The Effective Board

INDEPENDENT AUDIT
BOARD REVIEW

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Can the new Code add value?

It's the August silly season on the news front so we've slipped in a more flippant cartoon than usual. But there's no room for slippage around the new revised Corporate Governance Code. It's only just out but kicks in for a lot of companies in just a few months' time. So over the next few weeks, Company Secretaries will be briefing their boards on the changes. In the meantime, inboxes are being filled up with summaries from lawyers and consultancies…

But we'd like to take what is hopefully a slightly different tack. Adopt an "opportunity mindset" and seek to get value from the changes. That might sound strange – surely, it's just another layer on top of the already weighty governance burden? But it doesn't have to be if you approach it the right way. Here we consider a few of the main changes and what they could mean if tackled positively. It's by no means comprehensive – but hopefully these examples will give you a feel for how the Code can inspire a new approach to the Board's focus and reporting.

Good practices to consider...

Think of the company's Purpose and Values not as jargon, but as hooks on which to hang tangible behaviours. How do the executive team want people to work towards meetings these? Ask the executives to tell you this – not as an off-hand conversation but as a coherent explanation or series of discussions. This can form the basis for a board debate on how management's view is aligned with the Board's – and with the values of the organisation. Then the Board can move on to how management brings the values alive. And if you don't yet have clearly articulated values, work these out with the leadership, all the time tying it into the strategic goals.

Things to avoid...

Discounting the Code with a groan and reaching for the same old "apple-pie" words like "integrity" or "customer focus", without thinking through what all this really means for employees and how they should behave. It's actually pretty easy to say what the purpose of a company is: for example, ours is to help people lead complex organisations better. The trickier bit is to think through how you meet the "Purpose" (in our case, by helping boards to work effectively not just in overseeing compliance with regulations but in helping management to run the business better), what you're aiming for (the strategy), what needs to be done (planning) and how people need to behave to get there (the culture). And of course, to get them all interlinked and lined up!

Good practices to consider…	Things to avoid…
Work out how "monitoring culture" (Provision 2) can help ensure that the right behaviours are there to support strategy execution. And set out as a board what you think that looks like across the whole range of attributes: entrepreneurship, innovation, ethics, how others (stakeholders) are treated, how we work together, compliance, safety, health, environment – again, it's a long list.	Equating culture with simply signing off the Code of Conduct and values statement and making sure "speaking up" processes are in place. That might sound exaggerated, but rarely do we find boards who have really thought through what they mean by the target "culture" and how they expect the business to benefit by having it. Too often it's about risk management and not about the drivers of success: entrepreneurial thinking, nimble decision-making, co-operation and sharing, working with stakeholders… The Code talks of how culture aligns with strategy – so take advantage of it to approach culture as part of strategic performance not just risk.
Make sure you're pulling it all together. Many boards look at engagement surveys and summaries of speak-up lines. But challenge yourselves: are we really engaging with the workforce? Use the new Code as a chance to check your framework and what it's covering eg attitudes to change, understanding of incentive plans, lifestyle, security, development opportunities, clarity of communications on the strategy and values …it's a long list. And that should be coupled with some profiling since a UK-centric view might be pretty misleading – a London-centric view even more so.	Assuming you know what the workforce must be thinking. At large multinational companies, even top management struggle to keep in touch with the different locations and layers – let alone the Board. There can be too little information, lost in the middle of too much data. Only by bringing it together in a coherent and systematic way, with good analysis highlighting the issues, can the Board really hope to keep its finger on the pulse. And don't forget the positive stories too – a Board which is looking only for problems and what's not been done will set the wrong tone, demoralising rather than inspiring management.
Align "workforce policies" with the purpose and culture. Easier said than done, but as a first step, you need to know what the workforce policies are. It's not just about reward but also aspects such as working conditions, performance management, development and safety: all the people-related drivers that matter for success. And it's about contractors too. By putting this responsibility at the board level (with the Remuneration Committee only covering the reward angle), the Code is emphasising how employees are not just a means to an end. Get management to do a high-level review of policies, and don't be surprised if it initially shows gaps and inconsistencies.	Wading through trolley-loads of policies trying to form judgements. This would not only be impractical but would blur the lines with management who need to set the policies. But there is more onus now on the Board to help management get it right: after all, most directors have decades of valuable experience, including how to get it wrong! So looking at the gaps and hearing from management on the areas of policy where they have dilemmas and issues is a classic example of an area where non-executives can help management stand back from the knitting and think through the strategic angles and imperatives. And it will help you all to form a common understanding of what the values mean in practice.
Keep it simple. Pay has got progressively more complex over the years as companies design convoluted performance conditions to cover all eventualities. The nudge from the Code is to push back and cut the complexity.	Avoiding change because we're all used to these pay plans and let's not rock the boat with investors. But ask yourself if a complex plan with too many formulae and underpins, conditions and hurdles can really be motivating people and helping the company drive strategic change

Good practices to consider...	Things to avoid...
Be more disciplined about the implications of key decisions for "key stakeholders". These aren't compliance questions but crucial to success. How will a proposed merger affect our staff? Will it put our culture at risk and damage morale or will it give people new opportunities to work in a bigger organisation with better products and technology? The Code will expect you to report on how you thought this through and how your understanding of workforce views affected your decision. It's not yet clear how boards will report in practice, but the more important thing is first to ensure that you've a good story to tell.	Saying "we do that anyway". Most boards have only an unstructured, soft approach to this. Yes, big influences might be highlighted through common sense and management's assessment, but that should not be taken for granted: too often it is the stakeholder reaction that is taken for granted and the risks and strategic traps not really thought through. More structured thinking through the Board's Section 172 responsibilities should, if managed well, lead to better quality debate and management of uncertainties.
Re-engineer the reporting. It's not only the remuneration reporting that's changing to reflect how the Board has set senior management pay, reviewed workforce pay policies and taken them into account when setting executive pay. It's also the strategic report, the Chairman's and CEO's statements and other parts of the annual report that will need a coherent cultural thread holding them together. Maybe it's time in any case to look at how you put this report together to make it more streamlined and efficient.	Different teams and people putting different parts together in isolation then trying to fit them together. Get them working together from the start to understand the main messages that the Board wants to get across. When you report under the new Code for the first time, there may be an even greater temptation for directors to get out the red pens and start wordsmithing. Resist, or delegate to a couple of directors who have the most relevant experience (and real skill with the pen) to do it on the Board's behalf. Management will be grateful and the end result is likely to be better.
Set out how getting a better view of workforce thinking will help both in the short and longer terms. It's generally accepted that we're now entering a different model of employer/employee relations, with different life values, expectations and use of media affecting how "the workforce" sees its relationship with the employer. (In fact, it's increasingly questionable whether it makes sense to use a collective noun like "workforce".) And that means the "People Strategy" needs to be based on a different mindset too – one which is much more driven by the employee than the employer.	Seeing the provisions on investing in and rewarding the workforce (P2) and engaging with them (P5/6) simply as another compliance matter – or just a continuation of what you already do. Instead, use it as a real opportunity to get the strategic people issues onto the board agenda. And don't (as we sometimes see when we do board effectiveness reviews) let "HR" fall to the end of every meeting, only for it inevitably to get squeezed.

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