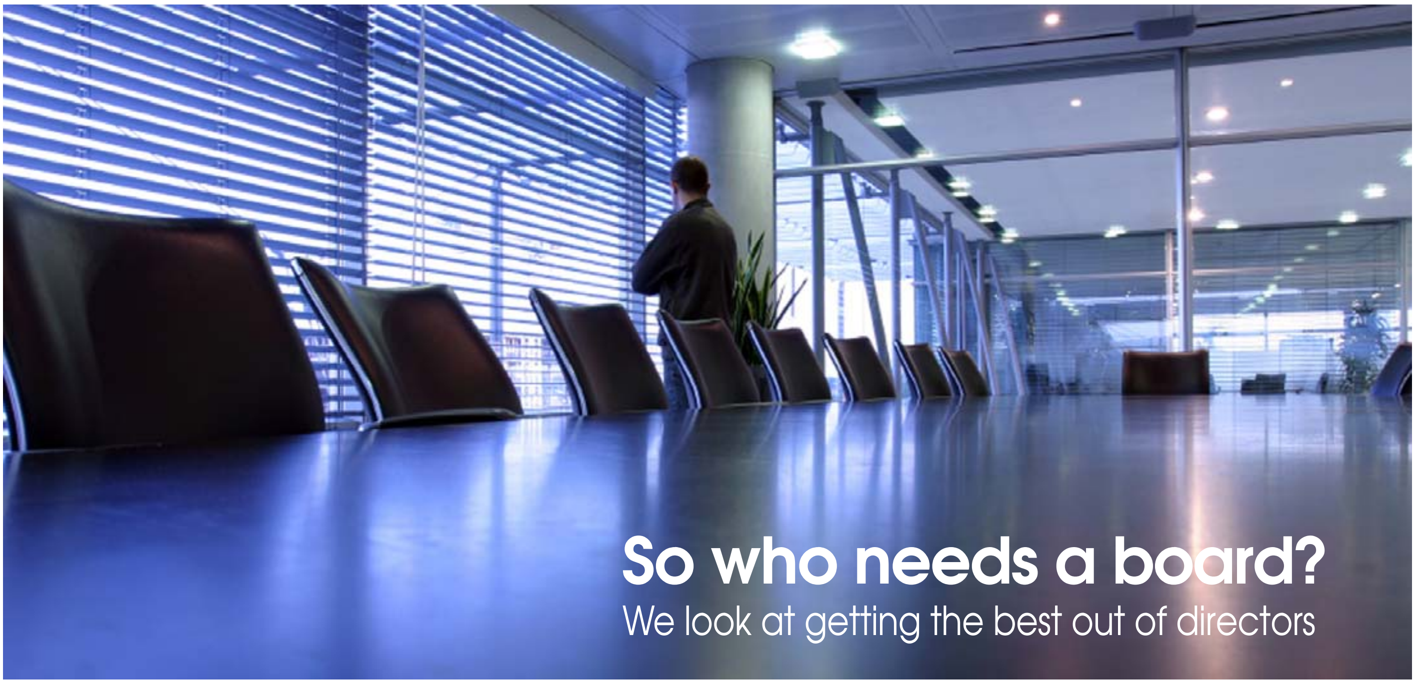

# So who needs a board?

We look at getting the best out of directors

**If the old adage that a camel is a horse designed by a committee were even half true, it could properly be inferred that the more diverse the decision-making and consultation process within an organisation, the greater the likelihood of over-complicating the situation and ending up with a 'solution' that is far from the one required.**

It would follow that the only effective way of avoiding the worst excesses of rule by committee is to run every business as an autocracy; one omniscient and omnipotent leader dispensing distilled wisdom to a management team comprised entirely of ciphers.

That may work for a sweetshop in Penge, but increase the scale and scope of the business, and it is probably heading for serious problems. Most businesses benefit from access to multiple views on how they should be run.

