Letters to a new chair
Good governance is a cornerstone of good business, but there has never been a one-size-fits-all model.

This publication is a starting point for helping to put good governance into practice.
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Culture, values, long term sustainability and purpose have become key cornerstones of good governance.
The ‘Letters to a new Chairman’ (as they were then titled) were first developed by Hugh Parker and the IoD in 1990 and revisited by Tomorrow’s Company in 2014. We argued then, as we still do – that good governance is a cornerstone of good business, and that the chair’s role is pivotal in both.

Our first involvement with these letters was through our work leading the Good Governance Forum, which was established to develop practical tools and innovation, to help boards tackle behavioural and cultural challenges and open up new opportunities. Here, we have re-launched and refreshed them, in partnership with the KPMG Board Leadership Centre.

These letters look at how concepts such as culture, values, long-term sustainability and purpose have become key cornerstones of good governance. Similarly, board diversity in all its forms has become a necessity, not just the preserve of those forward thinking chairs. But how does the chair set the organisation’s purpose and character? What are the key relationships to work on? How do you exercise the right tone from the top? These are just some of the questions these letters seek to address.

The letters are not just for chairs. They celebrate and explore what makes for good governance; recognising that while the chair brings all of these people together, governance is a collaborative effort. This collaboration between executives and non-executives, supported by all members of the board, with all utilising the vital role of the company secretary, and through strong and effective engagement with and regard to the perspectives of investors and stakeholders. These themes come up time and time again in our conversations with directors about what makes good governance work for the organisation.

Governance is frequently held up as a solution to bad or unethical business. With every new scandal, we look to the boards of our largest companies and ask – how could they have let it happen? Barely a month goes by without outrage over an executive’s pay or bonus, and the requirements and responsibilities of boards continue to increase. This is only right, and boards must see these changes as an opportunity to demonstrate fully how seriously they take their responsibility, and strive for better, moral behaviour that reflects their role as a vital part of the ecosystem. The companies that will do best are those that can see codes, regulations and reporting requirements as an opportunity, and think creatively about what governance is there to achieve and unlock, not that which it prevents.

The letters are also intended to spark debate. There has never been a one-size-fits-all model of governance and these aren’t either. Instead, they are a starting point for putting good governance into practice.

Melanie Richards  
Deputy Chair, KPMG UK

Dr. Scarlett Brown  
Director of Research and Policy, Tomorrow’s Company
Letter from a Chair

Everyone’s time as chair is unique. No one size fits all.
Dear Alex

When you told me of your recent appointment as chair of the board, I was delighted to respond to your request for guidance and advice as to how I got started. I first became chair of a board quite some time ago and I have been fortunate to work alongside some fantastic CEOs, and with some brilliant boards.

Every board is unique in that the business, the competitive circumstances, the pace of opportunities and risks, the unexpected crises that threaten you, the people you work with, and the culture of the organisation, are all different. The only single constant is in your own character imprinted on all these. You have to set your own style and exercise your power with humility. You are very visible, and need to be decisive when it matters.

There are some obvious commonalities: the role of the board is to define, establish and embody the purpose and values of the organisation and to protect and foster its reputation. You have to set the long-term future position and condition; determine strategy and character; acquire and develop the right skills, resources and people, and monitor and oversee operations and performance, ensuring that these are consistent with appropriate standards of conduct and commercial ambitions. The board anticipates and plans for the unexpected, sets the appetite for risk, approves decisions, scope and objectives for the executive.

The chair’s role is to hold all this together, champion the role of the board and set the tone from the top. Think of the conductor of an orchestra: you have players each with specialised and focused perspectives, skills, knowledge and experience and each is required to participate at times and volumes that only you see in the full score. You command the tempo and mood, the balance and priority of the parts through your own style.

As chair you have the same legal responsibilities as every other director around the boardroom table. First amongst equals in responsibility; the levers of power are your personal capabilities and authority in inspiring those around you. Any decisions you make, positions you take or pronouncements you deliver need the support of your board. You need their engagement in understanding the background, challenging and debating the issues, and arriving at robust outcomes. For the majority of new chairs, who, like you are coming from executive positions, nothing in your experience adequately prepares you for this kind of leadership.

The structure of governance has evolved dramatically since I first became a chair, and the world is rather different from that time. Public confidence in corporate leadership – indeed in any kind of public leadership, is diminishing. Prominent examples of inept board behaviour have contributed hugely to this, questioning the very fabric of capitalism. Board performance is being put under the spotlight, about short-termism, about excessive remuneration levels, about imprudent, illegal or unethical behaviour, about unseen or ill-considered risks. Boards, more so than ever, need to engage with other stakeholders beyond shareholders, and consider broadening their public reporting to include social issues.

Add to that, the lack of trust in business and the transparency that social media encourages. We have to accept that stakeholders are shunning companies that aren’t seen to care – but this is about more than protecting the company’s license to operate. Don’t miss the bigger picture by focussing on short-term pressures.
Lead from the front foot and encourage the board and the executive to think beyond the short-term pressures and to the strategic risks? For example, how might global warming or migration impact your business model?

The board is responsible for its competence and effectiveness, and I do think that it is important for you to have regular discussion at the board to reflect on how well it is working and what can be done to improve it. Supplementing this with independent board evaluation can also be very helpful in identifying development opportunities. It’s not a simple task you are taking on! And for all the things I have mentioned that can make your life difficult, there’ll be something else unexpected. You will inherit a group of directors, both executive and non-executive, with a legacy of history and traditions, of past decisions, business plans, ambitions and capabilities, public statements, and a staff including the company secretary – whose support and confidence you will find invaluable. There may be a particular change you are appointed to pursue; to dig the enterprise out of an embarrassing crisis or transition to re-establish credibility and strategic sense. Whatever the circumstances, however, there is a status quo and you must pick up the reins of an already moving coach.

As chair you will need to know the fundamentals of the business and make the strategies and values your own, personifying the organisation. You will need to have a board with an appropriate range of skills and experience, whose members actively contribute their different perspectives. You will need to set the tone, blend efficiency in the work of the board and effectiveness in robust and challenging leadership of the organisation. In particular, you will need to ensure that the external perspective of the non-executives balances the drive of the executive such that together they make better decisions than the executive would make alone.

Relationships with each of the board members, and expectations of those relationships, work better if they are clear and open. Mutual trust allows robust challenge and argument to be respected, and assessment and evaluation of individual participation and critique of the board’s work can be helpful in developing effectiveness.

For you to get the best out of fellow directors means active listening, to appreciate and recognise individual’s contribution to the discussion. It means the application of sensibility and reason.
You should look to amplify the small voices and to tolerate and even seek out dissenting perspectives. You must judge when to pause debate before a decision is reached in order to achieve balanced flexibility of deliberation in your board. Undoubtedly, your most critical day-to-day relationship is with your chief executive, whose job is yours to supervise and support. This support is conditional upon your judgement that the CEO is meeting the expectations of the board. If this condition is not being met, you have to be prepared to act. Today’s chair has a role that is differentiated from that of the chief executive – the latter leads the management and runs the show, while the chair is the figurehead for the enterprise and runs the board. The dividing line between the two depends on circumstances and the way the two of you best fit, but it is absolutely essential that you define the relationship and dividing lines together. There will be times when you have to motivate, and times when you have to constrain.

