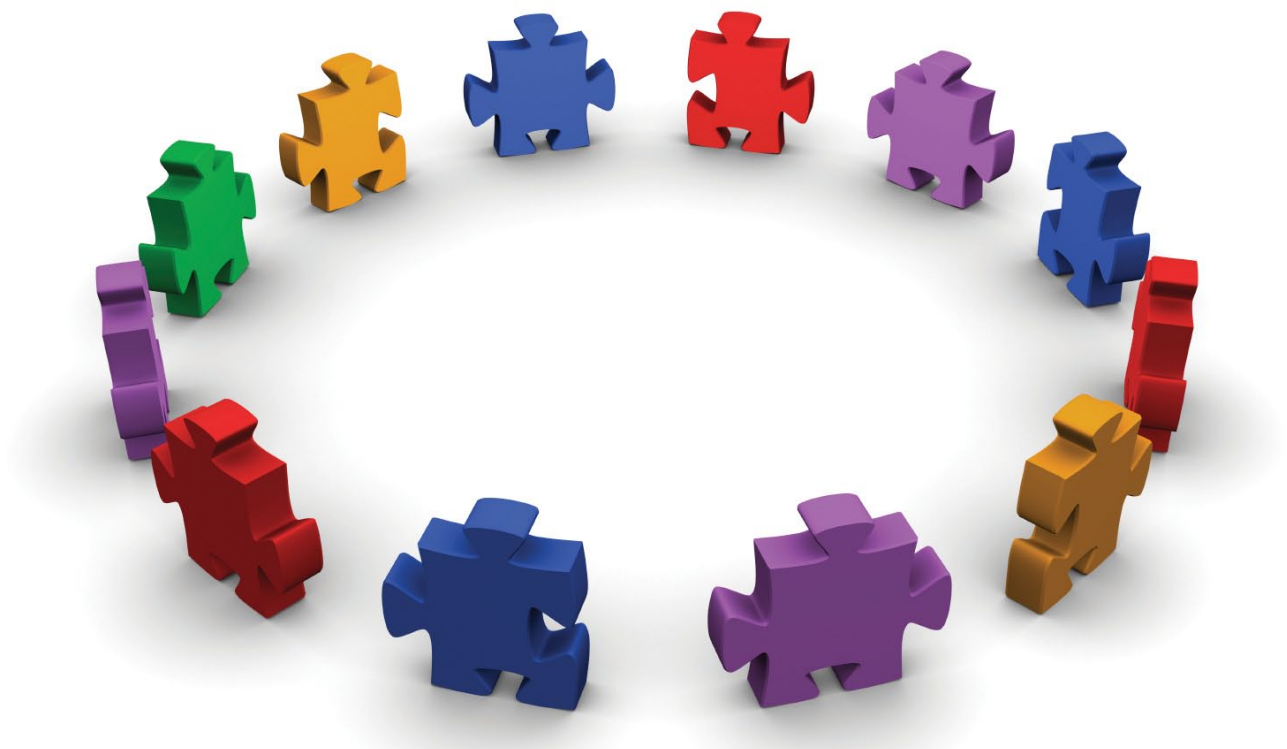


The Ideal Board

The essential elements of a well-performing board



A properly functioning board is essential for a well performing organisation. Of course, there is no 'one-size-fits-all' as the skills, people and structure of each board will depend on the size, industry and culture of the organisation. As one person put it: "a good board is like a camel: it is hard to describe, but you know what it is when you see it".

Criticaleye asked experienced non-executive directors and chairmen to describe the elusive 'perfect' board and what elements they consider essential for a well-performing board...

First of all, we asked a recognised global expert on this subject, **Professor Sir Andrew Likierman**, Dean of London Business School and Non-executive Director at Barclays plc, for his thoughts: “Firstly, you have got to get the basics right - the people and structure. Secondly, you’ve got to get the way the board operates right - that’s to say, in terms of the way meetings function, the way in which people interact with each other, the way the committees work, and so on. Thirdly, you’ve got to have the right kind of coverage. Is the board dealing with the correct issues? The board must be dealing with strategy and the big issues of the organisation.

“You have got to keep up with good practice to make sure that you don’t sink into complacency and just assume you’re doing a great job tomorrow, just because you’re doing a great job today.

“One of the ways in which you can keep up with good practice is by making sure that you have some non-executives who have experience elsewhere – so that they can then look at what good practice is.

“There is a bit of a tendency for any group of people, given half a chance, to sink into the assumption that because they’re doing okay now, they haven’t got to change anything. And I think for boards, as with everything else, you’ve always got to be mindful of where you can improve.”

Alan Giles, Chairman of Fat Face and Non-executive Director at Rentokil Initial plc says, “For me, good board performance would be characterised by robust but constructive challenge and debate, underpinned by diversity of experience, mutual respect and good chairmanship.”