The vehicle recognised both in law and good business practice for key elements of decision-making is, of course, the board of directors, which exercises stewardship of the company's assets on behalf of the shareholders.

Successive Companies Acts in the UK have fine-tuned the legal duties of the directors who constitute that board. Gone are the days when a high-born worthy or an MP in need of a supplementary income would be paid a few thousand pounds a year to have their name adorn the company's letterhead.

The limit of their involvement would probably be a quarterly meeting, tickets for Centre Court at Wimbledon and a request from the company chairman that they use their overflowing contact book to promote the interests of the business.

Whatever the changes might have been on the board room stage, however, the contact book is still seen as a valuable contribution that a director brings to the table.

## Emphasis on directors' reponsibility

Anyone signing up to become a director today under the Companies Act – or indeed taking actions which a reasonable person would believe were those of a director - has

**The quality of the decisions made by a company's board is as important to the smaller enterprise as it is to multi-nationals whch have their shares listed on one or more international stock exchanges**

corporate and personal, criminal and financial liability for the affairs of the company if it were considered that they have acted improperly. So far as the law is concerned, both executive and non-executive directors equally, of any size business, have their reputation, liability and ultimately their freedom on the line.

## Bringing the best out of a board

Given the downside of directorship, it is a role which no-one should take up lightly. But, having done so, there remains the question of whether the board is merely ticking over on the right side of the law, or bringing the very best of the collected talents around the table to bear on the company's prospects.

The quality of company directorship is as important to the SME – in some ways more so – than it is to the multi-national with its shares listed on one or more international exchanges.

For companies to secure that listed status today, they must demonstrate that they pursue 'best practice' and conform, or comply or explain to increasingly tough Codes of Practice.

These set out requirements which include limits on the minimum proportion of non-executive directors; the maximum number of such appointments that each non-exec may hold, and the time for which they can serve on the board (on the grounds that a director is likely to have 'gone native' after 6 years and can no longer be treated as independent).

## Good practice at all levels

While the UK's Corporate Governance Code formally only applies to listed public companies it is a good practice model which adds value to all business.

The principles can be implemented as appropriate, having regard to the size and nature of the business involved. Directorship has moved far away from the territory of the 'gentleman amateur' into the domain of the professionals.

In the same way that all of the disciplines now have their defining professional qualification – Chartered Engineer and Chartered Accountant, for example – company directorship has its status of Chartered Director (CDir) under the auspices of The Institute of Directors.

**The Corporate Governance Code establishes a best practice model which adds value to all business. It can be implemented as appropriate, having regard to the size and nature of the business involved.**

# How far can the **quality** of decision-making by boards be **improved** by regular **evaluation and mentoring**?

Having considered the ground rules for directing companies, we focus on **Genius Methods**, a UK organisation whose objective is to make company boards of all sizes more effective

It was encouraging to encounter a specialist operation whose primary objective is to improve the quality of board management through services which include the evaluation and mentoring of company boards. Genius Methods is a UK company which appears to start off with the right credentials: its chairman and CEO are both Chartered Directors; two of fewer than a thousand people holding that status in the UK.

These two directors alone bring to the boards they advise some fifty years' experience of directorship; a large part of that in publicly quoted companies and multinationals.

All of this company's activities are directed at raising the effectiveness of business; most are through supporting effective business operations including compliance with legislative and performance standards.

## Clear objectives

Chairman Alan Hindley (*opposite*) provided a succinct description of what Genius Methods sets out to achieve when it is invited to work with a client on board evaluation. "Our objective is to hold a mirror to the board so that it can evaluate itself and determine the differences between what it is actually doing and what it would like to or should be doing."

Taking that statement at face value, there is an implied pursuit of quality within the client board's activities as a result of this exercise. Taking that first step of evaluating itself is the first step towards continuous improvement.

There needs to be the balance between the company's objectives and the risk that these might be running counter to the interests of stakeholders; this is something that an external evaluation will unearth effectively.