You are the senior ambassador for your organisation, in projecting the company to the outside world through public and private communication, annual reports, conduct of AGMs, discussions with shareholders, regulators, politicians and media commentators. Though commentary on operating or financial performance is naturally led by your CEO and CFO, you must communicate the state of the organisation and its effective leadership. It is up to you to inspire trust, enhance reputation and build confidence.

Contemplating all this, I am reminded how daunting it must seem taking on your first role as a chair! Undoubtedly, the responsibilities are wide and complex, and your character will be tested. It is well worth cultivating relationships with other chairs, who share such lonely complexities. However, the most important single thing is to be yourself and comfortable in your own skin. That’s enough from me, I have asked a number of my colleagues to write to you with their own perspectives, concentrating on the things that matter from their particular point of view. I will follow your progress with great interest.

With best wishes
Ronnie
Letter from a
Chief Executive

You encourage and allow high quality debate.
Dear Alex

Ronnie has recently informed me that you have just received your first chair appointment. So many congratulations, although I am sure that you are somewhat uncertain as to exactly what you are about to take on. I hope that this is the beginning of a long career and I trust that you will find both enjoyment and learning in the role.

I know that Ronnie has asked a number of her contacts and colleagues to try to capture any snippets of helpful advice that they feel they can offer, based on their own experiences. I am certain that she knows a wide number of chief executives so I can only assume that she has asked me to provide the CEO perspective because I also have experience as a non-executive director and I have worked for a number of different chairs through my career. Perhaps that gives me a broader perspective than some other CEOs and I certainly hope that my small contribution will be helpful.

The arrival of a new chair is a significant occasion for any company, and for any CEO, particularly when the chair has metaphorical “L” plates on their back. A range of difficult questions come to mind that will normally include: How will their approach and style differ from the previous chair? Will they want to bring radical change to the strategic direction of the business? How will they change the dynamic in the boardroom? Have they really managed the transition from an executive to a non-executive role or will they interfere too much? Will I get on with them?

Of course most of these issues should have been addressed during the selection process and if the nomination committee has done its job properly the company will now have the chair it needs, although that is of course not always that chair that the CEO wants.

I have worked with four chairs. Two of whom joined whilst I was the CEO and two were in post when I became CEO. Of the four, two were outstanding from day one, one started poorly but became a great, and the fourth never became comfortable in the role and only served one three year term.

My abiding memory of the great chairs was that they intuitively understood the organisational nervousness around their arrival and particularly the unspoken insecurities of the CEO. They took time to get to know me and to understand my aspirations and desires for the company and they made a real effort to establish a close working relationship with me and the wider leadership team. That is not to say that they simply accepted the strategy and the status quo, far from it. Some of the most challenging moments of my career as a CEO have been with these chairs during the early days of their tenure. But they made it clear to me that I had their support from the outset and I would continue to have it until and unless the day came when they felt they could no longer support me, at which point they would fire me.

One often hears the expression “the chair leads the board and the CEO leads the company”. Whilst this somewhat oversimplifies the matter, there is a lot of truth in it. The separation of the roles of chair and CEO requires a focused delineation of their respective responsibilities and accountabilities. It is the role of your CEO to agree strategic direction with you and the board and then to lead the company to deliver on that strategy. Provided they are delivering the strategy and achieving agreed performance targets then there should be little need for the chair or the board to overly challenge. Of course performance can always be improved and strategy can always be changed and your CEO will expect and welcome constructive pressure to drive the company harder. They will not welcome undue or unhelpful challenge or ‘interference’.
On the other hand, all chief executives should expect a chair to get closer and closer to the executive borderline if strategy is not being delivered and performance targets are being missed. If you find yourself in this situation then spend time with your CEO. Investigate with the wider executive team why performance is lagging, identify whether your own experience may help to correct the course and how best to deliver that help.

I recall a tricky 18-month period in my first CEO role when a radically new competing technology almost wiped out the market for one of our key products. The chair, who had been selected because of his experience of dealing with fast moving technology sectors, helped me tremendously in approaching both the required restructuring of the business and in evolving a responsive technology strategy. Without his input and advice we would have seen out the crisis, but he helped us achieve it in 12 months rather than 24.

Of course your other critical role is as the leader of the board; a group of individuals who meet infrequently and who, with little time and little information, must somehow set the course for the company. From my perspective as CEO there are only three things I would ask of my chair in this context: make sure that you have the right people around the boardroom table; make sure that they focus on the most important issues, and make sure that you encourage and allow high quality debate around each of those issues.

This sounds pretty straightforward I am sure. Yet I have seen two chairs manage this part of their role exceptionally and deliver real value, insight and challenge to the executive team and one chair who never managed to get it right and who therefore frustrated and alienated me and the team. As CEO I want to know that the board has the required experience and knowledge to really understand the business and to get to grips with the most important external and organisational challenges that my team are facing.
A board that has this level of insight will earn my respect and I will welcome its challenge and support. But a board that does not have this insight or cannot be bothered to find out will struggle to build an effective relationship with the executive. In my experience such boards do not focus on the important issues but instead tend to address the minutiae, being the only topics on which non-executives feel competent to comment. There is a temptation in these situations, for the CEO to start to “manage” the board, to present decisions already taken rather than to engage in debate about principles, to avoid the important issues and to lead the company outside of the boardroom.

Managing the dynamic inside the boardroom is obviously critical and I hope that you will create a relationship with your CEO whereby you jointly work to make this happen.

You must encourage your non-executive directors to invest time in understanding the company and enable them to join in conversation with the executives in a supportive, yet challenging way. They must come to the boardroom in an open and constructive way, must allow the board to challenge and probe, not becoming defensive when it does, and must allow fellow executives to engage openly in the debate. Great chairs deliver this dynamic using a sophisticated yet understated approach. I am sure that you will evolve your own as you get into the role.

One area where I have experienced very different approaches by chairs is in the degree of leadership they take with investors. One chair was entirely comfortable with me taking full responsibility for investor relations, he was available if they wanted to meet with him, but otherwise left it up to me. Another very much felt that it was his responsibility and, while we always met them together, he would take the lead. Through conversations with other CEOs I have noted that in more instances than not the CEO leads investor relations. However there are enough examples of the reverse that I suspect it is up to you and the CEO to work it out.

Lastly, I have found that the best chairs have always been there when I needed them. Whilst few will admit it, being the chief executive can be a lonely job – especially when putting your head above the parapet to take a stand on some of today’s big societal and environmental issues – and the chair is often the only person to whom the CEO can turn. They may simply want someone to bounce an idea off or they may have a real problem that they haven’t experienced before and need some sage advice and input. If you can establish a relationship with your CEO whereby they are comfortable coming to you and confessing that they are not sure of the answer, then you will be well on the way to becoming a great chair.

Best of luck in your new role
Sam
Dear Alex

I have been asked to give you the chief financial officer (CFO) perspective on board effectiveness and how as chair you might make the best use of my contribution. In the following paragraphs, I will do my best to outline how my relationship with the chair contributes to making sure the board operates effectively.

The role of the CFO has developed over the years from being the accountant who keeps the books to being the financial strategist responsible for establishing how financial resources can be best deployed in pursuit of the company’s long-term sustainable success, generating value for shareholders and contributing to wider society. As the separation of the chief executive and chair has become the norm, so the reporting line for the CFO divides between the two, and in my view, should have a direct access relationship to both. In the past, this reporting structure has worked well, albeit on an informal basis. But you may wish to formalise this reporting structure at the outset of your role. At my board I report to the CEO concerning the performance of the business, whereas I report to the chair and the board when discussing the future of the business, the robustness of controls and reporting systems, and the long-term integrity of the balance sheet. Of course, there is always overlap between these issues. Given my knowledge of the business, I am increasingly involved in the development of business strategy with the CEO for presentation to and approval by the board. I would hope you would develop an open and informed relationship with both your CFO and your CEO to determine future direction and strategy.

