.

In our years of acting for more than 1,400 clients, including almost 60 per cent of the FTSE 100, never before has an effective board been of more importance. Striking the right balance between an efficient reporting structure and managing the personalities of a board committee to get the very best out of each individual – all while dealing with media, investors and employees – can be challenging, to say the least. What became clear from the debate was that a tailored approach is needed for each company, but that best practice can and should be shared.

I hope you find the discussion insightful.

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PUBLISHER'S NOTE

Chartered Secretary Roundtable is published by ICSA Information & Training Ltd for ICSA International. Opinions published herein are those of the authors and participants and unless stated otherwise do not necessarily reflect ICSA policy.

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Photography of roundtable event by Simon Wright Photography: *www.simonwrightphotography.co.uk*

Venue for roundtable event supplied by 16 Park Crescent: *www.16parkcrescent.co.uk*

ICSA Information & Training Ltd,
16 Park Crescent, London, W1B 1AH

Printed by: Warners Midlands plc,
The Maltings, Manor Lane, Bourne PE10 9PH

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Across the board

Ensuring boards work effectively is at the heart of good governance – and that's a lesson that has been driven home hard over the last couple of years. **Kevin Eddy** sets the scene for *Chartered Secretary's* latest roundtable discussion.

The reputation of corporate governance has taken something of a pounding over the last couple of years.

The experiences of the global financial crisis and the recession have meant that the operations within companies' boardrooms have undergone more scrutiny than they've experienced since the Enron scandal. Very few stones have been left unturned – from whether the comply or explain model stills works to whether introducing diversity quotas would make boards more effective.

Despite – or perhaps because of – the searching nature of these questions, a broad consensus has been reached. Comply or explain is still viewed as the best way to regulate corporate governance, and its basic structures are by and large still sound. However, most agree that companies have fallen down on the application of governance: that's it's been seen by too many as a 'box-ticking' exercise and not as a core part of business. There have been questions raised over challenge and rigour in the boardroom, not least on the part of non-executive directors, as well as in relation to how chairmen go about their role. There has also been criticism of board evaluation and development – that companies have only been paying lip service to board appraisal processes, and that directors have not taken the need to expand their knowledge base seriously.

Other, more familiar questions, too, have also been revisited. Concerns over the diversity of non-executive directors – both in terms of skills and in background – have re-emerged, as have concerns over the amount of time NEDs spend

on their directorships and how much they are paid for this. And, of course, the evergreen issue of executive remuneration has reared its head again.

It's against this background, therefore, that the second *Chartered Secretary Roundtable* discussion took place, in partnership with Equiniti.

It's clear that what works for one company may not work for another – each will have to find its own way.

The discussion

The event itself saw an expert panel come together to discuss the effectiveness of boards in public companies.

Questions and issues that we asked participants to consider included:

- What makes an effective board? What qualities and features would you expect to see in a board that works well – or in one which is dysfunctional?
- How do the roles of the board members (chair, chief executive, the senior independent director, NEDs, executive directors and the company secretary) interact? What is appropriate boardroom behaviour – including issues like getting the right people on the board, the time allocated by NEDs to their duties as directors and ensuring a diversity of viewpoints?
- the relationships between the board members and board culture – how do the various players relate to each other, how should personality clashes be dealt with, what happens in an 'executive v NEDs' situation, how do you set the tone of the board and how this relates to the wider organisation and what to do if the board is dysfunctional;
- ensuring board members can fulfil their roles: ensuring effective information flows, ensuring NEDs have access to business and non-board senior personnel (the 'marzipan layer'); training and development (and how this links into evaluation) and the needs of different board members;
- the effective use of board committees – the challenges of chairing a committee; getting the right people on committees, delegation of matters and knowing when to escalate to the whole board, effective reporting back;
- director appointment, induction, board evaluation and ongoing development, succession planning, assessing skills needs, getting the right people, the diversity question, inducting directors, ensuring rigorous board evaluation (whether external or internal), the relationship with ongoing development and the question of remuneration; and
- dealing with key stakeholders (e.g. major investors, employees and the media), the role of investors in ensuring good governance, and remedies if and when things go wrong.

Key themes

A number of key themes cropped up as the discussion progressed.

One size fits all

It rapidly became clear that what works for one company does not necessarily work for another – even those of similar size in similar industries. For every aspect of governance, it's apparent that each organisation will have to find its own way.

Beyond the boardroom

Another area which came up related to exposing directors – particularly NEDs – to their colleagues and the company outside the formal board meetings. Finding ways for NEDs to engage with employees just below board level (the aforementioned 'marzipan layer') was seen as important, as was gaining direct knowledge of operations.

A central role

There was one central theme which permeated the entire discussion, however, and that was the importance of the chairman's role. Almost every aspect of board effectiveness hinges on the chairman being fully engaged, having a good relationship with the other board members, and being able to provide strong leadership.

* * *

Of course, the debates about governance are wide-ranging, still ongoing, and two hours of discussion are not going to resolve all of them. Even so, the insights which our panel have come up with touch upon both areas which are widely acknowledged to require attention and those areas which have received much less attention. I hope you find their discussion useful.

About the author

Kevin Eddy is the Editor of *Chartered Secretary.*

Meet the panel

Julia Casson
Director, Board Insight (chair)

Julia Casson FCIS is director of Board Insight, which advises a variety of clients on corporate governance best practice, carries out board and committee evaluation work and runs professional development courses on topics such as corporate governance, directors' roles and responsibilities and company law issues. The company offers consultancy and project management services with an emphasis on the practical steps needed to optimise corporate performance.

Julia also advises on EU corporate governance issues and their effect in the UK, and is EU Policy Adviser to the ICSA. She also advises overseas companies who wish to list their securities in London on UK governance best practice in the run-up to listing and afterwards.

Prior to her independent career, Julia had over 20 years' experience as a company secretary in international plcs. Her final in-house role was as company secretary of Pearson plc.

Julia is a frequent writer and conference speaker on corporate governance issues.

Julie Bamford
Joint Head of Policy, Corporate, ICSA

Julie Bamford FCIS recently joined the ICSA as Joint Head of Policy, Corporate. Prior to joining ICSA she spent six years with Standard Chartered as Deputy Group Secretary. She has more 20 years' experience working as a Chartered Secretary in the financial services sector, initially in life assurance and pensions, then in investments, before moving into banking. During this time she has experienced many challenges in the financial services industry, from pensions mis-selling through to the very recent banking crisis. She has also worked through the many changes in the regulatory environment and to corporate governance best practice that followed.