A self or internal-only evaluation could still appear to pass muster on Hindley's criterion. That is the reason why the new corporate governance code, the Walker review and many other codes now require external input to the exercise at three yearly or similar intervals.

## Every business is different

Closer scrutiny, however, indicates that Genius Methods performs that review against a model of best practice while recognising that every company operates in a different way in terms of roles and responsibilities and different cultures.

"Our objective is to hold a mirror to the board so that it can evaluate itself and determine the differences between what it is actually doing and what it would like to or should be doing."

*Alan Hindley, Chairman, Genius Methods*

As chairman Alan Hindley noted, "We are at pains not to go in and tell people how to run or evaluate their board. We explore with our customer their objectives and ways of working as a team leading the organisation and within that framework we help them see how they can improve on what is happening in practice. Our experience shows that there is more often than not a major difference between the two."

Hindley gave an insight into what motivated him to join the company's board when the opportunity arose back in 2007: it was a defining moment that clearly coloured his thinking on how best a strategic consultancy could add value to a customer's operations.

He referred to a time in 2003 when he was preparing for the *viva voce* examination which forms part of the admission process for Chartered Director, alongside an academic examination.

## Justifying role as director

Candidates have to provide an explanation of their experience in all facets of their experience of directorship from relating to stakeholders to mission, values and developing strategic plans. All aspects have an effect on the contribution made.

Alan Hindley gave a frank assessment of his own experience. "Having been through that process, I looked at my twenty five years at board level and had a sense of disappointment. None of the boards on which I had sat had been working at anything approaching full effectiveness.

"At any one time, you would have been lucky to find even three or four brains in gear - no matter how many people were around the table. I believe that this was because directors by and large did not understand that they were meant to be operating as a team."

A closer look at company boards usually reveals a group of highly intelligent people but who are in practice strangers who meet each other infrequently and often question whether they can be taught anything.

Due to the required slant of non-execs, many do not share the culture of the operating company but act more as a remote umbrella quite separate from the business, making the key strategic decisions which will impact management and direction directly.

A closer look at company boards usually reveals a group of highly intelligent people but who are in practice strangers who meet each other infrequently and often question whether they can be taught anything. Many do not share the culture of the operating company but act more as a remote umbrella quite separate from the business,

It is the chairman's role to develop a communication and engagement strategy where every facet of the problem is considered and everyone is brought into the debate. Genius Methods' chairman noted that it is not easy, but very rewarding to see these advancements developing in the boardroom.

# Avoiding grey characters around the board table

More serious, perhaps, is that non-executive directors are often appointed, particularly in non FTSE boards, because they can bring customers, will not 'make a noise', are make-weights to get the numbers up or - primarily - because they have invested in the company. The result is that the non-exec is not independent. This has a serious impact on compliance with Codes.

## Dynamics may change with size

A generic observation, perhaps, but true even of the largest entities where it is taken as read that companies have only reached that exalted status because their boards are driving the business effectively.

Hindley accepts that there may be different dynamics in play depending on the nature of ownership.

In a publicly listed company with a widely dispersed private shareholding, there will probably be a high proportion of non-executive directors. This contrasts with companies where a single institutional or other mature shareholder accounted for a large stake in the business, putting at risk the balance of shareholders who are in minority.

The Genius Methods chairman again: "Very few company boards are run as a team sharing a common purpose for a number of reasons, one being that most chairmen have never been trained in that role and arrive there through the executive route of that business, or following appointment from one of the majority shareholding interests.

"It is a responsible job to lead the team and the business, it is not purely a stroke to the ego to be 'chosen' to be a chairman. The correct route to chairmanship is through a transparent nomination process that finds the best person to lead the team. Experience as a board member in a non-exec role is very valuable to being a good chairman: experience of working with other chairmen is one of the best schools.

