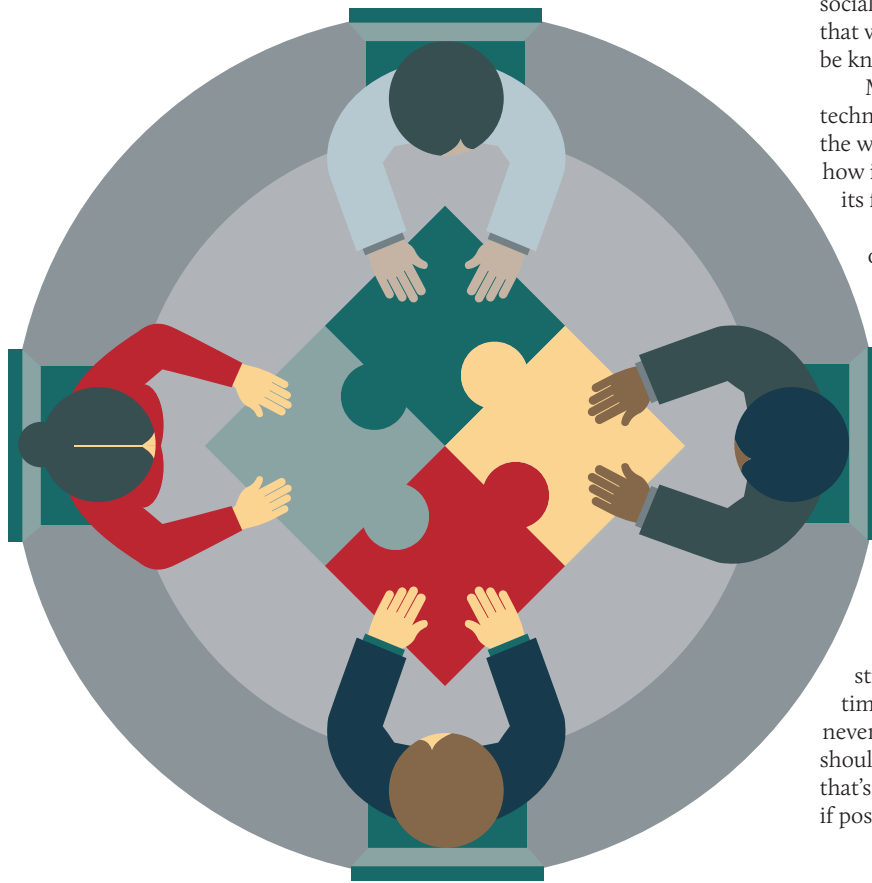


The need for Engaged Boards

Boardroom leaders are coping with a rapid rate of change, writes Anthony Carey of Mazars, and must therefore remain focused on building long-term, sustainable success.



We should always be cautious in thinking we are living through a period of unprecedented change. The Industrial Revolution, the invention of the telephone and electricity, the discovery of antibiotics and technological change, including the dot.com revolution, all testify otherwise. Social, political, economic and technological advances affect every generation.

There can, however, be little doubt that historians will look back on 2016 as a year of major social and political upheaval in the Western World that was not foreseen and whose full impact will not be known for some time yet.

Moreover, the change is linked to rapid technological development, which is transforming the way business is done, accelerating its pace and how its successes—and possibly more significantly its failures—are reported.

So, what are the implications for boards of listed companies and other businesses? Undoubtedly, risk management needs to be high on the boardroom agenda, as it has been for some time. But boards need to review, and perhaps rethink, how they behave collectively during times of crisis and change that may be company-specific or market-wide.

We need boards that are for all seasons and not just for sunny, upbeat times. When things are tough and businesses are navigating stormy seas, the way the board and management work together needs to change accordingly.

The paradox is that some of the most structured and well organised boards in the good times may find the transition hardest to make. It's never easy for boards to look critically at how they should adapt their own behaviours. But the truth is, that's exactly what they need to do and it's best done, if possible, before they are in the eye of the storm.

ARE YOU AN ENGAGED BOARD?