Julie is a Fellow of the ICSA, has a first degree in law from the University of London and a masters degree in Corporate Governance.

Stuart Ellen
Director of Client Services, Equiniti

Stuart joined Lloyds TSB from school and held a variety of roles in retail banking, including working in the Stock Exchange branch at the time of the Big Bang and 'the crash' before concentrating on relationship management roles in corporate banking. He has been part of the Client Services team within Equiniti for several years and has headed up the business development and marketing teams.

Stuart is now Director of Client Services and his main responsibilities are reinforcing Equiniti's client focus, aligning the business with the requirements of clients, their shareholders and their employees, and ensuring the consistent delivery of outstanding service levels to clients.

Dr Roger Barker
Head of Governance, Institute of Directors

Dr Roger Barker is Head of Corporate Governance at the Institute of Directors (IoD). Following initial training as an economist, Roger spent around 13 years in various roles in investment banking in the UK and Switzerland.

Roger has a doctorate in corporate governance from Oxford University, and was formerly a Stipendiary Lecturer at Merton College, Oxford. He has also acted as adviser on corporate governance to the EU Economic and Social Committee in Brussels. Roger is a visiting Lecturer at the Said Business School, University of Oxford, and at the Ministry of Defence.

His latest book – *Corporate Governance, Competition, and Political Parties: Explaining Corporate Governance Change in Europe* – was published by Oxford University Press in January 2010.

Susan Henderson
Company Secretary, Smith & Nephew

Susan Henderson MA FCIS has had 25 years' experience as a company secretary in a wide range of businesses covering board support, corporate governance, corporate transactions, corporate social responsibility, pensions, insurance and employee and executive share plans.

She joined Smith & Nephew in May 2009 as Company Secretary. She has previously held various company secretarial positions at Prudential, RMC and Amersham, where she was

Deputy Secretary for five years prior to its takeover by GE in 2004.

Peter Montagnon
Director of Investment Affairs, Association of British Insurers (ABI)

Peter Montagnon joined the ABI as Director of Investment Affairs in October 2000. ABI members are large investors controlling funds worth some £1,100 billion. Peter's department is responsible for representing the interests of ABI members as investors to the broader public, government and the companies in which the industry holds stakes.

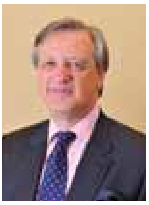
Previously, Peter had spent two decades as a senior journalist on the *Financial Times,* including spells as Head of the Lex Column and in charge of coverage of the international capital markets. His last assignment, from 1994 to 2000, was as Asia Editor, responsible for coverage of a region stretching from Pakistan to New Zealand.

After graduating in Modern Languages from Cambridge University in 1972, Peter joined Reuters news agency as a financial journalist. At Reuters he completed assignments in Hong Kong, Zurich and Washington before joining the *Financial Times.*

Peter has been appointed by the European Commission to serve on the European Corporate Governance Forum. He is also a past Chairman of the Board of the International Corporate Governance Network and is also a visiting Professor in Corporate Governance at the Cass Business School of the City University, London.

Since attending this roundtable, Peter has been appointed Senior Investment Advisor to the Financial Reporting Council. He takes up this role in early June.

Simon Osborne
Joint Head, ICSA Board Evaluation and Chairman, ICSA Company Secretaries Forum



Simon Osborne FCIS is joint head of ICSA Board Evaluation and chairs ICSA's Company Secretaries Forum. He is also a member of ICSA's governing council.

Simon has worked successfully with major companies, UK financial regulators and other organisations and brings first-hand knowledge and understanding of the practical and personal aspects of the operation of boards and how to identify performance improvements. He co-directs ICSA's Non-Executive Directors' Programme and is a member of the International Corporate Governance Network. He speaks on practical corporate governance topics at conferences and seminars.

Up until April 2003 Simon's career was in the UK railway industry, where his final assignment was as a main board executive director of RT Group (formerly Railtrack Group). Previously he had been Group Company Secretary and General Legal Counsel of the Railtrack Group. He is now Deputy Chairman of the principal British railway industry charity, the Railway Benefit Fund.

Peter Swabey
Company Secretary and Industry Leadership Director, Equiniti

Peter is responsible for the development and support of all Equiniti's investor relations and corporate governance-based services, including engagement with market, Government and regulatory contacts, representing registrars and issuer interests on industry bodies and managing responses to consultations.

A history graduate, Peter has worked for more than 25 years in the share registration industry, including on the delivery of electronic shareholder communication solutions. He has overseen the provision of a wide variety of electronic shareholder communication services and electronic proxy services for over 50 million shareholders.

Peter is Chairman of the ICSA Registrars Group and a member of the ICSA Company Secretaries Forum.

Derek Woodward
Company Secretary, Thomas Cook Group

Derek Woodward FCIS has a wide range of UK listed company secretarial experience in international businesses spanning over 24 years.

Prior to joining Thomas Cook Group in April 2008, Derek was Head of Secretariat at Centrica from September 2001 until April 2008. Between 1998 and 2001, he was Company Secretary of Allied Zurich, before which he worked in assistant secretarial roles at BAT Industries and Eagle Star Insurance Group.

Derek is a member of the ICSA Company Secretaries Forum, and co-author of a number of ICSA Guidance Notes. He has spoken at conferences on a number of subjects, including share schemes, the Companies Act 2006, narrative reporting, electronic shareholder communications, articles of association and directors' duties and liabilities. In 2008, Derek was awarded the ICSA President's medal for his services to the ICSA over a number of years.

Peak performance

What makes an effective board – and what can be done to improve the effectiveness of boards? Our panellists discuss.

JULIA CASSON: Thank you all very much for attending the second *Chartered Secretary Roundtable* event, organised in partnership with Equiniti. We're here to discuss board effectiveness; therefore the first thing I'd like to ask is what, in your view, is an effective board? How can you characterise it?

DEREK WOODWARD: To some extent, it depends. One size does not fit all, but I think it would be fair to say that a board which takes the right decisions at the right time, drives the business forward at the right pace, and allows management freedom but nevertheless has an eye on controls can be seen as an effective one.

SUSAN HENDERSON: For me, one of the important aspects of an effective board is striking the right balance between non-executive directors (NEDs) being interested and involved in the business, but not so involved that they compromise their independence.

Another thing that marks effectiveness for me is how issues are brought back to the board after decisions are made. I think it's important to have a proper review process so that, after decisions are made, the board can evaluate whether they were sensible decisions – even if that is a few years down the line.

