



Governance in a glass box

‘Those that treat supply chain sustainability as an incremental compliance exercise will fail to take a stand and therefore find themselves with a shrinking pool of potential customers and investors as more people filter out brands that lack a clear story of positive impact.’

Pendragon Stuart

How can non-execs be more effective?

‘We all have a natural way of talking and thinking, developed over many years, but to be effective, non-execs have to make an effort to conserve their contribution for when it really matters. It is not their place to demonstrate that they have a technical understanding of the issues being debated; they wouldn’t be there if they didn’t. It is their place to demonstrate the behavioural skills needed to get the board to be more effective.’

Murray Steele

Content

News	3	Transparency and trust ‘Restoring trust in businesses has never been a more important or complex challenge and yet only a minority of the FTSE 350 are seizing the initiative’, according to Grant Thornton’s 18th annual Corporate Governance Review
International	4	Board oversight of ESG issues In a new Report, Ceres provides guidance to boards on how they can effectively oversee ESG risks, including questions for directors to ask management throughout the risk identification, prioritisation and mitigation processes
	5	Workplace misconduct and reporting ‘The most severe risk that an organisation faces is when misconduct occurs, but is not reported’, according to research carried out by the Ethics and Compliance Initiative
Global News	5	GCC board effectiveness Stewardship Code for fund managers
Features	7	Persimmon Richard Smerdon looks at some of the specific findings on board effectiveness and remuneration of the independent review into Persimmon by Stephanie Barwise QC
	8	Governance in a glass box Pendragon Stuart looks at changing expectations of customer, investors and employees and in particular the importance of having a sustainable supply chain
	10	How can non-execs be more effective? Good governance requires non-execs to challenge the thinking of the board, particularly executive directors, Murray Steele looks at how they can do this effectively

Feature

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How can non-execs be more effective?

Good governance requires non-execs to challenge the thinking of the board, particularly executive directors, **Murray Steele** looks at how they can do this effectively.

In the eyes of the law, there is no difference between an executive and a non-executive director (non-exec). The Corporate Governance Code says non-execs must play a full part and have collective responsibility with executive directors for the performance of a company. That's the theory anyway.

In reality, it's the executive directors that drive strategy and dominate decision-making, on the grounds that they're in the company all the time, have more information and are dealing with more tangible aspects. At best, the executive perceives non-execs to be there for governance and to give a view. At worst, they're seen as a waste of time, their ideas beaten down or even ignored altogether.

Iain Martin's book, *Making It Happen*, on the now infamous boardroom behaviours that led to the collapse of RBS and start of the deepest economic downturn in seven decades, highlights not only how a dominant chairman and CEO discouraged non-execs from playing an active role on a scale that rendered it pointless having them, but also the extent to which boards failing to embrace this layer of governance do so at their own peril.

Unfortunately, the reason the vast majority of boards are not getting the best out of their non-execs isn't just that the executive is being too controlling. It's a duel conspiracy. Non-execs are often quite happy to nod through strategy without challenge, failing to bring the full wealth of experience and skills they have to offer.

The reasons for this are complex. In the first instance, non-execs, especially those hired for their executive experience, often fall into the trap of thinking and acting like an executive, when the skills required by a non-exec are very different. Secondly, many non-execs lack the self-awareness and confidence needed to carefully consider and time any challenges to the board, causing them to instead respond instinctively and without first pulling together the evidence-based arguments needed to give them credibility. Thirdly, many non-execs lack the behavioural skills needed to understand the extent to which the relationships between individual board directors and the dynamics of the board as a whole need to be taken into account when attempting to challenge the boards thinking in any way.

Why it's good for non-execs to challenge board thinking

There was a time when increasing diversity of thought at boardroom level was valuable in itself, preventing the executive from falling into 'group think', whereby if everyone involved in

decision-making was closely aligned in their beliefs, decisions would go unchallenged, debate would be closed and risks and opportunities overlooked.

Much as this still holds, with 'diversity of opinion' as important as ever for gaining the different perspectives and insights needed to create better decisions, the scale and pace of change now facing most organisations means non-execs are becoming an increasingly valuable tool for navigating environment, social and governance (ESG) issues.

For example, just a few years ago, the need to prepare for a low-carbon economy was considered a long-term issue, to be addressed towards the end of the century. Now, with the World Economic Forum's Global Risk Report naming failure to act on climate change and extreme weather events as two of the most likely and most impactful risks, boards are having to think about how best to lead a transition to a low-carbon environment.