The demise of long established businesses that failed to transform, the rise of predatory private sector investors who saw opportunity that the enterprise leaders missed, and most obviously, the failures in the banking industry – all illustrate the fragility of governance. In each of these failures, it is difficult to see the chair’s primary responsibility for long-term strategy and character of the company having much traction – and impossible to detect the CFO’s capabilities in offsetting balance sheet risk in the face of short-term operational and acquisition strategies. It is so very important to learn from these events and to adopt new corporate governance practices aimed at preventing a repeat of such corporate failures. I would suggest therefore that you encourage your CFO to develop systems of reporting that cover strategy, governance and performance (financial, environmental and social), with the aim of ensuring the board fully understands the consequences of decisions taken and risks assumed. The true KPIs might run a lot deeper than those historically reported in the board packs.
The CFO is responsible for accounting for business operations, for directing the processes by which commitments are made and money flows, for providing whatever performance reports are necessary for planning, budgeting and reporting against expectations. Performance goes far beyond the traditional profit and loss account. Your CFO should be thinking about climate change resilience, carbon reporting and much more. It is my role to understand and interpret the economics of each activity, from source and supply chain, through to customer delivery, and social impact.

I am the lead analyst, and leading interpreter of the condition of the business model. Rapid advances in technology continue to bring more opportunities to improve the efficiency and speed of our reporting processes, and the quality of information. I am responsible for managing the balance sheet to ensure that the necessary funds are generated or acquired to meet the business’ requirements in line with strategic plans, and for any financial reporting to the outside world.

Having an efficient reporting system enables me to spend more time leading the interpretation of financial results and supporting decision-making. Regular reporting of these aspects of the business and commentary on the trends of performance, markets and economics is a basic item on board agendas and guide to management action priorities and planning. These are the ‘traditional’ basics of the financial function. I need to be very close to the CEO in developing business strategies and forward plans so that financial and operational management are integrated, and that the board is familiar with the business model and adequately aware of day-to-day issues. For the board however, I believe the CFO has wider responsibilities in the appreciation of external factors and the associated risks. The turmoil of recent years starkly illustrates that long-term control of the balance sheet – not just financial, but of all resources (natural, human, social, etc.) – should have much more prominence at the board. I would suggest that you incorporate this into your board agenda.

I should like you to consider giving your CFO an annual opportunity to review with the board the financial structure of the company so as to discuss in depth and at length, and take stock of, total capabilities and resources, whether directly financial and on the balance sheet or indirect, and not so visible. The issues and risks associated with governance and the financial strategy to ensure that the enterprise’s opportunities can be appropriately channelled and funded, are different from the business strategy, and include making sure that the enterprise can weather the storms of future uncertainty.

Perhaps my most important piece of advice is to suggest that you both differentiate and dovetail the roles of yourself and the CEO. Collaboration between the two, and balance between the enterprise perspective of the chair, and the business perspective of the CEO, is essential to good governance, and I see in my role the necessity of underpinning both.

Best of luck in your new role
Krishna
Dear Alex

Congratulations on your appointment. Ronnie thought it might be helpful if I reflected on my experience as a senior independent director (SID) and offer you some thoughts on your new role from this perspective. Exactly what this role should be is pulled in two directions by increased formalisation on one hand, particularly in the financial services industry, and resistance to the establishment of a competing power source, on the other. There is some debate about just what SIDs should and should not do, and who should appoint them. Whenever I get the chance, I talk to other SIDs about these things, most agree that they do not actively want the chair’s role; they all lead the annual review of the chair’s performance and, often play a critical role in the evaluation of the board as a whole. They are often called upon to lead the nominations committee, but are otherwise ‘just another NED’.

A chair’s first sight of the SID is likely to be when the SID leads the nominations committee in hiring the chair, conducting detailed discussions about the company, characteristics of the new chair, and suitability for the task. Mutual due diligence is an essential part of the process and should provide a sound basis for the future relationship, turning to mutual trust.

In my view, it is sensible for the SID to be the chair of the nominations committee certainly whenever the subject of the chair’s succession is involved. Whether, at other times, you should lead the nominations committee or just be a member is a matter of choice. Many chairs do take on this role to help fulfil their responsibility for assembling a good board, and you may wish to follow suit. Having experienced both approaches however, I think that you can gain from being closely involved with defining the requirements without also being the decision-maker. I have found that this enables broader discussion about skills and specifications, both individual and group, and clearer separation between planning and acting. This should help improve balance in board composition and reduce the danger of your dominating both identification and selection of candidates. It is important for the SID to ensure and encourage open communication between the members of the board and the chair without becoming the conduit. It’s the chair’s responsibility to run the board and create the conditions for such open communication, and I urge you not to expect your SID to be the message carrier or to get in between you and your board members. The idea that a SID can field the concerns of stakeholders who may have lost confidence in the chair and cannot speak directly, is a Plan B or crisis role. Contacts with investors under normal circumstances must be sufficiently low key to be supportive of the chair’s direct communications and not a substitute, though enough for stakeholders to be aware that this channel of communication exists. I suggest that you define and coordinate the policy for external communications with the board very thoroughly.
The transition to a new chair is often a tricky one for an incumbent SID. For a new chair, a SID can feel like a threat. I urge you to consider that a good SID knows the business well, is trusted by the other independent board members, by the executive and also by the investors. Be confident that you can rely on the SID’s help whilst you take over. Nonetheless, the SID’s inclination is likely to be to merge into the NED group as soon as possible. I have therefore always tried to take a step back once a new chair is appointed, wipe the slate clean so to speak, and discuss with the new chair what they would like me to do. To begin with I find the new chair often just wants a sounding board.

I take my responsibility to lead the annual review of the chair’s performance very seriously. This is a key element in the board’s overall effectiveness assessment, and requires input from all members of the board. I need to develop a close relationship with each and maintain informal conversations throughout the year, so that the formal annual review is constructive and does not hold any surprises. I have found the whole process much easier where the chair and the board have agreed a formal process for these reviews. Everyone knows what is happening, when and why.

Your performance is largely defined by the way relationships are formed and conducted, the way you engage with people, the way your leadership impacts the condition and value of the company, and the involvement of the board in its decisions. In short – the tone you set at the top and the board room culture you encourage. Your most critical internal relationship is with the CEO, and how you handle that is vital to the well-being of the company. The relationship should not be too close or too powerful for the rest of the board to challenge successfully. Relationships with the members of the board, how you organise their individual contributions, and how you develop the character of the company are key assessment factors. You must not underestimate observation of your own personality and the example you set. In today’s world the company’s reputation can be damaged in seconds.

The best defence against this, in my view, is not the firefighting done when it all goes wrong. It is the insurance you lay down when you spend time on three things: being very clear about the long-term purpose of the business; insisting on a strong culture that enables everyone in the business to live the company’s values; and, building strong relationships with key stakeholders.

In strengthening the firm’s external relationships, I would suggest that you separate your role from that of the CEO who is expected to answer for the current performance and business plans of the company to market analysts and commentators, and concentrate more on the essential purpose and character of the company. The board will be keen to see your respective responsibilities clearly stated, particularly as to who will be the leading external voice for particular circumstances and audiences. The expectation is that investors will see the chair as the long-term face of the business – so too the regulators, key government figures and the NGOs. One of your key opportunities as chair is to communicate with them about long-term aspirations, purpose and the company’s role in society, thereby giving context to the CEO’s messages, and promoting the reputation of the company.