PETER MONTAGNON: My view is that boards need to

> 'The great challenge lies in making several talented individuals greater than the sum of their parts.'
>
> **Simon Osborne**

do three things. One is to take robust strategic decisions; another is to oversee the management of risk; and the third is to ensure accountability to shareholders. However, boards also need to do these things while understanding they are running the company they govern.

SIMON OSBORNE: For me, the great challenge in ensuring that a board is effective revolves around how you weld eight, ten, twelve – or more – talented individuals together, and make them greater than the sum of their parts.

That requires phenomenally good leadership; openness and honesty; discipline when it comes to adhering to the company strategy; and the NEDs giving enough time to their roles, so they are able to challenge in a constructive way, and sometimes make board discussion uncomfortable, without alienating board colleagues.

That is a huge challenge. I was talking to a FTSE 100 chairman recently who said that he thinks the unitary board model we have in the UK is the best model, but that it is being stretched to its absolute limits. He also added that, when it comes to financial services, the Financial Services Authority (FSA)'s strictures on board pay are leading to a renewed reluctance on the part of executives to join the board as executive directors. I wonder if there is a danger that we could find ourselves moving increasingly to the US model, where there might only be one executive on the board. There was another FTSE 100 NED with us, and they both see that as an unhealthy arrangement: both of them prefer the model where there is a more or less equal number of executive and non-executive directors, with a chairman holding the ring. However, there are too many pressures preventing that optimum model – as they see it – from flourishing today.

SUSAN HENDERSON: I'm not so sure. We only have two executive directors on our board, and for us it works very well. It comes back to one size not fitting all: if there's pressure for companies who would not want to be forced into one particular kind of model, that would not be welcome.

JULIE BAMFORD: Susan, can I just ask if you have other people attending representing other parts of the business? I understand that in some companies where you only have few executives on the board, there's often representation from the business?

SUSAN HENDERSON: Yes – key executives do come to present certain items on their individual business units, and are there for strategy days.

JULIE BAMFORD: So the NEDs get the opportunity to see them, speak to them – and challenge them?

SUSAN HENDERSON: Oh yes, absolutely.

PETER SWABEY: For me, I'd say the question of balance within the boardroom goes back to the 'one size doesn't fit all' argument.

There are going to be some companies where having an equal number of executive and non-executive directors works extremely well; there are also going to be some companies where it doesn't.

The effectiveness of any particular model is going to rely on the extent to which the executive directors on the board act as directors, rather than as a clique that says how good the chief executive is, and agreeing with everything the chief executive says.

Admittedly, the executive team should be aligned, but there should also be free and open discussion in the boardroom. If other executives are just going to parrot a party line, then is there value in them being there?

PETER MONTAGNON: I think Simon makes a very important point about the unitary board.

Although there may be a risk of going in the US direction – and I agree that is not right – I think that by piling on committees, you're also getting close to the point where you have a two-tier board system. The NEDs, through their work on the committees – nomination, remuneration, audit and risk and so on – actually become a supervisory board.

That may be a good thing; what I think is bad, however, is that we should drift into that model without realising that that's where we're going.

Saying that, however, I personally think that to have a unitary board where all directors are collectively responsible is the best model, and we need to hang on to it if we can.

PETER SWABEY: Absolutely – and the directors should act as owners, too, and hold the executive to account. Yes, they need to set strategy and fulfil a risk management role, but a board must also actively hold management to account for the way it handles the business on behalf of the shareholders.

JULIA CASSON: Do you, in your experience, feel that boards and directors generally have a clear and cohesive view of their own role?

ROGER BARKER: I'd argue that yes, they generally do – with one proviso. It's worth bearing in mind that, while we think about directors as being a unified group of people – which is the approach taken by company law – there are in fact some very different roles on the board. That applies not only between executive directors and NEDs, but also amongst the NEDs. After all, NEDs are typically on different committees and have different specialities.

However, I think that it can be a difficult transition when you are first appointed to the board, especially for those who become a non-executive director after having a career as an executive director. It's very hard to identify with this new role when you've been part of the team running the business, and training can help with this perception shift so that directors can be effective in their particular role.

JULIA CASSON: So, while there are different roles which require different skills, at the end of the day the board should always be pulling together in a unitary way. Do you think there really is that 'unitary vision' amongst boards?

Who's who in the boardroom

Much of this discussion looks at the roles different board members fulfil – but who does what?

The chairman

The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role. The emphasis in the proposed UK Corporate Governance Code text on such issues as leadership, effectiveness, strategy, board culture, independence and challenge make it clear that the contribution of the chair is critical to the building of the effective board and to the success of the company. The effectiveness of the chairman makes the key difference to how the board runs, especially in creating a positive atmosphere which allows constructive challenge to take place.

Non-executive directors

Non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

Senior independent director (SID)

The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve, or for which such contact is inappropriate.

The chief executive and executive directors

The chief executive and executive directors represent those on the board with responsibility for the running of the company's business. However, they are also responsible for to constructively challenging and helping develop proposals on strategy. Therefore, executive directors need to manage the tension which exists in their role as board members (one step down from the owners) and as operational directors (one step up from management).

Company secretary

While not typically a 'formal' board member, the company secretary plays a key role in the boardroom by producing an honest and accurate record of meetings, ensuring that all directors are equipped with adequate and accurate information upon which decisions can be made, providing a conduit for the non-executive directors, arranging training and other methods of director development, assisting with board evaluation and acting as 'right-hand man' to the chairman.

‘We demand a lot from NEDs, but those that take on the role are generally happy with that.’
Susan Henderson

PETER MONTAGNON: Does that not depend on the chairman?

SIMON OSBORNE: Yes, I think it all comes back to the chairman. That was Sir Christopher Hogg’s thesis, when he launched the review of the Combined Code at ICSA’s Corporate Governance Conference last year – and he’s not unique in saying that.

ROGER BARKER: We have to be realistic about the difficulties in having that unitary approach, though. Ultimately, you’re asking an executive director, who is part of the management team which implements strategy, to rise above that – within the same skin – and hold themselves and their close colleagues to account.

While we would expect them to do their best to show that sort of attitude in the context of the board, you’ve got to recognise that it’s quite difficult for a human being to do that – and that are there are limitations to how far that can go.

Because of the difficulties of executives fulfilling both roles, that is why it is essential that non-executives are robust in their challenge and their oversight of what management are doing.