"The internal executive route to that appointment is not ideal because many of the reasons which make a CEO successful do not apply to chairmanship. The point of a CEO is to be an executive, which is about firing on all cylinders and reaching the top of the business having delivered against target. Swapping hats within that common space is not easy for the individual or the executive team."

## Routes to chairmanship

A premise which influences Genius Methods' evaluation task is that former CEOs taking on the mantle of chairmanship are not necessarily skilled at bringing forward board members who may be quiet or low reactors, perhaps, or those who are 'not in their own image'. Understanding how to get the best out of the members of a board is absolutely crucial when there may be seven to ten individuals; all with a potential contribution to make.

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Very few company boards are run as a team sharing a common purpose for a number of reasons, one being because most chairmen have never been trained in that role and arrive there through the executive route of that business, or following appointment from one of the majority shareholding interests.

Setting goals and measures for the board members is the precursor of the chairman managing that team. Hindley takes it as read that those parameters are different for the chairman and the CEO function.

In situations where there is a combined appointment, a separate job specification is required for the two roles. "It follows that where there are directors with executive responsibilities within the company, there should be separate specs for the executive and board membership roles.

"The first challenge we face is to get boards thinking about how they should be operating. A MBA teaches management, a Chartered Director qualification teaches strategic direction. Not a concept easily grasped."

## More frequent review needed

It would be reasonable to question why boards do not review their own activities more frequently. Could the reluctance be down to a lack of leadership and awareness on the part of the person who is leading the board?

Whatever the factors which apply in any particular situation, there is a growing body of opinion within management research that better governed companies achieve better results.

If board chairmen are such pivotal characters in the success of a business, should they be better incentivised – with a large share option package or performance payments?

Alan Hindley was not hedging his bets when he commented that it depends on the company: there are factors which influence the response either way. "One scenario is where funds have been raised from the public or a number of smaller shareholders."

If the chairman has a significant stake, some decisions could be taken which are less than favourable to the minority holders. A rights issue might be one instance, with the chairman taking up additional shares on which the smaller shareholders might be inclined to pass.

"It is essential that every shareholder who is in a position to benefit has equal access to information on which the decision to invest or dispose can be based. A director without a stake would have nothing to gain personally and would demonstrably be acting in the greater interests of all the shareholders."

## Adding real value?

The Genius Methods team could never be faulted on its understanding of best practice, the formal Codes of Practice, company law and current management thinking. But does Genius Methods add anything that a half-savvy board could not find in the pages of a £25 management primer on the shelf at Waterstones?

Is the business unique or - as a cautious observer might prefer - highly distinctive in its approach, which adds value?

The view from within Genius Methods is that its approach is significantly different from either textbook or competitive solutions on a number of levels.

The first is that the consultancy undertakes what Hindley described as a 'fact find'. "We talk to the chairman, the company secretary and possibly the Senior Independent Director before arriving at a tailored questionnaire that is applicable to that board, the company and the industry. Whatever that angle or focus, it still conforms to the pursuit of best practice in all respects."

## Confidential and anonymous

All of the directors submit their responses to the questionnaire: as the process is online with confidential passwords anonymity is preserved.

The quantitative and qualitative results and recommendations are shared with the

# Questionnaire sets the scene for evaluation

"The board questionnaire defines whether there are areas of non-compatibility or a lack of synchronisation of thought. It asks whether there is an elephant in the room. But it is not about finding a director to sack. It is directly about supporting the development of a cohesive team. Online tailored questionnaires help prioritise the key areas of focus."

*Below: An online analysis of the results from the questionnaire created by Genius Methods for a client.*

*Opposite: A visually effective display of the findings from a management survey.*

chairman or 'champion'. All comments that are provided by the directors are in précis format so that no-one can be identified or place anyone at personal risk.

