The Effective Board

INDEPENDENT
BOARD REVIEW
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Are you giving it enough time?

A couple of weeks ago we took advantage of our stand at a Company Secretary conference to do a quick straw poll on how far a sample of company secretaries felt that their boards are spending enough time on a few hot(tish) topics. We canvassed around 50 company secretaries and, starting with the topics of most concern, this is what we found. Some of it's predictable, some less so.

Good practices to consider...	Things to avoid...
Executive succession planning: two-thirds said "too little" time is spent on this. That's generally consistent with what we find when we do board reviews. Given its importance, this is perhaps a bit concerning. And the press and regulatory interest in CEO appointments means that getting this wrong is one of the most reliable ways for a board to discredit itself. The FRC plans to publish guidance on nominations and succession planning, and this will no doubt increase the obligations for boards to report what they're doing about it. Many boards will need to start working on it now if they are to have a good story to tell when the time comes.	Getting the right CEO in place has to be top of the priority list of course – and that means having both succession and contingency plans. Hoping it won't happen while keeping a headhunter's phone number handy just in case is sometimes a reasonable contingency plan – but it isn't a very satisfactory strategy for succession planning. CEOs don't go on for ever so there's no real excuse for being taken by surprise. And different CEOs might be needed at different times. The board should be asking questions: what does the successor list for all key positions look like in the short terms; what's the longer-term pool; and, very importantly, what are the development plans?
People strategy: nearly half of those surveyed said there's not enough attention given to their approach to people: recruiting, developing and retaining, and how this ties into their short- and long-term strategies. Most boards declare their people to be a primary asset, a key driver of success, and a source of risk. But this usually elicits a hollow groan from their staff. More often than not the board priorities, as we see in practice, can suggest that staff have got it right.	Make sure that the people strategy is explicitly covered on the board agenda, at least annually. It could be a good topic for a "deep dive". And it shouldn't just get wrapped up in an overall strategy discussion - and the CEO should take responsibility for presenting it. Think about moving the people-related KPIs towards the front of the performance information pack, rather than leaving them in the comfort zone of decent obscurity behind all those pages of financials.
Ethics and behaviour: here there's good news with two-thirds feeling that questions about culture get enough time. This doesn't seem quite the whole story to us – it's certainly the case that boards spend more time than they did, but that's from a very low base, and it is a lot less obvious that they are spending it very fruitfully. We suspect the emphasis on behaviour in the Corporate Governance Code, along with regulatory pressure from regulators, means that it's moved up the agenda. However, the information and assurance systems that boards need to make the discussion meaningful are still catching up.	Give some specific time on the agenda to "how does the board know that behavior is what it thinks it is and wants it to be?" Putting existing measures (eg stats from HR, compliance, audit, risk, customers, suppliers...) through a "behaviour" lens is a good place to start. Surveys can help. And the sniff test from site visits is irreplaceable as an indicator. Putting this - and more - together (along with an assurance approach) can help you get a grip on what is quite a slippery subject.

Good practices to consider...

Project risks: three-quarters feel these get enough time. That's in a sense reassuring, possibly suggesting that project governance concepts are becoming more widely embedded in boards. But it does depend on getting the definition of a project right: for example do IT projects with an ever-increasing incremental spend get captured as a "project" with the necessary level of board oversight?

Long-term strategy: Long-term strategy: 80% of those surveyed feel that securing the long-term success of the business gets enough attention. That's quite a change from a few years ago, when almost every time we'd hear complaints from directors that not enough time is being spent on strategy. The increasing popularity of strategy awaydays has helped a lot.

The main remaining problem area is for financial services boards, which are often so weighed down by prudential and other regulatory considerations that they find it difficult to get round to thinking about how to ensure the long-term success of the business.

Things to avoid...

Work out what constitutes a project – and recognise how it can often be about transformation and change, not just one-off projects. And then make sure the board understands the project governance around it – including where the board's oversight fits in and what it looks like. Watch out for those mini-projects which fall below the board radar (and outside the project governance net) initially but end up being high-cost and prone to drifting of-track. And check – don't assume – that internal audit actually knows what projects are going on and is monitoring the governance.

Make sure there's enough focus on the long-term sustainability of the business. That could well mean looking beyond the three-year plan and discussing long-term scenarios the fundamental market and industry shifts that could dent or even undermine the business model – or present growth opportunities.

A board should check that it's giving itself space for that sort of thinking. Too often strategy awaydays get taken up with management presentations of the business plan.

And regulated boards need to ensure that discrete time is set aside – and protected – for longer-term thinking about the business.

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