10. Beyond the boardroom

Boardroom Best Practice

IN THIS CHAPTER

EXECUTIVE SUMMARY

- Trust in business, for now and in the foreseeable future, will have to be consistently and continuously earned and re-earned.
- Boards should acknowledge the social contract whereby their licence to pursue profit is conditional upon their not causing social harm.
- Boards should understand what the current culture is, how well it is aligned with strategy, how far it falls short of an ideal and how it features in succession plans and executive evaluation.
- Companies should offer a coherent and full explanation of their governance approach, their purpose and their relationship with society and approach to sustainability.

10.1 Corporate trust

One could point to numerous recent cases of corporate malfeasance that have fuelled cynicism and mistrust of business in the public mind.

This undermining of the pillars of business and the institutions that sustain them, both political and regulatory, is a challenge to boards of directors.

If confidence and belief in business is currently being withheld it will only be extended again in return for a clear demonstration that business is worthy of public confidence and belief. Trust in business has to be consistently and continuously earned and re-earned.

Underlying this failure of trust are concerns about the consequences of globalisation, executive remuneration, the commitment to sustainability and to the societies in which companies operate, and a clamour for greater transparency.

So, on the one hand society questions the long-term commitment of corporations; on the other, boards have to satisfy the short-term demands of the markets to which they are answerable.

This is the challenging context in which boards must operate.

10.2 Social impact

Companies cannot be judged in isolation — they exist only as part of a social framework and they will survive only for as long as they retain the confidence and trust of the societies in which they operate.

Companies will thrive if they acknowledge a social contract whereby their licence to pursue profit is conditional upon their not causing societal harm. Consequently, the informed board of directors will take responsibility for, and have oversight of, the company's social impact.

In this it will have to be conscious of the views of government, non-governmental organisations and other stakeholders well beyond the traditional list of boardroom priorities.

Boards of directors are today expected to understand the consequences of corporate action and to be able to articulate the benefits of corporate activity outside those accruing to shareholders. We are now in the world of the social audit, which is permanent and ongoing.

The proper discharge of corporate responsibilities should be pursued in an ethical and socially aware manner whilst ensuring a profitable return for investors and equitable treatment of all stakeholders. It is the kind of challenge a good board will relish.

10.3 Overseeing company culture

Boards can help to foster long-term shareholder value by deepening their understanding of their company's culture, placing it on the board agenda and ensuring management is forging a culture aligned with the business strategy.

A company's culture can make or break even the most insightful strategy or the most experienced executives. Effective cultural patterns can produce innovation, growth, market leadership, ethical behaviour and customer satisfaction. On the other hand, a damaged culture can impede strategic outcomes, erode business performance, diminish customer satisfaction and loyalty, and discourage employee engagement.

We have found the following questions to be powerful in helping directors better understand culture and ensure the company is on the right path.

What is the current culture of the organisation?
Culture is the culmination of the shared values, beliefs and assumptions that shape the behaviour of the organisation. These "unwritten rules" guide the thousands of decisions employees throughout the company make every day. Boards should ask: What are those unwritten rules that everyone just knows but can't necessarily articulate clearly?

How well-aligned is our corporate culture with our strategy?
A high-performing organisation with a strong alignment between culture and strategy produces better financial growth and employee engagement. Boards should ask: What organisational behaviours are required to achieve our strategy?

What is the difference between our current and ideal corporate culture?
Effective leaders can describe both the culture as it currently exists and the culture to which the organisation aspires. This ability is sometimes called "cultural fluency," and it is a critical skill for leading on culture. Boards should ask: What cultural impediments do we face and how will we overcome them?

How do we consider culture in our succession plans?
Culture evolves over time. Boards will want to understand how talent management systems, employee evaluations and executive recruiting are likely to shape the future culture of the company. Directors should ask, to what extent do individuals' leadership

styles contribute to the culture we strive to achieve?

Where on the board agenda should we put questions about culture?
Given their current demands, boards are unlikely to tackle questions about company culture unless the issue is explicitly part of the agenda. So where on the annual board calendar should culture fall?

By placing culture on the board agenda and asking the right questions, boards can help to ensure that culture supports business strategy, while preserving the boundary between governance and management.

10.4 Defining the company's purpose

Boards would be well advised to tackle this issue before regulators create a framework for them to do so.

Recent governance debate in Europe has raised questions both as to the level and scope of reporting of general activity and explanations of specific governance compliance.

In our experience, the market is increasingly looking for a statement from the chairman and the board about how the company is being run and what its long-term ambitions are. Some regulatory regimes require that reports to shareholders and others should contain this overview as part of the board and management commentaries. This seems to be a good trend: it demonstrates that the board has thought about the issue of the company's significance to society as a whole.

Just as deeper and better explanation of a company's general purpose is now required, so too is a closer explanation of adherence to corporate governance precepts and best practice.

Explanations should be specific to the company's position and not generic or off the shelf.

The European Commission's original intention of making corporate governance statements "regulated information" is in abeyance. There is still a possibility that regulators, rather than shareholders, might eventually have the task of deciding whether an explanation for non-compliance is sufficiently complete.

In our experience, companies that offer a coherent and full explanation of their corporate governance approach are more likely to find their explanation is readily accepted when they do choose to deviate from a particular provision.

Conclusion

As we said at the start of this document, few endeavours are more fulfilling than serving as a director on a board alongside committed and stimulating colleagues. The responsibilities of directors will only increase, along with the significance of their role. There is no better place to be than at the centre of events and we trust that this overview of best practice in the boardroom will help the reader make a telling contribution to the success of his or her enterprise.

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