## Can responses be credible?

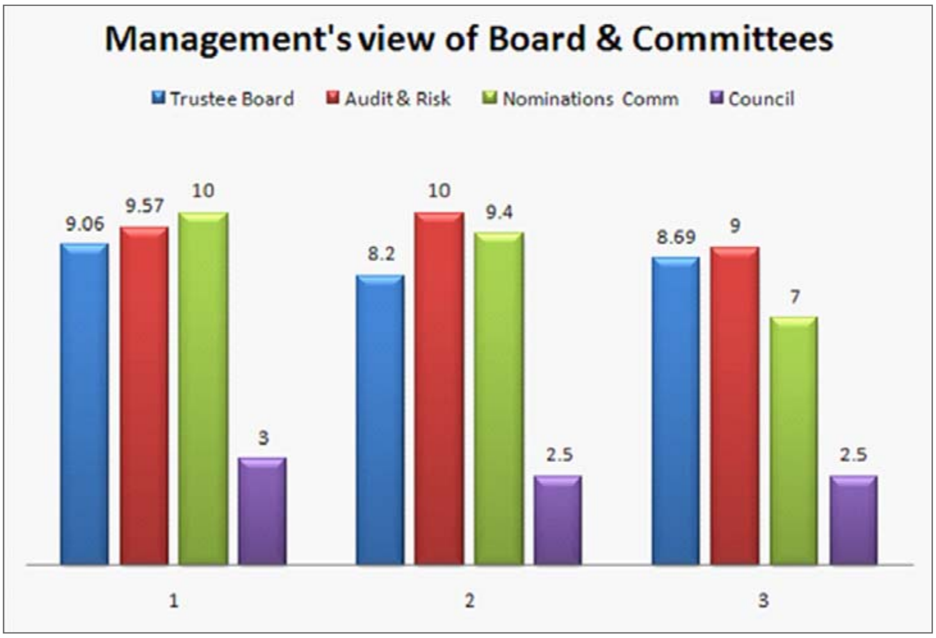
Aware that fellow directors have vested interests in maintaining their fees and salaries – and would doubt whether 'anonymous' surveys are anything of the kind - a cynical view would be that the responses are tailored to what the chairman expects them to say.

Does the questionnaire generate little more than a self-fulfilling prophecy?

Hindley again: "It defines whether there are areas of non-compatibility or a lack of synchronisation of thought. It asks whether there is an elephant in the room. But it is not about sacking a director. It is directly about supporting the development of a cohesive team"

The Genius Methods' chairman maintains that the online tailored questionnaires help prioritise the key areas of focus. "We have found that this step figures out the areas that are working and those that need work which set the scene for one-to-one discussions

| Sub-headings and Questions | Primary Group - 6 Directors | | | | Rating | Notes |
|---|---|---|---|---|---|---|
| | Lowest | Highest | Average | Closest Answer | | |
| **Advisers - A** | 7.45 | 9.64 | 8.73 | | | These Advisers have scored reasonably well |
| 1. In general, I feel they are value for money | 8.00 | 10.00 | 8.67 | Agree | | The Advisers have rated well but certain answers indicate that there is room for improvement.<br>The standard of the advice has been questioned. This needs to be discussed, is it time, quality, portfolio, market, knowledge etc that has driven this viewpoint.<br>There is definitely concern about the Advisers being proactive. This needs to be debated and dealt with directly with them.<br>The communication is not of a high enough standard, this needs to be considered as to whether is is frequency, method, content or something else that needs to be addressed. |
| 2. The actuarial consulting is of a high standard | 8.00 | 10.00 | 9.00 | Agree | | |
| 3. The investment advice is of a high standard | 6.00 | 8.00 | 7.67 | Agree | M | |
| 4. The administration is of a high standard | 8.00 | 8.00 | 8.00 | Agree | | |
| 5. There is a good relationship with the board | 10.00 | 10.00 | 10.00 | Fully Agree | | |
| 6. I feel confidence in their advice and management | 8.00 | 10.00 | 8.67 | Agree | | |
| 7. I am satisfied of their independence | 8.00 | 10.00 | 9.00 | Agree | | |
| 8. They are professional in all they do | 8.00 | 10.00 | 9.00 | Agree | | |
| 9. They are proactive in bringing new opportunities to the board | 4.00 | 10.00 | 7.33 | Agree | M | |
| 10. Communication between adviser and company is good (e.g. HR) | 6.00 | 10.00 | 9.00 | Agree | | |
| 11. The board feels valued as a client | 8.00 | 10.00 | 9.67 | Fully Agree | | |
| **Advisers - B** | 1.00 | 9.00 | 3.92 | | | A real problem that needs to be addressed urgently |
| 1. In general I feel they are value for money | 1.00 | 10.00 | 4.67 | Do Not Agree | H | This problem was present last year - this needs to be top of the Agenda going forward.<br>The results are skewed by half the directors not having knowledge (time v induction is only part of the reason - this needs to be addressed as a critical issue).<br>Similarly the high results are from one director and the rest indicate low results. These high ranges and low results are reason for concern. |
| 2. They communicate effectively with us | 1.00 | 10.00 | 4.67 | Do Not Agree | H | |
| 3. They are proactive in bringing new opportunities to the board | 1.00 | 8.00 | 3.17 | Do Not Agree | H | |
| 4. The board feels valued as a client | 1.00 | 8.00 | 3.17 | Do Not Agree | H | |
| **Other strategic matters** | 6.80 | 9.20 | 8.20 | | | Result is reasonable - review of commentary may give further information |




