

GETTING THE BOARD TO WORK

FINANCIAL SERVICES
COMPANY SECRETARIES
DINNER
DISCUSSION

MOORE STEPHENS

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PARTNERS

OVERVIEW

Moore Stephens and Telos Partners hosted a dinner discussion on "Getting the Board to Work: How to Make the Board More Effective", held in June 2016. The event was attended by a select group of Company Secretaries from the financial services sector.

Charles Portsmouth from Moore Stephens and Ashley Harshak from Telos Partners, presented their thinking on the subject of boards board effectiveness and the role of boards on organisational culture. This was then followed by a wide ranging discussion.

MOORE STEPHENS & TELOS PARTNERS' PERSPECTIVES

Board effectiveness

There are many different ways of looking at board effectiveness. It is important to examine a board's performance within the context of the organisation's setting, its history, how the business has changed over time, and the key considerations that have shaped the business. In addition, it is also necessary to consider tone set by the leadership, the organisation's culture and the business' overall effectiveness.

In the financial services sector, there are additional factors at play resulting from the demands and requirements of regulators. For example, insurance companies have been dealing with Solvency II's Pillar 2 and Systems of Governance for several years and this has had significant implications for corporate governance. Undoubtedly regulation and regulator involvement together have led to greater transparency on the workings of the board but the jury is still out as to whether this has resulted in more effective boards.

Boards and organisational culture

Just as with board effectiveness and the expectation of boards to take action to improve the way they work, there is a growing expectation that boards are accountable for the culture of the organisation they oversee. This can be seen in the Financial Reporting Council UK Corporate Governance Code and in the statement and speeches of senior regulators in recent months. If you also take the perspective that an organisation's culture can be a strategic advantage, it's all the more important that boards make culture an important aspect of its focus.

The challenge for boards is where Non-Executive Directors (NEDs) form the majority. NEDs need to get under the skin of the organisation's culture and contribute effectively to ensure it is understood, nurtured, managed and evolved. Boards have an opportunity to make sure that the businesses they oversee take their culture seriously. The question remains to what extent they have been doing this.



KEY THEMES

In the ensuing discussion many points were raised and discussed. There were a number of key themes that emerged:

- Effectiveness, evaluation and board development.
- The regulator's shadow.
- Blurring of the Lines - NEDs providers of insight or unnecessary interference?
- Organisational culture and board dynamics.
- Changing nature of the Company Secretary role.

Effectiveness, evaluation and board development

What is the relationship between board effectiveness and board evaluation? For some of the attendees the requirement to have an external evaluation once every three years has allowed the board to examine its effectiveness in ways not previously considered. For others, in their businesses, evaluation is seen as an exercise they need to undertake in order to comply with corporate governance. One attendee shared how the results of an evaluation questionnaire really opened the eyes of the board to key challenges the board was facing. In another instance the evaluation process meant the board could no longer ignore certain issues and forced the board to undertake necessary changes to a key committee.

Through the discussion the attendees noted and shared the differing ways their organisations had worked through an evaluation – in some cases all input was anonymous, while in others there were differing levels of disclosure and transparency. At many points in the discussion the importance of the chairman was cited. The degree to which evaluation was taken seriously and lessons learned, were highly dependent on the chair and the importance they placed on continuously improving their board's effectiveness.

A key concern was the relationship between having an evaluation and overall board effectiveness. There was general agreement that to be effective, boards cannot just look at themselves and their performance only once a year – true effectiveness is ongoing and developmental. In one example, a participant shared that

on their board at least thirty minutes each session is spent reflecting on the meeting and what lessons have been learned. Just like with other board discussions, actions are then agreed from these reflections and then managed and followed up.

The regulator's shadow

Throughout the discussion the shadow of regulators and regulation loomed large – especially given the highly regulated environment within which financial service companies operate. Attendees spoke at length about the level of scrutiny regulators place on the minutes of what happens in the boardroom, a space that has often been regarded as a black box. They emphasised the impact that this has had – both positive and negative.