I wish you every success. For me this means that when you and others look back on your time as chair they will say that you were a good steward; that you handed the company on in a better shape than you inherited it, allowing for all the headwinds and cross winds that it faced in your time. And, while focusing the business on improving performance, and constantly alerting it to opportunity and risk, you strengthened the values and culture at the heart of the business.

Best regards
Hilary
Letter from a Non-Executive

what why how

questions are often the most valuable
Dear Alex

Congratulations on your new appointment. No doubt you are being bombarded with well-meaning advice, nevertheless Ronnie thought it would be useful to you if I shared some of my experience as both a non-executive director and, at different times in my career, chair of both audit and remuneration committees. I have never chaired a board myself, but over the years I have worked with many different chairs and seen a broad spectrum of styles. Most of my experiences have been very rewarding, but I have also sat on boards where things have not gone as smoothly as I would have liked.

Over the years I have witnessed many changes to corporate governance norms including the separation of chair and CEO roles; the near universal adoption of audit, remuneration and nomination committees; and the ‘professionalisation’ of the non-executive director role. Looking forward, we have the additional role of workforce engagement, culture and purpose. However, during these changes I have remained resolutely convinced of the merits of the unitary board with sufficient executive and non-executive presence; and that it is the chair’s role to provide the glue that binds the unitary board together.

The chair is pivotal in creating the conditions for overall board and individual non-executive director effectiveness, both inside and outside the boardroom. On all the boards I have sat on as a non-executive director, I have always been treated as an ‘equal’ member of the board – no different than my executive colleagues. We are collectively responsible for promoting the long-term success of the company and for providing entrepreneurial leadership within a framework of prudent and effective controls that enable risk and opportunity to be assessed and managed. However, there are two principal components of the non-executive role. First, contributing and constructively challenging the development of strategy; and secondly scrutinising the performance of executives in meeting agreed goals and objectives. I have always looked to my chair for leadership and support in carrying out this role, by encouraging discussion and allowing space for disagreement and reflection. There are many different leadership styles – and I know you will have your own, but in my experience the best chairs provide the space for executive colleagues to operate at their upmost, and support a board (and organisation) culture, whereby the non-executive directors feel willing and able to share their experience, contribute fully to the strategic debate and provide appropriate challenge where necessary.
The board has to be greater than the sum of its parts. The combination of executive talent and NED expertise, bound together by a corporate sense of purpose, should create a powerful and effective union. Unfortunately, this is not always the case. If the chair’s glue is not strong enough, boards not only become unstuck, but the collective actually becomes less than the sum of the individual members and some, if not all, of that experience and talent is wasted. I’m thinking here of issues like dominant personalities controlling the boardroom debate, ‘groupthink’ and lack of engagement by some board members. I have seen all these things during my career and have come to accept that I, as a board member, have a role to play in nipping such issues in the bud when I see them arise.

Your non-executive directors, will primarily look to you (sometimes via the Senior Independent Director) for leadership and support. Dominant personalities can marginalise dissenting opinions and make it tricky for difficult issues to be properly debated, or even raised at all. Wearing my non-executive director hat I would try to address this by building strong relationships with other board members, ensuring I am fully briefed and by ‘rehearsing’ difficult questions or concerns in advance of board meetings. However, I would look to my board chair – perhaps by engineering a counter argument in the debate – to actively encourage contributions from all board members and demonstrate through their own behaviour that uncertainty and questioning of assumptions is appropriate. As an audit committee chair I have always sought to encourage the ‘daft’ questions from those with arguably less financial acumen, as the ‘what’, ‘why’, ‘how’ questions are often the most valuable questions of all. At the very least, they can open the door for others to contribute. I think the same is true around the boardroom table too.

When it comes to combating groupthink, I think a good non-executive director might consider using intelligent naivety to ask the non-obvious questions – and to keep asking (in different ways) until they are satisfied that the matter has been appropriately understood, considered and resolved. Again, the non-executive directors will look to the chair to manage the debate in a facilitative way; introduce third party insight into the boardroom (through strategic briefings and updates at board meetings, strategy days or even board dinners); and to be unafraid to reshape the board if groupthink persists.

Similar considerations apply when there is a consistent lack of commitment from some members of the board – what I call attendance in person but not in spirit – or when board members focus very narrowly on their ‘own world view’. We’ve all seen debates around the boardroom table tend towards the “yes I agree, BUT”! If this arises on your watch, your ‘good’ non-executive directors will undoubtedly be raising their discomfort with you – and will be looking for the door if a solution isn’t found.
As a chair, you might want to think about spending more time outside the formal board meetings with each board member to really get to know them, their strengths and weaknesses, and any obstacles impeding their contribution. But equally, you must be clear about the contribution you expect from them. For what it’s worth, in my experience spending time to understand and get to know all members of the board (executive and non-executive) is never time wasted.

My last piece of advice – if I might be so bold – is to listen and involve the chairs of the various board committees. You will probably want to chair the nomination committee yourself, but the argument for putting an NED in charge is growing. Clearly you have the prime responsibility for board appointments and composition, but being a member of the committee protects you from the danger of imposing your choices on the selecting and hiring candidates. Compliance with the UK Corporate Governance Code will preclude you from chairing the remuneration committee too, and from membership of the audit committee at all, though I have no doubt you may choose to attend appropriate parts of all of these. These committees, and their individual members, bear a great responsibility, but ultimately they are agents of the full board of directors and are there solely to help the board as a whole discharge its duties to shareholders and other stakeholders. As a chair you should seek to ensure that these committees have the right skills, experience and resources at their disposal; and that the chairs of these important committees get sufficient airtime (both orally and through written papers) to involve the whole board. All board members need to understand what the key issues are, how they have been addressed by the relevant committee, any conclusions reached and what action has been recommended to the board. You don’t want a board that devolves responsibility for important parts of its remit to a few people – no matter how good they are – and does not follow it up.

I hope my ramblings prove to be of some use as you start this new phase of your career. In any event, I feel sure you will find your new role both challenging and rewarding – and I wish you every success.

With best wishes
Francis
Letter from a
Company Secretary

Set the tone and influence
Dear Alex

Congratulations on your appointment as chair. Ronnie has asked me to drop you a line about the role of the chair from the perspective of a company secretary with over 20 years in two very different companies. I have served six chairs. Some were excellent and some not so good. In what follows, I have highlighted aspects that for me made the best chairs excellent.

The role of company secretary has developed greatly since Ronnie was first chair and I became a company secretary. It is my duty to ensure that the company complies with the rules and codes, regulatory and tax environments of each of the jurisdictions in which the company operates, and in particular, where it is listed and registered. In that sense I am responsible for the technicalities of governance, compliance and its reporting. In addition to legal duties, I am there to support the chair and other board members, providing independent advice and guidance to the board on their conduct of business, governance and compliance. My actual role and contribution very much depends on the chair. I am both their chief of staff and the primary communications link between the board and the rest of the organisation.

Board effectiveness can mean so many things, but I would like to focus on four critical aspects: well organised meetings, the chair’s behaviour as an example, the relationship between the CEO and chair, and good governance practices. These are subjects where the closeness of relationship between company secretary and chair should have the greatest impact.