As the digital revolution gains pace, boards are also having to consider the extent to which they put their services into the cloud, to make them available to customers anywhere and at any time, as well as how they might use artificial intelligence to support decisions around everything from strategy to recruitment.

It might be tempting to appoint executive directors with expertise in these areas, given their importance to the future success of most businesses. However, given there are only a certain number of executive seats available and the extent to which new and different mission-critical issues are emerging, boards must stay ahead of the curve by giving non-execs the power to influence strategy and challenge decision-making to ensure it remains fit for the future.

Supporting non-execs to become more involved

Anyone keen to see a greater contribution from non-execs would do well to start by considering the ratio of talking and non-talking. In most boards, the reality is that the executive will be dominating the conversation, but is this balance right for the organisation? When the non-execs speak, is their contribution heard and listened to or are their ideas rejected out of hand and brushed aside?

In the event that the executive is unnecessarily dominating the boardroom and dismissing points out of hand, it's important to consider the tone at the top. Is the chairman or company secretary meeting with non-execs before the meeting, asking

Feature

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them what issues they want to raise, ensuring the right papers and agenda items are distributed and scheduled, and making sure they don't feel impeded from contributing?

And where the non-execs are given the opportunity to contribute but fail to do this effectively, to what extent are they actually listening themselves? This matters because, in many cases, non-execs need to be reminded about the extent to which their role differs from that of an executive director and encouraged to listen more, observe the dynamics of the board and ask the right questions to help drive better conversations.

If a non-exec is instructively making remarks throughout the meeting, they will be undermining their credibility and missing out on valuable opportunities to challenge the board's thinking. We all have a natural way of talking and thinking, developed over many years, but to be effective non-execs have to make an effort to conserve their contribution for when it really matters. It is not their place to demonstrate that they have a technical understanding of the issues being debated; they wouldn't be there if they didn't. It is their place to demonstrate the behavioural skills needed to get the board to be more effective.

Encouraging considered, as opposed to instinctive, challenges

Instead of immediately responding to points made, non-execs need to take time to watch, listen, use the evidence at their disposal to form a challenge and decide upon the best time to make this challenge. Ten per cent of people naturally have this ability, 10% will never have it and the rest can improve their ability to do this.

Critical to this is ensuring that non-execs understand that the board is as much defined by the people and relationships between them as any formal process or structures in place. If a non-exec challenges the executives in a way that undermines their view of the world, for example by challenging the feasibility of a business target, this will not be welcomed. So the onus is on the non-exec to ask the questions the board needs to hear to challenge its own thinking. It's about making well-informed and well-timed interjections in a careful and evidence-based way. Tone of voice, timing and intonation are just as important to their delivery as the point being made.

When coaching non-execs to do this, via a mixture of theory and boardroom simulation, it never fails to strike me that individuals with big egos, who initially resort to telling people what they should do, are never as successful as those who are self-confident and self-aware and happy to work through others, by letting others take on their ideas as their own.

All of which means that to be a successful non-exec, you need powerful influencing skills and the ability to encourage others to discuss and explore issues they might otherwise be reluctant to consider, let alone address.

Improving the relationship between the execs and non-execs

Creating the right boardroom culture to allow non-execs to play an active and beneficial role depends on executives and non-execs understanding and respecting each other's roles and the dynamics of the board as a whole.

Non-execs need to appreciate that they're not executives with the day-to-day knowledge of the business needed to influence thinking in this area. Meanwhile, executives need to understand that non-execs provide a powerful check and balance on them, providing the sounding board needed to ensure their decision-making stands up to scrutiny and is fit for purpose.

Given the extent to which businesses are having to remain agile and adapt to nearly constant change, this is also as much about being able to make a decision even when all the information needed to make that decision isn't available. It requires making decisions based on the best of knowledge at any one time, reviewing and adjusting as needed.

This framework of decide, review, adjust, cannot be done during one-off strategy days. Instead, it has to become an integral part of the boardroom's activity, with all directors given the opportunity to shape thinking in a dynamic and fluid way.

All of which requires the executive and non-execs to pull together and do more to understand where each individual is coming from, who they are aligned to and what the long-term success of the organisation is most dependent upon.

Murray Steele is an experienced chairman and non-exec. He is Programme Director for non-exec development programmes for the Financial Times, BVCA and EBRD.

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Index

Organisations

Ceres	4
GCC	6
SEBI	6

Companies

Grant Thornton	3
Sancroft	8

People

Richard Smerdon	7
Murray Steele	10
Pendragon Stuart	8

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