



performance improvement

Boards...do they give good value?

At our first Chair/NED lunch of the year, of the Law Society, we posed the question, “**Are today’s Boards fit for purpose or do things need to change?**”

With increasing regulatory measures, invasive media, macro-economic pressures and the prevailing geo-political climate, it’s important to constantly re-evaluate and evolve the role and composition of the Board. This point was picked up by our first contributor, stating that the 2008/09 financial crisis was a major catalyst for change. He cited financial services Boards are now more confident to cope with the various new information channels and the increased pace of issues they face.

This position was countered from a retail NED who stated that non-financial services industries did not want or indeed require the same level of

regulation. In his opinion, **the key defining characteristic of any Board should be agility - the ability to respond and deal with an ever changing environment.**

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The Chair of a public transport body commented how an enormous amount of power has shifted away from companies and towards the public. The public used to have their view mediated, either by the newspapers or other outlets, but now they communicate through Twitter and other social media. She went on to give an example where a celebrity had a bad flight to India and the minute the plane had touched

down, he tweeted that the airline he had flown on was terrible. He reached 5 million people before the airline realised that there was a problem! This is a real challenge facing today's Boards - on understanding technology disruption and how they should better interface with various stakeholders and the business in real time.

A senior City Chair made a more personal comment around how the world is changing and Boards are not keeping up. He cited by way of example, cyber security and social media is usually the last item on the agenda. By the time the item is reached he's bored stiff and has lost the will to live let alone contribute in a positive manner. He suggested if everyone on the Board is over 50, it is unlikely to have a firm grasp on technology and its impact.

Another guest posed the question on how Boards are composed, including diversity and inclusion. Boards continue to talk a lot about diversity, in the same sense as ethnicity or gender, but it's not all about that, it's about how you bring diversity of thought. For example, if you seek a NED for a retailer, the usual option is to search for candidates with extensive retail careers. The same is true of a lot of Boards – they are just too conservative in bringing in new talent. Retailers are consumer led organisations therefore, bringing in a young social media expert could be a more effective choice, as opposed to a long term sector specialist.

The Chair for the lunch then spoke about a study conducted by a leading Strategy House 18 months ago. The study surveyed around 800 NEDs

worldwide and found that only around a third of them fully understood the strategy of the businesses they were representing. Further to that, only around a fifth were completely aware of how those companies created value. This posed the question that maybe NEDs need to be less plural and invest more time with each company they represent.

“Change is inevitable, it has never been this fast, however, it will never be this slow again!”

The first to respond to this point was a former NED for one of the world's largest drinks manufacturers and distributors. He cited that one of the major issues is to break down the information barriers between executives and non-executives. Unless a strong flow of relevant information is forthcoming, it is not easy for a NED to gain a transparent and comprehensive overview of the business and its drivers.

This point was expanded upon by an NED from the sport sector. He suggested that an element of compulsion to give more information to Boards might be an answer. Although, in his opinion, a number of Boards are moving in the right direction, a huge number are not.

The subject of NED training was raised. A relatively new NED cited the huge difference between her executive past where she was given fantastic training and induction, compared to her NED roles where she has had to design a programme of training herself. She felt it was the responsibility of NEDs to fully

understand the business, customers and the business model. The role of the NED is not to be an expert in everything but as a prerequisite, to be able to deal with change at a faster rate. Boards cannot simply add an expert every time a new challenge arises. It's up to the Board to train its members and encourage them to keep training. Her Board now allocates 45 minutes at the start of every meeting, just learning about a topic specific related to the business needs.

The subject of broadening skills encouraged conversation about inviting other staff members to join the Board. One guest spoke enthusiastically about how, when he worked in Germany, there were Worker Representatives on the Board and it worked extremely well, particularly at times of challenge. His experience, however, was very different in the UK where Worker Representatives were less willing to contribute on the important issues during challenging times. This was seen as a UK cultural problem where workers were often less likely to speak up. This issue can be countered by allowing Worker Representatives to have board papers in advance and asking them for their thoughts so that they could then raise them during the Board meeting.

One guest from the public sector commented that she also sat on a PE (Private Equity) Board, and they are fundamentally different from PLC Boards. NEDs on PE Boards are expected to challenge more proactively, question the numbers more deeply and act in a far more robust capacity. There are perhaps lessons to be learnt from PE Boards?

A Board member of an alternative lender, generally agreed with the above point. He suggested that with many financial services Boards too much time is spent looking at things from a governance perspective and far too little is allocated to doing the important things, such as really challenging the CEO. Boards need to step up their performance. There is a fine balance between supporting and challenging management. Often there is too much support and not enough hard challenge.

As a final note of advice to any executive considering taking up their first NED role - you are not taking on a job, it's a liability, under law. It is important to recognise that you could be walking into something that could wipe out the rest of your career and your personal wealth. So you have got to take your NED responsibilities seriously, or you shouldn't be signing up for it.

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In conclusion, it became clear from the discussion that Boards need to evolve faster to take on the present day challenges that organisations face. Boards are not perfect but do undertake a difficult mandate under sometimes challenging conditions. There is considerable room for further improvement as well as evolving the NED role, to better understand the business they serve, engage more meaningfully with management and undertake greater proactive communication with a wider range of stakeholders in real time.

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