Asking the earth

JULIA CASSON: Do you think we ask too much of NEDs? Peter [Montagnon] talked about them peopling the major committees, and clearly that’s a large part of their role – never mind their general boardroom role. Is it unrealistic to expect them to take on all this?

SUSAN HENDERSON: I think we demand a lot from NEDs but, in my experience, the people that take on the role of NED are generally very happy to do that. They’re very keen and interested in what the company is trying to do, and want to understand all the different elements – particularly those on the remuneration and audit committees.

ROGER BARKER: Yes, we ask a lot, but what is the alternative? Do you simply allow executives to run the business without any internal oversight? Do you have a situation where shareholders take a more active monitoring role, which doesn’t appear to be possible in the current system?

The other option is that we have regulators, who very much restrict the freedom of managers. Most of us will probably agree that’s not a particularly desirable state of affairs for wealth creation. Somehow or other, NEDs have to make it work: they have to exercise effective oversight, despite the difficulties.

PETER MONTAGNON: I think that’s right. We do expect a lot – we certainly expect more than we have in the past.

I also agree with you on the accountability chain and the consequences of regulation replacing governance if it fails, as indeed is happening in banking. But I’d say two things. First of all, I think there is a danger in thinking that we’re supposed to be protected against all risks, and presuming that a system can be failsafe. We should acknowledge that, while we do the best we can, in business sometimes things do go wrong, and that people take risks

'Non-executive roles in non-competing businesses should be found for executive directors.'

Simon Osborne

that backfire. That is what entrepreneurialism is all about.

The other point I would make is that there are some industries, and I would say banking and complex financial services may be one, where the task of oversight has become really hard for an NED. There may be a point beyond which you can't go, and if that's the case I think we need to think very carefully about governance in banks.

SIMON OSBORNE: Absolutely. I'm aware of NEDs on such boards who have really struggled despite some thorough training on things like Basel II. I think it's a serious problem: and, if it's that hard for specialists, where are you going to find new non-executives for banking and financial institution boards?

I think what might help would be if, once an executive has gone onto a board and got his or her feet under the table, a non-executive role in a non-competing business could be found for them; it would be helpful for developing company secretaries too. I think that's a very good way to learn what it's like to be on the other side of the table.

It must help executive directors firstly to behave better when they're on home turf, and to have a better understanding of what their non-executive colleagues are trying to do and have to do.

SUSAN HENDERSON: Why stop at executive directors? Why not encourage that for even the layer below the board, before they're appointed?

SIMON OSBORNE: Yes, that would be even better – do it with the 'marzipan layer'.

A number of appointments

JULIA CASSON: Talking of getting people onto boards, do we need to have a shake up of how we appoint board members, given what we've been saying about increasing challenges, and the challenges of the unitary board system?

We've still got boards who are 'pale, male and stale' and we still seem to drift into groupthink sometimes – what can we do to shake things up in terms of board composition?

SIMON OSBORNE: I think nomination committees need a shake up.

With the nomination committee, because it's not the case that all members have to be independent non-executive directors, the longer-serving directors are often piled onto it. They tend see their board as a 'magnificent institution', and tend to have a much narrower focus on what skills and experience is required.

It's very interesting talking to the rest of the board in these situations, as you can find quite a mismatch between the views of the nomination committee and those of the rest of the board as to the skills and experience gaps that they have.

PETER MONTAGNON: I find that quite interesting.

I suspect that boards should ask themselves a bit more often, and a bit more honestly, whether their composition is appropriate.

As you probably know, the Government has been very exercised about gender diversity on boards: the Association of British Insurers (ABI) has been thinking about this too. We think this is rather important, but there is a danger of over-simplification. It actually comes back to the question of whether the composition of the board is fit for purpose.

It probably is not going to be fit for purpose if there are no women on it: but, you have to approach it from that point of view, rather than saying 'we must have some women on the board because the Government says so'.

Additionally, having asked the question about composition, the mandates that go out to the search agents should be refined, because I think they're operating in too narrow a way. Indeed, one such agent told me that boards don't like to hire lawyers because they're too risk-averse, and they don't like to hire HR people because they're 'too wrapped up in employment legislation, become fusspots and get in the way'.

However, it's this 'folklore' stuff that really gets in the way. I'm sure there are good lawyers who should be on boards, and good HR people who should be on boards. We need to get search agents to have more open minds – but that will only come if they have better mandates.

ROGER BARKER: That's really interesting. One of the ways of thinking that boards are quite locked into at the moment is that the only types of people who are suitable to be on the board are former executive directors of some kind. To me, the form of diversity on boards that would make the most difference in terms of broadening thinking and getting away from groupthink would be looking, particularly in terms of non-executive directors, to people who are not necessarily from an executive director background: people who are perhaps academics, or have been in the public sector, or have been consultants or professionals.

I think this would bring fresh thinking onto the board, and would have a ripple effect in all sorts of areas – whether that's the nomination committee or the remuneration committee. It's very easy, in the remuneration committee for example, to persuade people that a certain remuneration package is justified if the people on the committee making that decision are former executive directors who themselves felt that that type of package was justified for them when they did a similar role.

There are different meanings of the term diversity, and there's a lot of focus on the gender dimension of diversity. For me, however, it's the professional background aspect of diversity which is most interesting.

JULIE BAMFORD: Talking about diversity in terms of gender can even be quite dangerous, because it's diversity in terms of thinking and experience that we need. Yes, that comes with gender diversity, but it also comes with, say, international experience.

DEREK WOODWARD: Nominations committees are perhaps the poor relation within board committee structures.

I don't think there's been sufficient focus on nominations committees – not from companies, and certainly not from the governance bodies and institutions. After all, we've got lots of guidance on audit committees and what they should do, and a huge amount of guidance on what remuneration committees should do. However, there's very little said on what nominations committees should be doing, particularly in terms of structuring a board so it becomes more effective and encouraging diversity and so forth. More attention will undoubtedly have to be paid to this in the future, otherwise we're just going to end up with more of the same.

SUSAN HENDERSON: Nomination committees tend to meet when there's a need, don't they, rather than having regular quarterly meetings like the remuneration or audit committee.

DEREK WOODWARD: That's right – there should be quarterly meetings, and one of the items on the agenda should be to look at the composition of the board, the skills mix, experience and so forth: it should be a standing item. Nomination committees should be looking at that on a regular and ongoing basis.

STUART ELLEN: I agree – the effectiveness of the board and whether it's fit for purpose is not something that should be looked at as and when somebody moves on, but on an ongoing basis as part of business planning.