I am primarily responsible for organising board meetings, administering the decision-making processes of the board and for the frameworks that keep the board running smoothly, enabling decisions to be made swiftly when needed. I have to ensure that board members are adequately briefed and prepared for board conversations, and equally that board decisions are formally communicated to the management. As chair you need to set the style and tone of board meetings and the timings of meetings and individual items. Setting and planning the agenda is critical; achieving a good balance between the ‘business of the board’ and strategic conversation is too. This is best done by deciding with me well in advance what and how much you want to discuss with the board, and scheduling enough time in meetings. You need to be very clear about the quality standards expected of papers and presentations to the board, and the lead times for these to be circulated, so that I can ensure that the appropriate information for each agenda item is collected and delivered. Critical feedback from the board on these standards is invaluable and fosters continuous improvement. Agendas need to be planned not just for the next meeting but 12 -18 months out and it is important to define the purpose of each agenda item and be clear what outcome is expected. This in turn defines what outcome is expected because this in turn defines the type of conversation the board should have, the information that needs to be provided to the board members, whether the conversation should take place in a regular board meeting or an away-day, and who is to lead the discussion.
For example, if a significant decision may be required in a year’s time, an agenda item can then be scheduled for that decision. In preparation, a series of conversations or events may need to be scheduled, perhaps to learn about the background, discuss the consequences of taking the decision, or of choosing alternatives, and instructions issued to obtain or prepare materials for these. It is then my responsibility to ensure that board members are appropriately prepared for each of the conversations, and equally that you are alerted to the perspectives that they are expected to bring. This helps to avoid surprises, and to ensure that members are contributing effectively. And of course, I am responsible for documenting the outcomes of board conversations, including formal board and board committee meetings, and feedback from informal ones.

The best chairs empower the company secretary to ensure that the enterprise is led with the spirit of the corporate governance principles. Recent corporate crises serve to highlight that the chair is ultimately responsible for corporate behaviour and values. As chair, you set the tone and influence the way business is conducted everywhere in the company. People will listen carefully for the explicit and implicit signals in your communications: in every speech you give, in your personal statement in the annual report; in every conversation you have with people as you “walk the floors” both inside and outside the company. Everything you do and say demonstrates and reinforces the ‘character’ of the organisation as embodied by you. It is my job to ensure that your example is captured and reflected in documents and communications. Chairs lead in creating a board culture where directors are never complacent about understanding the organisation’s values and the effectiveness of processes that embed them. Boards need to be proactive in the governance of values: ensuring that board mandates, values statements and codes of conduct are more than just wallpaper. Such good practice does not go unrewarded as successive research demonstrates that institutional investors are willing to pay a significant premium for companies with excellent governance practices.

Good governance needs to permeate the whole organisation. Everyone needs to be able to ‘feel’ connected to the hand on the tiller, so that decisions taken at the board are reflected in decisions taken at the customer-facing end or deep in the backrooms of the business and are consistent with strategy and values.
Governance needs to permeate

The relationship between chair and CEO is the single most important ingredient in good governance, but has inherent and necessary tensions. The CEO has a bias towards action, wants to get on and deliver results. But the chair’s role is to think more broadly about the long-term interests of the organisation.

On occasion this may mean holding back the CEO from immediate action, and inspiring them to rethink along different lines. These tensions are best managed by regular and frequent communication; and by ensuring that the personal chemistry works. If not, things can get difficult, particularly in an international business where both parties are travelling. It can be further challenging if there is ambiguity about who is doing what – especially who is talking to whom. A good company secretary can be very helpful in clarifying roles and responsibilities, and smoothing the boundaries between CEO and chair, and I would suggest that a formal statement of these is a high priority.

However the company secretary has a rather tricky role and can be very vulnerable to any uncontrolled tension between the chair and CEO. A fine line needs to be trodden to remain neutral in facilitating good decision making by the chair and CEO without being drawn into the politics. I need both to understand this and to be the confidante of both and trusted by both.

Ultimately, a chair can get the best out of a company secretary by close cooperation in these matters, and by a relationship built on a shared understanding of what it takes to develop and enable good governance practice.

With best wishes for your new role
Pat
Promoting a culture of open
Communicating long-term vision effectively helps investors take a long-term view

High quality reporting balances financial and non-financial indicators

The chair of the board should ensure the board as a whole is fully aware of the committee’s work

The chair should see corporate reporting as a means to effective communication with stakeholders

Dear Alex

Congratulations on your first major chair role! I’m sure you have received lots of well-meaning and valuable advice, but I wanted to pass on some thoughts from the perspective of an experienced audit committee chair. As you know, I have chaired audit committees for many years. The audit committee has the longest heritage of the board – even I am not so old that I remember the chair of the Great Western Railway reporting to the board in 1872 that: “The Auditors and Mr. Deloitte attended the [Audit] Committee and explained the various matters connected with the Finances and other departments of the railway, which explanations were highly satisfactory. The Committee consider the Auditors have performed their arduous duties with great care and intelligence and therefore confidently recommend that they be continued in office.” I raise this historical anecdote as it has a strikingly contemporary relevance: in some ways the priorities of the audit committee remain unchanged. And yet in others, audit committees are under ever-increasing pressures.

While governance ‘norms’ mean it is unlikely that you will be a member of your company’s audit committee, it is still right and proper that as chair of the board you should ensure the board as a whole is made fully aware of the committee’s work, its conclusions and any recommendations to the board. They will have delegated responsibility to carry out certain tasks, but their existence, and the work that they do, will not in any way absolve your board from its own responsibilities. Just as in the 1872 example, today’s audit committees are responsible for reviewing and monitoring the external auditor’s independence and objectivity and the effectiveness of the audit process; and for making recommendations to the board in relation to the appointment of the external auditor. Not much has changed – though the difficulties audit committees have in achieving these objectives are more acute that ever.

One area falling within the audit committee’s remit where I would urge you to focus is corporate reporting. As leader of the board you are responsible for promoting a culture of openness in which effective communications with shareholders and other stakeholders can flourish. Good corporate reporting has an important role to play in helping to restore the trust that has been lost by the business community in recent years. Companies need to communicate more clearly, openly and effectively with investors and other stakeholders about how they plan to grow in a sustainable way. For their part, stakeholders are demanding greater transparency around strategy, business models and risks, and the commercial prospects of the organisations they engage with.
The adoption of International Financial Reporting Standards in more than a hundred countries has brought increased comparability of financial information for the global capital markets. More generally, however, there are valid concerns about increased complexity and disclosure overload in current financial reporting. Moreover, financial statements are only one element of the corporate reporting chain.

Investors obtain key information from many other sources, including strategic reports, earnings releases and analysts’ presentations. Notwithstanding the importance of high-quality corporate reporting to the efficient operation of capital markets, the debate about change so far has been about making marginal – normally incremental – changes, rather than a more fundamental consideration of the adequacy of corporate reporting in meeting 21st century needs. This may change though, and I encourage you to be in the vanguard – or at least ensure that your business doesn’t suffer as a result of failing to meet the reporting expectations of your shareholders and other stakeholders.