(when they occur) with the directors where only the key priority areas are addressed, saving time for quality input. "

## Best method tried so far

There is probably no perfect method but, he maintains, this is robust, transparent and is the best one tried so far.

"The biggest misunderstanding within boards is that they can conduct a wholly independent analysis internally without reference to outside input and a fresh, objective view.

"Maybe this is why there is such a prevalence of scepticism towards board evaluations. The most effective board evaluations cannot be conducted internally."

Hindley maintains that the key is the progressive approach, where one in three years is external and the other two years, based on the framework of the external year, are run as an internal exercise but on the online confidential platform of Genius Methods.

## Evidence of improvement?

Accepting that argument, are there any grounds for believing that a company will perform more effectively because the board has been through an evaluation? The Genius Methods team points to definitive evidence from a number of sources, including citing an example where the customer's chairman was not in favour of the anonymous input.

"He did decide reluctantly to give it a try. He saw the value immediately. The second time around showed even greater value as the directors had the confidence that it had genuinely been confidential and therefore contributed wholeheartedly and enthusiastically in providing input and value for the board's development."

## Returning client base

In his time as Genius Methods' chairman, Alan Hindley can recall companies coming back for their second evaluation, often taking the external questionnaire year on year. It is a track record that he views with caution. "Best practice would recommend the balance of continuity and fresh input."

Genius Methods can support this with a team of 30 associates who can be drawn upon depending on the focus and style of evaluation needed: this ensures the correct focus. Genius Methods also supports firms who may be its competitors in other fields; those organisations handle the interview portion with Genius Methods providing the questionnaire and robust framework.

## Positioning Genius Methods

Genius Methods is certainly distinctive; probably unique. It rolls out its business model directly to clients and in partnership with competitors and board development consultancies.

The company works with some of the big four accountancy and search firms supporting their ability to provide the service in a non-conflicted way.

Linking with a person or firm that has a more comprehensive knowledge of the client can add additional focus to the questionnaire. When there is no intermediary, Genius Methods can call upon expertise from specialists in the UK and overseas to identify the industry issues and validate the questionnaire.

The company's approach to board evaluation has evolved over the years; using its own technology and adapting as more insight is gained to an increasingly complex environment.

It does not claim divine inspiration to resolve the shortcomings of every business at Companies House. But if the discipline that it instils into boards can be implemented, the chances are that there will be more racehorses and fewer camels on the corporate scene. §

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*This editorial assessment of Genius Methods Ltd is published by The Informed Executive.*
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