PETER MONTAGNON: I think this is rather important. Certainly, the shareholder community has become rather more exercised about the importance of succession planning.

If you look at companies where there have been problems, the problems quite often go back to failed succession planning. You get problems where you can't move people on who clearly should be moved on, you get situations where, by default, somebody becomes an executive chairman or the chief executive becomes then chairman. I think poor succession planning is a harbinger of trouble, and it's crucial that the mandate of the nomination committee is right.

‘There are going to be some companies that need external evaluation, and others that can do it all internally.’

Peter Swabey

ROGER BARKER: Another forum in which to think about the makeup of the board is the board evaluation process. Presumably, as part of that process you should be thinking about how the board is developing going forward: is it fulfilling its roles and responsibilities effectively?

Clearly, there will be a lot of overlap in that process between the nomination committee and the board evaluation, and there are a number of areas where that should be considered by the board.

Internal affairs

JULIA CASSON: Perhaps we could talk a little bit about board evaluation. Do you think it is ever possible to do a robust internal evaluation?

PETER SWABEY: I think it depends. I think there are some companies, with some boards, that can. I certainly would not think that all companies, and all boards can – not by a long way. There are going to be some companies and some boards that need external evaluation, and perhaps need external evaluation every year.

There’s a spectrum – there must be some that can do the whole process internally. They’ve perhaps got a very good company secretary, who is in a position to evaluate board members freely, frankly and openly on a regular basis. That might work for those companies. For other companies, it just won’t.

SUSAN HENDERSON: The company secretary is always part of the process, though. I’ve only ever experienced the use of external evaluations, and I’ve always found them enormously useful. Often, they come up with observations which you maybe knew anyway, but somebody else throwing the light helps to highlight issues.

DEREK WOODWARD: Even so, you can only report what the directors say, regardless of whether your evaluation is conducted internally or externally. You can’t make up the answers. Therefore, I think the key to a successful evaluation is first of all in the formulation of the questions: if you don’t get those right, you’re not going to get meaningful answers.

JULIA CASSON: But is it all about asking questions, or is there value in just having an open forum in which directors can raise what they want to raise?

DEREK WOODWARD: It depends how free and easy the directors are. It also depends if it’s a written response or a verbal interview.

When we conducted a board evaluation exercise last year we did a written one – I think we got an awful lot from it, and we really got into the issues. Whether we would have got more from it had we had somebody from outside interviewing and ‘picking up the nuances’ from an interview situation, I’m not sure. We certainly didn’t come out of the situation saying ‘well, that ticks that box’. We got a lot of very useful information, which has helped us plan for the way we run the board and the committees in future.

I'm quite satisfied with that, but picking up on the point Peter made, perhaps not all companies can do that. I don't know if our directors would have been more open had they been talking to an external person.

PETER MONTAGNON: One of the things that I've noticed about shareholders is that where there's a deviation from the benchmark 'good practice', they're more likely to look for external board evaluation.

So, if they have been persuaded that it is right for the chief executive to become the chairman for whatever reasons, they are conscious that that adds to the risks, and therefore they would seek to mitigate that by introducing an external board evaluation process, because that should tell the board and them if this thing isn't working.

There is a question of quality of external board evaluation,

Rule by committee

Board committees are an essential part of good corporate governance – but what are the key committees?

Audit committee

The main role and responsibilities of the audit committee should include:

- monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;
- reviewing the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems;
- monitoring and reviewing the effectiveness of the company's internal audit function;
- making recommendations to the board, for it to put to the shareholders for their approval in a general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

Remuneration committee

The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of 'senior management' for this purpose should be determined by the board but should normally include the first layer of management below board level.

Nomination committee

The nomination committee should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors.

The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

Risk committee

A common committee in bank and financial services companies, the risk committee should have responsibility for oversight and advice to the board on current risk exposures and future risk strategy, including strategy for capital and liquidity management, and the embedding and maintenance throughout the entity of a supportive culture in relation to the management of risk.

For many companies, the audit committee will be able to carry out the role of the risk committee perfectly effectively: however, it is worthwhile considering whether a standalone risk committee would be beneficial to risk management.

and I think the market isn't yet fully developed. One thing I also detect among the shareholder community is an aversion to the idea of search agents doing the evaluation, especially when they're also finding people to populate the board. There's clearly a conflict there, and that is interestingly spreading into a view that search agents shouldn't be doing this at all. I don't think we at the ABI are in a position where we would say no to that, but I note in passing that this is the way the sentiment is moving.

SUSAN HENDERSON: I agree with Peter: I wouldn't consider search agents: they've got too much of an interest, even if they don't advise your company on some aspect,

Evaluating progress

A recent ICSA report has revealed that only 16 per cent of the top 200 UK listed companies undertook some form of external board evaluation process in 2009.

The report, entitled *Board Performance Evaluation: Review of the 2009 Annual Reports of the FTSE 200 Companies*, is based on ICSA's annual review of how companies choose to undertake and report their annual evaluation of the performance of the board and the audit, nomination and remuneration committees, as well as individual board members. It expresses a number of concerns, namely that: companies are not reporting as constructively as they could on outcomes; companies are using headhunters with whom they have an existing relationship; and individual director evaluations not always include self-assessment, as recommended in the original Higgs guidance.

The report also notes that there are significant investors in the top 200 companies that seem still to be wedded to internally-facilitated evaluations. The report suggests that investors could set an example to their investee companies by adopting externally-facilitated evaluations.

The Walker review recommended that the boards of banks and other financial institutions should undertake an external evaluation process every second or third year. The Financial Reporting Council has proposed in the draft UK Corporate Governance Code that externally-facilitated board reviews should be carried out at least every three years.

The report is available from *www.icsa.org.uk.*

One other point, however, relates to what you're looking to evaluate and how this impacts on the type of external provider you might use. If you're looking to do a complete board evaluation, you might choose one type of facilitator; however, if you're looking at the behavioural aspects, you might go for an organisation that's more focused on behavioural issues. Indeed, as time goes on, rather than just having blanket evaluations, you might have more targeted ones and need a different type of organisation at different times.

Fresh thinking

JULIA CASSON: I think that's a really interesting point – something that concerns me about evaluations is that companies sometimes have a tendency to do the same thing every year, and therefore even if it's an excellent process it gets stale in itself. How can you ensure the process remains fresh and dynamic year-on-year?

SIMON OSBORNE: If a company is just producing the same old questionnaire year after year, it's just not effective: for example, a chief executive said to me a year ago, 'I know what the questions are going to be without even turning over the paper'. That's not a robust evaluation.