- Is your board fully aligned behind a clear purpose and values?
- Do you have the right blend of skills, experience and personalities on the board? No weak links? Good succession planning?
- Does the board work well in the boardroom? Do you have sufficient meetings of the right length? Do your chair and NEDs contribute to the agenda? Is there high-quality management information? Are there good board discussions and clear decision-making with follow-up actions?
- Is your chair effective? Is there a balanced relationship between the chair and the CEO?
- Is your board quick to face up to challenging situations?
- Do your NEDs have open, trusting relationships with the executive directors and senior staff? Is there good access to them outside of board meetings?
- Do your NEDs invest sufficient time in their role and understand the “real” corporate culture?

Board types

And it's a board's culture that determines how likely this is to happen—and how successfully. Essentially, there are four broad types of board based on the mixture of challenge and support that figure within their culture. The goal is to be an Engaged Board, where there are high levels of both challenge and support in the boardroom.

Alas, not all boards are “engaged”.

Some businesses have Cosy Boards, where members are reluctant to accept that change is happening or that crisis is looming. They are slow to engage with difficult issues, or to challenge executive management, and this is likely to lead to problems building up with the risk that they end up like the lobster in the gradually boiling pot, not realising the danger until it is too late.

Others offer a low level of support to the executive team that is likely to result in a blame culture and defensive behaviour by the executive team, limiting board involvement on important issues—an Us and Them Board.

And arguably the worst of all, is the Semi-detached Board which, with its failure to provide either sufficient support or challenge, is in effect on autopilot with the corresponding lack of checks and balances on the executive team, and missed opportunities to help them develop the business successfully.

Tough questions

Many boards consider they're engaged but they should ask themselves some tough questions. Is this positive view based on a robust analysis of the key drivers of engagement, and is it shared by all members of the board? Are boards spending enough time assessing what type of culture they have in practice? Are they asking themselves the difficult questions—and being honest with themselves when answering?

Achieving an appropriate blend of formal structures and processes that will contribute to a healthy board culture is perhaps the area most frequently discussed in governance codes. They help ensure the right issues are on the agenda at the right time, with the right information available for discussion and decision-making.

But formal structures and processes, vitally important as they are, are not enough on their own to keep the board engaged. They need to be supported and supplemented by informal, “softer” initiatives outside of the boardroom if the non-executive directors (NEDs) are to be able to offer the optimum blend of challenge and support, and to build positive relationships with their executive board colleagues. These will normally include:

- Time for board members to get to know each

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- other away from the formality of board meetings, e.g. lunch/dinner before or after board meetings;
- NEDs getting to know and discuss business matters, especially in their areas of expertise, with senior team members below board level;
- Opportunities for NEDs to see different parts of the business through planned visits, possibly linked with off-site board meetings; and
- Discussions, where appropriate, involving NEDs and executive board colleagues.

Such informal processes play a vital role in building strong relationships between executive directors and NEDs based on openness and trust. This can greatly strengthen the board's resilience and ability to deal effectively with challenging situations, because it is in these times that the board's ability to work as an effective team will come under the greatest pressure.

The benefits of being an Engaged Board are clear: greater success in innovation and new ventures; setting the right example for the rest of the business; better decision-making; and a robust and agile approach to risk management which, as discussed above, is particularly valuable when the chips are down.

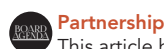
When the only constant is change with significant uncertainty attached to market activity, boards must be agile in focusing simultaneously on both opportunities and risks, and on responding to them effectively.

Succeeding in a world of complex change, where reputations that have taken decades to build can be cast aside in minutes, is best achieved by truly Engaged Boards that adapt their behaviours according to the prevailing market conditions, whilst always remaining true to their purpose and values.

In responding to emerging situations they will confront the issues calling for an immediate response, but in a way that maintains their commitment to building long-term sustainable success for the benefit of all stakeholders and wider society. They do this rather than yield to short-term shareholder value maximisation, and going for the quick fix that fails to tackle underlying issues.

Easy? No, but undoubtedly the best way to unlock the full potential of their teams; build an enduring relationship with their customers and society at large; and ensure they don't just survive, but thrive in a changing world. ●

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This article has been prepared in collaboration with Mazars, a supporter of *Board Agenda*.
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