As I see it, there are two major weaknesses with today’s corporate reporting model. First, somebody needs to take some pretty brave decisions to reduce the detail required in financial statements.
As this is regulatory driven, this will largely be outside the control of you, your CFO and your audit committee. Nevertheless, by promoting the right culture at the top, your reporting might become more about communication than compliance. This leads to the second point, if your corporate reporting is to best serve the needs of your shareholders, then it almost certainly needs to be more forward-looking. Your CFO will likely urge you to be cautious – corporate executives are quite rightly mindful of what moves the share price. This is, however, largely a question of communication. If your company is able to communicate its long-term vision convincingly, including information about strategy, risks and how you manage them, then investors should be happier to take a long-term view. You also need to ensure your board and audit committee, give proper consideration to the balance between reported financial and non-financial indicators and the extent to which you provide a perspective of the future. This is a big challenge because it can quickly get into areas of commercial sensitivity. Lastly, it would be a good idea to provide more information about the risks and uncertainty facing your company, but a fuller discussion of risk should be balanced with a discussion of the business opportunities. Risks impacting ‘going concern’ and the liquidity of the company are of particular concern. Think about this as less of a compliance exercise and more a question of the sustainability of the business model. There is no question that companies should and will report more in this area.

If nothing else, I want to encourage you to be brave and ensure your company stays ahead of the myriad of corporate reporting developments out there. Think about how you communicate with your shareholders and other stakeholders. Consider whether the reader will be able to understand not just the finances of the company, but whether the company has not profited at the expense of the environment, workforce or society; that risk and uncertainty are adequately mitigated; and that remuneration is linked to performance. Think about the language you use, its clarity and whether you are communicating the right things to those stakeholders who are key to the sustainability of the business. If nothing else has changed, the importance of these things has moved on considerably since 1872.

*With warm regards*

*Mel*
Letter from a
Remuneration Committee Chair

We consult rather than inform
Dear Alex

I am not sure what advice I can offer that will give you comfort that senior executive remuneration will never turn into the disaster in the boardroom that it has in some large corporates over the last few years! Instead, I thought it may be helpful (and more constructive) to describe to you what life feels like as a chair of a remuneration committee when it works well.

There is of course no perfect remuneration committee, but I will try to describe some of the attributes of the best kinds through the remuneration committee of the fictional EA Blair Plc. Let’s assume that EA Blair is a large listed company with a relatively low profile, it’s been fairly successful in recent years but is facing a number of challenges in the current economic conditions. The remuneration committee has four members, plus the chair of the board. The members come from diverse backgrounds: I, the chair, am a former executive of a similar business, one of the members is a retired civil servant, another a former finance director and the last one is from overseas. The approach of the committee is to align the remuneration to the strategy. We draw the key performance indicators for the annual bonus directly from the strategic plan and the LTIP is structured to align pay and performance in the long-term. The salaries are set to be competitive, but not over generous. To the horror of some, we do look at benchmarks, but do not chase a perceived median and instead just use it as only one piece of data to inform our decisions.

Our decisions are not made only in the board room. Board members regularly visit Blair’s operations around the world and we use these visits to talk to staff on the ground about pay and ratios as well as other matters. The remuneration committee also gets data about pay and conditions elsewhere in the group, and has a policy of setting pay rises for executives in line with those of employees. With pay ratio reporting now a legal requirement, this is even more important. EA Blair Plc isn’t a household name, but the remuneration committee is aware of the reputational issues related to pay. It’s not a regulated entity, but keeps abreast of developments as they often leak into the wider corporate arena. The committee is keen to adopt best practice reporting but we don’t rush headlong into making changes without proper consideration and reflection. We do seek advice from remuneration consultants, who are chosen and instructed by us rather than by management (to reduce the risk of undue pressure). We look to such advisers for independent advice and an overview of the external landscape, but don’t blindly follow this advice; rather we rigorously question what is put in front of us.

The remuneration committee has cross-membership with both the audit and risk committee and the nomination committee. This means we understand and are actively involved in issues such as succession planning, and ensuring our remuneration policy is in line with sound and effective risk management. As chair of the remuneration committee, I keep the board fully informed of the committee’s deliberations after each meeting, the conclusions drawn and any recommendations to the board. The company secretary serves as the secretary to the committee. They provide support and advice on various matters and help with the drafting of the remuneration committee report, though ultimately I ‘hold the pen’. The committee has a good relationship with the HR and finance departments, which provide timely information and analysis.
The committee isn’t overloaded with information, but we feel that we get all the information we need. Remuneration committee members read their papers beforehand and the focus of each meeting is on discussion and debate, not the presentation of information. I make sure that everyone gets a chance to participate in the discussions and the members are particularly good at seeing ‘the wood from the trees’. The chief executive attends the remuneration committee to discuss their thoughts on the performance of the executive team, but never their own. The relationship with them is constructive, but the members guard their independence carefully. The chair of the board and I are acutely aware that we have a very good CEO, but that no CEO is indispensable. The committee reserves the right of discretion in all its plans and last year reduced the bonus for the chief executive, but increased it for the finance director. The use of discretion was highlighted in the remuneration report and explained, and most shareholders were supportive. The plans also include claw-back provisions, although thankfully there has not been cause to use them yet. When the remuneration committee decides to make changes (which is not very often) we consult, rather than inform the shareholders. A few years ago we had disagreements with some shareholders, but this was a constructive dialogue nonetheless. I emphasised that we believed they were acting in the best interests of the company and afterwards kept the lines of communication open.

Of course, EA Blair Plc, and its remuneration committee, doesn’t exist, much as we might wish it! As executive remuneration continues to be scrutinised by the investor community and be an emotive issue in society, the utopian vision only gets harder to achieve. It is probably fair to say that in the eyes of wider society the legitimacy of UK business as a whole, as well as that of a number of individual companies, has been significantly damaged by pay packages that are out of kilter with pay and conditions elsewhere.

The remuneration committee faces a difficult challenge in responding to the global market for executive talent while ensuring that pay is clearly linked to performance and that increases are sustainable.
This is very much a reputational issue and therefore a board issue. There is no one-size-fits-all approach to establishing the right rewards and, as we search for an answer, it is all too easy to focus on the structures of pay or seek ‘the solution’ in some new form of pay. However, experience has taught us that many of the solutions in the field of pay have either not worked or led to unintended consequences. In times of economic austerity, it is more important than ever that remuneration committees set challenging hurdles and rigorous processes for determining pay.

Whether or not you sit on your remuneration committee, as chair of the board you will need to ensure that the committee sees the big picture, to ensure that the whole board retains its ‘license to operate’ and enjoys the trust of investors. Ultimately, the answer to getting pay right must be in establishing an effective remuneration committee. So rather than look for the silver bullet solution – be that deferral, claw-back or new metrics – perhaps look to create a “Moon Under Water” remuneration committee.

*Best of luck in your new role*

*George*
Letter from a Nomination Committee Chair

Identify and nurture executive talent
Dear Alex

I am delighted that you have agreed to accept the position as chair of your board. As the chair of a nomination committee – although I am a non-executive director and not also chair of the board – I can assure you that you have prevailed through a rigorous process that ended with agreement that you are what is needed to take your company forward. Beyond selection of a new chair, the role of the nomination committee is critical to the ongoing development and strengthening of the board and of the wider leadership team.

The practice of the nomination committee has changed over recent years. Traditionally the nominations committee was a little-used committee that only really saw the light of day when there was a specific need to appoint a new board member. However, over the last 10 years or so, following the failure of many organisations to anticipate or respond effectively to the global financial crisis, boards have other risks, while the importance of board composition and non-executive directors has also increased. The lack of board diversity has also come to the fore. This has led to an interesting renaissance of the nomination committee as being best positioned to take oversight of this critical area of risk and opportunity. So, in my view, the best chairs today use the NomCo in much the same way as they use the audit committee, as a critical risk oversight tool and a key part of delivering good governance.