ROGER BARKER: I suppose it does come back to what you're trying to achieve. If you're trying to follow a process purely for the benefit of the board itself, and to assist the board in being more efficient, then an in-house process could work, as long as the board itself is taking it very seriously and is committed to it.

On the other hand, if part of what you're trying to achieve is to provide some kind of assurance that you have a functional and effective board – particularly to shareholders – then perhaps you need to go somewhere beyond internal processes and use a framework that shareholders themselves are familiar with, so they can have some reassurance that a robust process has taken place.

JULIA CASSON: What do shareholders look for when they talk to companies about how they conduct board evaluations? Peter, would you like to comment?

PETER MONTAGNON: I think it's very undefined, actually. I think there's been a general view that board evaluation is a good idea and I think that view is growing.

My own sense is that people are aware that it is very difficult to identify a case where a company has failed when it had a functioning board. Indeed, I can't think of a single corporate disaster where the board was actually functioning well. Therefore, it stands to reason that if it's not functioning well you're at more risk – it's not necessarily going to go under, but you're certainly at more risk. What I think they want above all is the notion that the board is functioning properly.

Shareholders have less interest in knowing whether director X is a jolly good person who's come along and said some useful things – although we'd like to know that there is some sort of performance check, because that's part of the process. We're more interested in the reassurance that the board is functioning properly. As such, the scope of the board evaluation is tremendously important: it's got to ask the right questions.

DEREK WOODWARD: One area which concerns me is when something major creeps out of a board evaluation. That indicates – to me, anyway – that something should have been said well before. This comes back to the point I made before, which is that maybe it's the role of the nominations committee to meet at least quarterly to look at the skills mix and perhaps venture into the effectiveness of the board.

You've got to think about effectiveness of the board when you're addressing the issues around the skills and experience mix, and where you want to be in terms of board makeup one, two or three years on.

ROGER BARKER: I suppose the problem in that sort of formal board meeting environment is that it's very difficult to address behavioural issues, if there's some kind of behavioural issue on the board – say, a dominant director or directors who are not contributing very well. It's very difficult to address that in an open board situation.

DEREK WOODWARD: It is, but if the chairman is on the nomination committee – and generally he or she is– then he or she should be thinking about these sort of issues in preparation for that regular meeting.

The point I'm trying to make is that a board evaluation is generally carried out annually, and my belief is that it can be carried out effectively internally or externally. However, if you get major issues coming out of a board evaluation, then that screams out that the board is not carrying out its role correctly. You shouldn't get major issues coming out of a board evaluation. Niggles, yes, but not major issues.

SIMON OSBORNE: What about individual director evaluations? I think this is a point that is often overlooked.

The late Sir Derek Higgs urged in the Higgs Guidance

'It is very difficult to identify a case where a company has failed when it had a functioning board.'

Peter Montagnon

that there should be some form of individual director evaluation, including an element of self-assessment and peer group review. I wonder whether individual director evaluation is really done as robustly as it can be. Some chairman have got a spine of steel, will deal with it and will give uncomfortable messages, and will give reasonably kindly the message that it's time to walk the gangplank.

JULIA CASSON: But surely that's done as part of the general board evaluation?

SIMON OSBORNE: Only if the board chooses to do the whole thing together. If they're just doing the board in general, it's not. That choice is often made, because a general board evaluation is the least threatening option: if you're looking at how the board works as a collective, you're not focusing on individuals – and you're not attacking anyone's ego.

JULIA CASSON: I'd argue that it's very difficult to do the whole board without looking at directors personally.

PETER SWABEY: In any case, isn't the performance appraisal for the board part of the whole process, and by definition therefore for the individual members? Surely most businesses will have performance appraisal throughout the rest of the business and shouldn't the directors be included in that?

STUART ELLEN: I think they should, but I guess it's possible for a board to function as a collective with individuals within that collective not delivering to the standards you might expect. You could cover up issues with individual members in a 'general' evaluation.

PETER SWABEY: But that comes back again to the role of the chairman. Part of what the chairman has to do is to draw out the director who is too quiet, sit on the director who is too bullying, and so on.

Stuck in committee

JULIA CASSON: Perhaps we could talk about committees. I feel sometimes that the committees can be a bit disconnected from the board and the interface between them is not as good as it could be. Would you agree with that?

JULIE BAMFORD: I think a lot of companies find the reporting up to the board from committees a challenge. I'm not sure the board always gets the full sense of what committees have been grappling with. After all, it takes time at a board meeting to report back and ask questions in a meaningful way, and I'm not sure that always happens.

DEREK WOODWARD: That can be easily remedied, though, by the company secretary producing a bullet point summary and placing it in front of the committee chairman.

JULIE BAMFORD: Even with that, which I think is absolutely invaluable, because many members around the table were at that meeting, I sense it can be difficult to get engagement from the others.

DEREK WOODWARD: True… there sometimes can be a tendency to say 'Well, most of you were there, so I'll skip it'.

JULIA CASSON: What about the possibility for disconnect not just between committees and boards – like, for example, the situation relating to nomination committees mentioned earlier – but between committees and committees? It was clear that this relationship hasn't necessarily been working as it should: what are your thoughts on that?

PETER MONTAGNON: I think there is quite a lot to develop here. We are certainly very keen that the remuneration committees work very carefully when designing schemes that align remuneration to performance in line with agreed strategy, and are in touch with the audit committees about metrics. They really do have to be joined up.

If you look in terms of what's happening in bank governance now, then the risk committee also has to be brought into this process. The question for that committee should be 'are we paying out all this money to people who've been taking excessive risks – and are we satisfied with their approach to risk?'.

It is quite important that the work of the committees is integrated and that it's not just delegation of responsibility for the work. That can undermine the unitary board system and, in worst case scenarios, leads to buck-passing.

DEREK WOODWARD: We actively encourage all our NEDs to attend all the meetings of the committees. They get all the papers and generally we have a very good takeup: in particular, the chairman of the audit committee will attend most of the remuneration committee meetings.

Thomas Cook isn't the only company I've worked at with that approach, either. Yes, the members of the committees are responsible for making sure they reach the right decisions and so forth, but nevertheless, with the other non-executives chipping in to the debate, it does ensure that they see everything that's going on.

We try to achieve this so that each of our non-executives is aware of what's going on in the committees, regardless of membership. I think an open approach like that can help.