On the upside, regulator's involvement has meant that directors are even more keen to make sure they are having the right impact and are seen to be contributing. On the downside are the pressures on NEDs and the growing expectations on them. For Company Secretaries there is the need to capture what was said and the full nuance of discussions. The impression left was one of regulators casting a shadow over board proceedings.

Among the examples shared during the session included one instance when the regulator followed up with one NED to challenge comments they had made in the boardroom; and in another instance there was a discussion on whether board development sessions needed to be minuted or not and the impact that this would have on directors being able to truly learn. One unanimous conclusion was that more could be done for the regulatory process to be a valued-added element that contributes to the way the board works.

Blurring of the lines - NEDs providers of insight or unnecessary interference

What is the role of the NED and how is it changing? Where does the role of the NED cross over and impinge on the Executive Directors? Participants spoke of the importance of the NED role and the insight they provide when harnessed effectively. There was also recognition of the importance of bringing on-board the right people, not just in terms of the skills and diversity but also ensuring that there was the right degree of fit between each NED and the organisation.

A key concern that was reiterated a number of times was the significantly increasing demands and expectations on NEDs. This in turn requires NEDs to spend more time, have more knowledge of the organisation and in turn leads to a blurring of the lines between NEDs and Executive Directors. At what point does legitimate NED challenge and external insight turn into interference in the operation of the business? On the whole, people did not consider NEDs straying into the domain of Executive Directors positively, although their increased

knowledgeability and ability to provide insight was seen favourably, as was their greater contribution and engagement. It was also noted that some NEDs may feel that although they have the 'power' to take decisions, they do not always have the 'authority' to do so and need to engage or concur with the Executive viewpoint.

Organisational culture and board dynamics

What do we mean by organisational culture and how can boards shape and affect it? What is the impact of how the board operates on culture? In the discussions participants shared their experiences and insights. Without exception, organisational culture is now on their boards' radars. Participants spoke of how their organisations are either seeking to audit their own culture, or the steps being taken to shape and influence it. For all, 'tone from the top' is critical. Additionally, a key factor is the importance of whole organisational engagement and involvement in bringing to life the organisation's purpose, values and behaviours. Examples were shared of how unhelpful behaviours of top management were copied and amplified down the organisation and the implications.

This led to a conversation about the ripple effect of boardroom interactions throughout the organisation. For instance, the impact on less senior managers attending board sessions, witnessing behaviour and how it affects behaviours outside the boardroom. There was also a discussion about the difference between the organisation's culture and the culture in the boardroom. In the latter, the chairman has a major impact, whereas in the former, it is the CEO's responsibility to shape and influence.

Changing nature of the Company Secretary role

At many points the conversation touched directly or indirectly on the role Company Secretaries can and do play in enhancing the way the board works. Participants felt strongly that the role of the Company Secretary has changed – and for the better. If previously the role of the Secretary had been administrative, now their role had grown into that of an advisor, facilitator and even mediator. In part this was as a result of the growing demands and pressures on the board, but also due to the explicit recognition of the skills and capabilities that Company Secretaries provide.

People spoke of the advice they provided to chairmen and to CEOs, and how they played an important role behind the scenes in support of the board. The importance of the relationship between this triumvirate of chair-CEO-Company Secretary was seen as key to the board's operation. In addition, the view was also expressed that Company Secretaries are being pulled in multiple dimensions and there was a need on their part to keep focused and not lose track of what was most important.

CONCLUDING COMMENTS

In conclusion, the demands and expectations on boards are growing, all the more so in a highly regulated environment like financial services. Boards are navigating their way through many challenges, seeking to balance the needs of shareholders and customers, as well as the long term with the short term. The breadth and depth of the topics discussed bring to life some of these. Despite this there were still some important topics that were either only touched upon, or where further questions were raised and not fully answered. Among these were:

- How can the regulator and the regulatory process play a more effective role in ensuring boards work well?
- How can boards be supported in their endeavours to shape and influence organisational culture?
- Are expectations of NEDs realistic? And how can they meet these expectations without crossing over the line into operations?
- What can be done to support Company Secretaries and enhance the role they can play?

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GETTING THE BOARD TO WORK

THINK
BELIEVE
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