So, leadership risk: what does that cover? The individual leaders themselves (the CEO and chair), competent and knowledgeable executives, experienced and relevant non-executives, blended into a diverse, multi-perspective board, that between them carry the characteristics that fit the circumstances of the organisation. The NomCo that I chair has identified four key elements of leadership risk that we oversee and that I would recommend you consider: CEO succession, chair succession, non-executive director succession, and executive leadership succession.
CEO succession: Obviously one of the most important tasks that a board undertakes is a change of CEO. In my experience this is too often dealt with by boards as an infrequent, transactional event, only addressed when the CEO advises the board that they are leaving, or when an unplanned event or performance issue requires the board to address it more urgently. CEO succession is better seen as an ongoing risk management process, fully integrated into broader succession plans of the company. HR has an important role to play in this process, but CEO succession must be owned by the board and the NomCo.

A board focused on leadership risk can have a view as to who the next CEOs might be, or at least of a small cadre of potentials, including both internal and external candidates. The strengths and development needs of internal candidates can be evaluated regularly, and the NomCo can ensure that there are development plans in place to support those executives in acquiring more skills, and making opportunities for those executives to have exposure to the board. In the same way that the NomCo regularly revisits the changing needs for board skills and experiences, in line with changing strategic and operational priorities, so they should also regularly reflect on the CEO profile against which internal candidates are being developed and evaluated.

Chair succession is perhaps less of an immediate issue given your appointment. Even though you may be considering several terms as chair, unexpected things happen. I would recommend that you ask your NomCo to develop a view as to which board member could stand in as chair if you were unable to do so.

Non-executive director succession: The best chairs I have worked with have an ongoing perspective of the composition of their boards, and work to keep that perspective current and in line with the strategy. The NomCo should regularly reflect on the changing strategic, organisational and operational issues facing the company; consider the challenges and opportunities that management will be facing and hence the questions, decisions or problems that they will be bringing to the board. With this insight they can develop a sense of the skills and experiences that should be sitting around the boardroom table to ensure that the board is best able to support, challenge and advise management. By comparing this model to the skills and experiences of the current board, gaps will then emerge. Depending on the importance of these gaps they can be managed either by adding a director, or through the normal rotation of directors as they reach the end of their terms. Some boards have developed this approach into a strategic process; creating a 'Board Roadmap', regularly updated to reflect changing priorities, which identifies the ideal experience profiles of directors that will be brought onto the board in line with planned rotations over the next six years. I have found throughout my board career that diversity of experience and perspective is hugely beneficial to overall board effectiveness. Any suggestion that diversity just means adding more women to boards must be resisted; boards should be composed of people with a mix of different characteristics and attributes for the chair to draw upon. Many of course will be women.
Think broadly! Think about who is best placed to bring the voice of the workforce into the boardroom. Is there a role for a workforce director or is it something for an existing director to get hold of? Are there technologists on the board? Are board members climate competent? Try not to be constrained by tradition and the way things have always been done. Executive leadership succession: One of the key changes I have witnessed over the last few years is that boards have taken a far greater interest in succession planning and executive development for the entire executive.

It is a hallmark of a competent CEO that they identify and nurture executive talent, and the NomCo can support the development of internal candidates for senior executive positions, and oversee the processes for sizing up talent within the organisation. This is a clear consequence of the leadership risk point I have mentioned above and reflects boards’ concerns that senior executives did not have the appropriate experiences or skills to deal with a crisis. Traditionally, the board has tended to look at the succession planning charts provided by the HR team, noted lots of green boxes, indicating that there are succession candidates in place for each critical role, and moved on. Today, however, NomCo scrutiny is more rigorous, and deeper insight is demanded from the internal talent management organisation to back-up succession options, to show multiple alternatives, to explain how key executives are being developed and why, and to prove that the overall leadership development agenda for the company is fully aligned to the corporate strategy. This is becoming ever more important as business becomes more complex, supply chains increasingly dynamic and frontline talent vital to the organisation. The board must ensure that the company develops a strong, sustainable and diverse pipeline of talent.

All in all then, a busy and complex agenda for the nomination committee is emerging. Mitigating leadership risk involves constant review of the existing team against the ideal mix of skills and competencies for the current circumstances of the organisation. Gaps appear when individuals must be replaced, or when the scope and diversity of the board as a whole becomes inadequate. Constant review of potential successors to the existing team, particularly CEO and chair, and the next additional board member, involves maintaining profiles of the characteristics required and an awareness of potential candidates. So as chair you should expect your NomCo to keep you and your board aware of leadership and talent development issues, to explore the risks, and when gaps appear, to be ready to act.

I hope that this has been a helpful “ramble” and I wish you luck in your new role.

Best wishes
Charlie
Letter from a

Risk Committee Chair

Review, assess, integrate and manage
Management of risk is a very hot topic, and I’d love to give you some food for thought on the role of the risk committee, or how to approach risk without one.

Whilst there is no doubt that consideration of risk should be a major feature of board discussions, whether or not there should be a separate risk committee remains debatable, and varies by sector. In the regulated financial services sector in which I serve, it is becoming a mandatory requirement to ensure that greater attention is paid to financial risk, that risk professionals have a more prominent voice in operational decisions and a greater influence in strategic planning.

But, consideration of risk is inherent in every business and strategic decision, and the board is responsible for them all. As chair, you need to decide how the board should tackle risk, and lead a suitable risk-tolerant culture throughout the enterprise. Do you need specialist risk managers in the business, or rely on the executive cadre? Do you examine how strategies and investment proposals could go wrong with the same intensity as the executive proposes they go right? Is the culture of the organisation aligned with its strategies? Do you identify things that could go wrong beyond the horizon of management reports. Geopolitics, culture, conduct and AI? The value the board can bring to decisions is that the board is unconstrained by executive confidence in the stability of the technology and market assumptions surrounding current business operations, and can separate tactical risk control from strategic awareness of external trends and unlikely events.

At an early stage in your time as chair, I recommend that you review how the enterprise assesses, integrates and manages risk in all its forms, how best the board can oversee decision making processes and practices, and how the board should engage in considerations of strategic risk. What should come to the board through executive reporting, and what discussions should your board initiate? Then you should decide whether you should have a dedicated risk committee – maybe a single issue risks committee like a Brexit committee or a technology committee – or whether and how the risk oversight should be dealt with by the board and audit committee. It is fundamental that the board as a whole determines its appetite for risk, both in operations and in strategic direction, and judges executive proposals accordingly. The board needs to think beyond the management’s risk registers to develop a strategic view of investment opportunities and identify the kinds of external pressures which could damage them, and to have a Plan B so that reputational damage following some unforeseen catastrophe can be contained.

Risk assessment is such an important component of decision-making that you personally have to take the lead in ensuring that your company and your board embeds the discipline in its behaviour.

With best wishes

Bobbie
Letter from an
Institutional Investor

Environmental, social and governance issues

matter
The chair embodies the culture, tone and performance of the business

Look to demonstrate resilience, long-term thinking and how the company contributes to society

Investors want to see a strong chair who has a constructive and balanced relationship with the CEO

Long-term investors seek a longer term view of the company’s condition and prospects

Interactions with the board provide a glimpse into the mind of the organisation

Dear Alex

Congratulations on your new appointment. As you’ll be aware, the role of chair is a key for investors. Increasingly, we are scrutinising such appointments closely because the individual occupying that position has such a significant impact on the culture, tone and indeed performance of the business. In recent times, the responsibilities of shareholders have also been under the spotlight, and as a result pressure put on investors as the primary stakeholders to exercise influence over the companies in which they invest. The key is to monitor the skills and competence of chairs, CEOs and directors, and support them in their value-creating efforts, vote them out in good time when things go awry, rather than standing by and watching them destroy value. Areas of concern include short-termism, excessive or misaligned remuneration, and general lack of confidence in the effectiveness of corporate leadership. There is increasing pressure on the institutional investors, demonstrated in the Stewardship Code, to be more active in making their perspectives known, engaging with companies in their portfolios and using their votes responsibly.