SUSAN HENDERSON: We follow a similar approach. We typically have our committee meetings on the same day, so it's easier for the NEDs to attend because they may already be in the building, or just have to stay on later or come in earlier.

‘A lot of companies find reporting up to the board from committees a challenge.’

Julie Bamford

Informal surroundings

DEREK WOODWARD: Another really important way in which the board can interact is the board dinner.

I’m sure most companies have a board dinner, and while cynics might say that it’s just a jolly, in my experience it’s far from that: it’s a working dinner, when you can have three hours of quality discussion.

We hold ours the evening before the board and committee meetings, and the amount of open discussion that takes place, without the constraints of timing and the formal agenda, is incredible. There’s several merits in that: not least that it enables the board members to really get to know each other in a less formal environment. It’s not recognised in any of the governance guidelines, but in my experience it’s always been a real positive in terms of quality of debate, which is then carried on the following day in your formal meetings.

PETER MONTAGNON: Perhaps we could write a provision in the Combined Code. ‘There should be three courses; and enough wine to loosen tongues but not so much that people become irresponsible!’ Of course, you’d have to comply or explain…

JULIA CASSON: The point about the board dinner is really interesting, and it brings up questions of how information is communicated between board members, how the board is briefed, and how you make sure that directors have the right information.

How do you ensure that they get what they need, in the form that they need, when they need it so that they can make the best possible decisions?

SIMON OSBORNE: I think that Derek’s idea about the board dinner is absolutely critical. The number of board meetings diminishes because there are time constraints on the NEDs – particularly for companies that have an international focus – and if they can get in another two-and-a-half to three hours interaction, even in a less formal setting, that’s invaluable.

In terms of getting information to the board in other ways between board meetings, the telephone is invaluable, especially in terms of the chairman taking the time for a ring-around. The company secretary has an absolutely key role to play in keeping in touch with the NEDs, and this is where the company secretary should become the ‘wise friend’.

JULIA CASSON: What about directors asking for what they want as well? Do they know what they need?

ROGER BARKER: I think NEDs should be encouraged to have direct contact with people in the business. There shouldn’t necessarily be this reliance on formal board meetings for NEDs, and executives should recognise that that is part of the non-executive role. I don’t know the extent to which there is still a feeling that NEDs should be leaving the managers to manage, and shouldn’t be turning up at the factory gates, but if that is still the feeling, I don’t think it should be.

JULIE BAMFORD: The combination of having a real understanding of the business and getting quality papers for the board meeting are really important for NEDs. Those factors enable them to ask the right questions and challenge in the right way. Indeed, I think NEDs are very vulnerable if they don't have that information and knowledge: they don't know what to ask, they don't know what they should be asking for or where to probe.

DEREK WOODWARD: Having an understanding of the business is essential: being a non-executive director is not about reading the board papers and turning up to the board dinner and meeting – it's far more than that.

We're always asked 'how many days a year does the job take'? It's very difficult to answer; how long is a piece of string? An effective non-executive should be engaged with the business, and while that may not mean turning up at the factory gate unannounced, they should show a real interest.

We actively encourage our NEDs to meet the members of our executive board, and not just to meet them at our small head office in central London, but to get out there to the businesses and meet the local management teams. Only then can they start to understand the real issues – and it demonstrates more of a commitment to us. If they want to learn more about the business, to understand the issues that it faces, then we're more than willing to help them. I think a good non-executive director can achieve that without being seen to be interfering or trying to micro-manage.

JULIA CASSON: That's the other end of the scale from the view that some people still have, that NEDs should stay in the boardroom, challenging the executives in a formal and robust way and being discouraged from interacting with staff more informally. Should boardrooms be uncomfortable like that, and should NEDs 'stay out' of the business?

ROGER BARKER: I wouldn't see being engaged in the business and providing a robust challenge as opposing priorities, actually. In order to be able to ask those tough, challenging questions, one has to have a significant knowledge of what's going on 'on the ground'.

PETER MONTAGNON: Information flows are absolutely crucial and I think it is quite interesting that there is sensitivity around this. Sometimes, when shareholders suggest, for example, that non-executives should have access to outside advice, then there is 'push-back' from companies. I think that board evaluation definitely needs to ask whether the information flows are right and whether

'Even someone who is contributing relatively little time may be worth it in terms of skills or commitment.'

Dr Roger Barker

NEDs do have access, whether if they need it they can get outside advice and so on. It's absolutely fundamental.

PETER SWABEY: That question could be something as simple as 'do they get the papers long enough in advance for them to properly consider them'? It can be something as complex as 'do they have free access to any part of the business when they want it?'

SIMON OSBORNE: That goes back to the induction too, doesn't it? The induction has to be robust: directors have to give more time than they do to the induction process. But I suppose it's more than just an induction: it is about getting into different parts of the business – not in an intrusive way, but fact-finding.

Otherwise, how can the directors discharge their risk management responsibility if they don't have a continually-growing understanding of the business and the business environment in which the company is operating?

SUSAN HENDERSON: I completely agree – and there are two benefits to being more engaged: there's getting to see the actual operations on the ground, so when the executive is saying we've got problems here or there, you can understand why there are problems or understand that they need to be challenged on this one. You're also meeting the people in the business as well, who might be future board members, and getting to know them in advance.

Non-executive stress

SIMON OSBORNE: This is all well and good, but it takes us back to a question asked a while ago – are we now asking too much of NEDs?

SUSAN HENDERSON: Is it 'do we ask too much?' or 'do we not pay them enough'?

SUSAN HENDERSON: Also, when do NEDs start being 'not independent', if each company's workload is so much that they can only carry out two, or even just one non-executive role? If one role becomes a higher percentage of their income, does that affect their independence?

SIMON OSBORNE: The FTSE 100 chairman and NED I was with a while ago both felt that it was possible for portfolio NEDs to do four directorships – four non-executive roles – and two of those could be as chairman. I venture to disagree. I'd say that was excessive.

PETER MONTAGNON: Yes, that seems on the high side.

SUSAN HENDERSON: I'd argue that it depends on the companies concerned.

PETER MONTAGNON: I can see the sense behind the argument against paying non-executives more, in that they can become dependent on their income. I think you ideally should have NEDs who are so self-confident that, if they need to resign, they know they'll be invited onto another board. That's a really good guarantee of independence, and I think it's quite possible that a fair number of good non-execs are like that.

Personally, I'm less inclined to worry about the remuneration figures going up, but I suspect some of our members may be a bit less liberal in this regard.

However, there is an issue about time if you want to get serving chief executives and serving senior executives from other companies onto a board, which I think you do need.

It's going to be very difficult if you're expecting 40 days a year out of these people because they simply don't have the time. One solution could be to introduce the suggestion in Sir David Walker's recent report, which wondered whether you could have some NEDs who are not expected to give so much time but who bring in current executive experience, and some who are 'professional' non-executives who've got more time to give. I'm in two minds about that, however, I think you could get different classes of directors.

ROGER BARKER: But you already have a lot of variance in terms of role and the time directors contribute, depending on whether you're on particular committees, whether you're an NED or an executive director, or whether you're the chairman. It seems to me that what ultimately counts is whether the commitment of the board as a whole is sufficient.

Whether a particular director is fulfilling a certain threshold commitment is less important than whether the board as a whole is providing the appropriate commitment.

PETER MONTAGNON: That's a fair point.

PETER SWABEY: If you're a portfolio NED with, as Simon was saying, four directorships and that's all that you do, then one day a week for each of those is much more achievable than for someone who is chief executive of another company, who couldn't possibly give one day a week to his non-executive directorships.

Maybe that is something that companies could look at: I wouldn't say two tiers of non-executive directors, but non-executive directors who fulfil slightly different functions.

DEREK WOODWARD: You can engineer that to some degree by committee memberships. You're not diminishing the unitary status of the board by doing that.

ROGER BARKER: Remember, too, that even someone who is contributing relatively little in terms of time may still absolutely be worth it for the company, because of the skills and experience that they have.

SUSAN HENDERSON: That person might be the one who asks that single question which goes right to the root of a serious issue.

Have your say...

What do you think of the views our expert panel has expressed? Have they got it right?

What makes an effective board? Are non-executive directors effective in their roles – and if not, how can they be made more effective? Does there need to be wider diversity in the boardroom? Are evaluations rigorous enough?

Alternatively, perhaps there's a burning issue that you'd like to see discussed by the industry's best and brightest. We'd like to hear your views, and there are a number of ways you can express them.

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A selection of responses will be published in a future issue of *Chartered Secretary Roundtable.*

Professional development

JULIA CASSON: How important is the training and development of directors for good performance? How should you react in situations where directors may not be performing?

DEREK WOODWARD: A couple of observations on underperforming directors.

During the board evaluations that I've been party to, there's been no reluctance on the part of the directors to comment on underperforming board colleagues.

I also think the performance of the board really comes back to the chairman: I see it as the chairman's job to work the board: there's no excuse for directors remaining silent around the board table, because it is essential that the chairman fire questions at them. I've been in boardrooms where the chairman has literally gone around the table, asking questions of each director. One time he'll start in the near corner; another time he'll start in the far corner, another time in the middle. If it's known that that's the way the chairman operates the board, then no NED would dare enter the boardroom without having read the papers and at least marked a few questions and comments in the margins. That way, the chairman can get the best from the board.

That type of questioning shouldn't be limited to the NEDs, either: they should also be directed at the executive directors, too.

SIMON OSBORNE: I wonder how company secretaries, and the chairmen that they work with, will be dealing with the UK Corporate Governance Code proposal that there should be a development profile for each director. That could well revolutionise development and training for directors.

DEREK WOODWARD: We do something like that now, albeit in a less formal way. The chairman and I quite often discuss training in general – although he doesn't like the word training, we use the word 'development'!

I also keep the directors abreast of developments in corporate governance, circulate relevant briefings, and keep up-to-date on the training courses and so on that are available. It's reasonably easy to keep them abreast of current thinking in a number of areas.

SUSAN HENDERSON: One thing that Smith & Nephew is introducing is a two-hour drop in briefing session within the week when we have our committee and board meetings. The first one will be on UK corporate governance and law, and the next one will be on remuneration issues. There's no compulsion to attend, but it's there if directors want it.

And finally...

JULIA CASSON: So, to sum up, what would be your final comments on our discussion today?

ROGER BARKER: My final remark would be that we've been through a stage of corporate governance where there's been a focus on corporate governance codes and the structures which companies should have: should there be certain committees, what should be the balance of the board in relation to executives versus NEDs?

What we've been talking about today, however – training and development of boards, board evaluation – is set to take a much more prominent position in the corporate governance debate. I think most of the debates that we've seen post-Walker have come to the conclusion that there are limits to how far you can promote good governance through structural changes, and the challenge is now about influencing board behaviour. Somehow we need to influence behaviour for the better, and it's these areas that offer the greatest potential for progress to be made.

STUART ELLEN: I think you're right: we've moved through a world that focuses on process and trying to put processes in place, and perhaps this debate is indicative of things moving onto more qualitative measures in terms of the effectiveness of boards and the quality of individuals. I think that's really interesting, and the suggestion from this conversation is that there's still quite a bit to do to improve that.

'A board is a team. You wouldn't manage a football team full of strikers, full of goalkeepers or full of defenders.'

Derek Woodward

SIMON OSBORNE: I think there are two things for me: first, there's the critical role of the chairman. It is absolutely central, and we have to keep up the pressure on that message. The other is that we have to keep developing non-executive directors, and help them to perform better.

JULIE BAMFORD: I agree with Simon about the critical role of the chairman, but I'd suggest that the relationship between the chief executive and the chairman is just as important. Yes, if it's too cosy, it can be dangerous, but if it is overly adversarial then that can affect the information flow in the boardroom and how everyone can function.

PETER SWABEY: The thing that's come out for me is the importance of the chairman and the company secretary in optimising the effectiveness of the board: not just the board as a whole, but also each individual member of that board, for each individual company.

One of the things we've talked about a lot today has been around how what works for one company may not work for another company: I think one of the interesting things there is the way in which something is going to have to be developed by each company for itself to optimise its board effectiveness.

DEREK WOODWARD: I would echo that the chairman is crucial. Another thing I'd add, though, is that a board is a team. You wouldn't manage a football team full of strikers, full of goalkeepers or full of defenders. You have a blend, and the right blend will maybe depend on the opposing team you're about to play or the strength of the individual players.

I think there's a danger in having too many portfolio NEDs on a board: I think you need a blend of the 'wise and retired' portfolio directors and currently serving executives – and maybe not just people from plc boards. I've seen some extremely high-calibre individuals who've not been from the corporate sector who've been extremely effective in the boardroom because of their different background, and whose contributions complement the views of the other directors. A team approach, led by the chairman, is the winning formula for me.

JULIA CASSON: Thank you all very much for your contributions today.