Institutional investors have different perspectives themselves. Many of them are corporates in the financial services sector, and not immune from the same shortcomings that they observe in their investment portfolios. All are concerned with the value of their investments, but their ways of harvesting gains in this value range from active strategies such as spotting restructuring opportunities or being long-term equity supporters, or more passive strategies such as investing in funds that track an index. Each of these deserves a different approach to the relationship, and each is acting for its own client base. Each is concerned with delivering gains to their clients’ income or capital. Some have separate governance departments whose teams may not even interact with the fund managers. Others are more integrated and ensure that they take a joined up approach to the companies in which their clients invest. From your perspective, the second model is easier to deal with. The majority of time investors spend assessing any company is focused on analysing the numbers and examining its performance. The reality is that most of your company’s conversations with investors and analysts will be with your CEO and CFO whenever quarterly or annual results are published. This tends to reinforce the short-term nature of financial analysis and media exposure.
As long-term investors we believe we have a responsibility, not just to our clients, but to society as a whole. We would like a much longer-term view of the company’s condition and prospects, an idea of what it stands for, and the scope of its ambitions. Environmental, social and governance (ESG) issues matter as they impact the long-term value of our clients. Conversations and interactions with the board on such topics would be highly desirable. They provide the context and the colour for the short-term data and provide a glimpse into the controlling mind of the organisation. This is where I would venture to give you advice as chair: to welcome and organise engagement of this sort, to establish and lead direct relationships with your key investors, and to put current performance into its long-term context. We are (very) actively-interested observers, often with a wealth of experience and expertise in our given sector, and you can use engagement as a way of understanding how the market sees your company. It is an encouraging sign to see the chair being receptive to outside ideas about the company’s performance, and not just focussing on internal perception and information.

There is scope for you to take the initiative. I tend to seek direct contact with the chair of an investee company when I have concerns about an aspect of a company’s performance. This may be related to strategy, capital structure, governance or risk management. However, there are always many interesting topics to discuss with a chair and so more regular contact would be welcomed, not least because this would help us to understand the company in a broader and better balanced sense. When and if an issue did arise, a communicating relationship would already exist which can only be an advantage on both sides.

Understanding the future direction of the company and the scope for added value is one thing, and believing it is in good hands is another. Both are important. I think the role of the chair is more important now than it has ever been. As an investor, I want to see a strong chair who has a constructive and balanced relationship with the CEO. But these distinct roles should never be confused. The chair must be able to run an effective board that strongly supports the executive management team but stands up to them and challenges them appropriately, and projects externally the high level strategy and culture of the company. Without direct access to the boardroom it is extremely difficult for me as an outsider to know about the quality of the conversations you are having – how well decisions are being shaped and challenged, choices and proposals interrogated and stress-tested – and I am therefore reliant on a few symptoms to try and help me diagnose the leadership and be confident of the health of the company.
Far better, in my view, would be direct discussions with you as chair that included such topics. On my wish list would be all the things that make a board effective: the state of your relationship with the CEO, outcomes of board evaluations, any symptoms of imbalance or dysfunction in the board – the emergence of overbearing personalities is always a red flag. I want to feel confident that you have a highly competent board, and for that board to be able to deal with the turbulent business environment. I will leave it to you to judge the characters you have around the boardroom table, but if you do not think you have the right skills and balance of voices around the table then I would urge you to be decisive and take corrective action. With that confidence in place, we would always back your judgement in voting for directors at your AGM. I would advise you to remember that the CEO, or any board member for that matter, is never irreplaceable. You will need to have a viable succession plan in place for all, no matter how uncomfortable discussions around this can make people, or you will always be on the back foot if a member of your team no longer fits the role and will have a weaker negotiating position when it comes to remuneration.

I can’t tell you exactly what your investors will expect from you, but I do know that their demands and expectations will be shaped by their view of the business. If you have inherited a company in a steady state we would look for a chair with motivating and team building skills, if there are crises to solve we would expect action. Finally, I would also advise you to be wary of the common misperception that fund managers are only interested in short-term results. Most will actually look at the long-term because what they really want is a company that will grow in value and survive the difficult times. I urge you to initiate regular conversations with your key investors as this will help build mutual confidence. Anyway, I am quite sure that you are being overwhelmed with well-meaning advice, and my voice may be adding to the confusion! Good luck in the new role, I am quite sure from all Ronnie has told me about you that you will do a fine job and your inquisitive nature will serve you well.

Kind regards
Sidney
Tomorrow’s Company

Tomorrow’s Company is an independent not-for-profit think tank that exists to inspire and enable companies to be a force for good in society. We believe business can create more value for shareholders and society by adopting an approach that focuses on purpose, values, relationships and the long-term, and that businesses must collaborate with civil society and government to be a force for good. We convene businesses, investors, policymakers, civil society and NGOs to develop practical solutions to social problems. Tomorrow’s Company was founded in 1996, following the RSA inquiry into the role of business in a changing world. For more information, or to get involved, please see our website, www.tomorrowscompany.com

KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors whether managing a portfolio career or embarking on a first appointment. Through an array of programs and perspectives – including KPMG’s Audit Committee Institute, our Senior Business Women’s Network, KPMG Connect on Board, and more – the Board Leadership Centre engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public and private company governance. Drawing on insights from business leaders, KPMG professionals and governance experts worldwide, the Board Leadership Centre provides peer-to-peer exchanges, networking opportunities and practical thought leadership – on risk and strategy, talent and technology, globalisation and compliance, financial reporting and audit quality, and more – all through a board lens. For more information, or to get involved, please visit our website, www.kpmg.com/uk/blc

Acknowledgements

This second incarnation of the letters was first conceived and developed by the Good Governance Forum. The forum formed in 2010 to address concerns at the time regarding corporate governance – to explore what good governance meant and to make practical recommendations. Our thanks go to all those participating in the forum for their role in developing these letters and the perspectives that underpin them as well as all the chairs, CEOs, non-executive directors and others who shared their views and experience with those writing the publication.

We would also like to thank our respective teams at KPMG and Tomorrow’s Company, particularly Timothy Copnell, Krishna Grenville-Goble and Francesca Fitzgerald.

Relevant publications from KPMG’s Board Leadership Centre:

2. Getting the right CEO: 10 questions for boards (2018)
5. Succession planning and the nomination committee (2018)
7. Leadership: 10 questions for boards (2018)

Relevant publications from Tomorrow’s Company:

1. A Question of Investment: Have we stopped taking the plunge? (2010)
2. The Courage of their Convictions: How purposeful companies can prosper in an uncertain world (2010)
4. NEDs – Monitors to Partners (2017)
5. Governing Culture: Risk and Opportunity? (2016)
6. Tomorrow’s Stewardship: Why stewardship matters (2011)
7. Tomorrow’s Corporate Governance (2010)
8. Bridging the UK engagement gap through Swedish-style nomination committees (2010)