For **Anthony Fry**, Non-executive Director of Dairy Crest Group plc, CALA Group and Espirito Santo Investment Bank in London, relationships are the foundation for a good board. He says, “Boards are not just about selecting the best people and putting them around a table and assuming it’s going to work brilliantly. Boards work because of mutual respect and the relationships that are established around the table - and a lot of that comes down to the behaviour of individuals.

“I happen to believe therefore that a degree of diversity - in its proper sense of diverse background, experience and skills - around the table is essential because that gives you different perspectives and, in a rather odd way, less competition. If you put a group of like-minded people around the table together, there will be competitive tensions between them as an inevitable result of the nature of the beast.”

Understanding the issues facing the industry and the organisation is imperative to any board, as is a close (but not too close) relationship between non-executives and executives. **John Whybrow**, Chairman of AZ Electronic Materials SA says, “Boards will never get it right all the time. All we can do is put together a mechanism - a set of processes, which have a fair chance of getting it right. We don’t know the future, we only know the past, and therefore we have to make judgements about the future - and sometimes we get it wrong.

“In setting up boards, I think it’s important we use the experience we have - good practice - and get people together so they work as a functional body with checks and balances.

“In board meetings, there should be a good understanding by the non-executives, in particular the chairman, of the company, the business and the markets... and the individual members should stay relatively close to those areas (it’s not good enough just to say ‘why?’ in board meetings - you need to have a fundamentally good reason why you say ‘why?’ - and then be able to explain yourself).

Solving a problem is far easier when you are a 100 miles away from it than if you are just a meter away – and boardrooms tend to be a long way from problems

“As a NED, you also need to have empathy for what the issues are out there and help those executives as much as you can – it is not easy sometimes to find a route through. Solving a problem is far easier when you are a 100 miles away from it than if you are just a meter away – and boardrooms tend to be a long way from problems. So, it’s about team working. However, execs and non-execs mustn’t be **too** close. As chairman, I find it very important to get executives and non-executives together informally – even if it is over a beer the day before the official meeting – so that we can chat over things. Now, in the formal meeting, there may be disagreements and even arguments – that is fine but, at the end of it, we remain a team. If there’s not respect from the executives for the non-executives, and respect from

the non-executives for the executives, then I think there's a problem. They should respect each other but also challenge each other to try to find the best way forward."

Sir Peter Mason, Chairman of Thames Water and Senior Independent Director of BAE Systems plc, sees the chairman as pivotal to a well performing board. He says, "The real key ingredient to a good board I believe is a good chairman who leads the board but doesn't dominate it. It's essential that there is a good relationship between the executives and the non-executives. To make a board coherent there must be fluid communication between executives, board members and the chairman. Ongoing and routine engagement I think is really important to deliver a well functioning board."

Diversity of people and skills is extremely important. **Mike Turner**, Non-executive Chairman, Babcock International plc says, "Getting the balance right between the executives and the non-executives on the board, having the right skills and expertise is important but depends on the business. Most important is getting the right mix so you get the right challenge around the board table. At the end of the day, you want the board to work as a team."

Joe Darby, Non-executive Director, Premier Oil plc agrees, "You've got to have the right people on the board, with the right skills and the right experience, to fulfil the particular role that they have. It is also important that the board focuses on the right issues - the key issues facing the company. They shouldn't be bogged down in routine. They should focus on the key issues and make sure that they get those decisions relating to those issues right."

"The relationships on the board should also be good - not only between the executive and the non-executive directors but also between the chairman and the chief executive. It's important that the board works as a team in the interests of pursuing development of the company."

"The Board needs a good chairman that encourages participation and challenge at board meetings. I think it's important that members are not afraid to air their views, state their opinions, without any risk of recrimination. The chairman has a crucial role in ensuring a lively, relevant, but challenging debate."

Andrew Dougal, Non-executive Director, Premier Farnell plc says, "At board level there should be a suitable balance of formality and flexibility. There should not be a rigid approach around the board table nor with

regard to the running of the business. "I think a clear track record of good reporting practices and sound risk management processes, including the assessment of the risk appetite, which has been confirmed and vouched for by the auditors is essential."

Bernard Cragg, Associate of Criticaleye and Senior Independent Director of Mothercare plc, sums up what he believes are the essential ingredients for a board. He says:

Skills: The board needs to have a range of skills that are relevant to what the company does - that can range from marketing to sales to technology to finance to strategy.

Competencies: You have to have the core competencies sitting in the boardroom. There has to be good chemistry between the board members. I always say that the key thing with the boardroom is debate.

"A board has to be a combination of support and challenge. It should support management however - the moment it can't support them, they must be fired."

Questions: The board should be asking the open-ended questions. These are fundamental to the success of the company. Those sorts of conversations have to be held regularly.

Board papers: I think there has to be good, focused board papers that give the board members the ability to understand the key issues very quickly.

"The documentation, presentation to the board and the ability for the board to monitor the objectives you're setting for yourself and how you're progressing against those is a key element of an effective and successful board."

Chairman: The Chairman is also a key issue. Is he managing the board? Is he making sure that the debate is focused, that everybody feels they can contribute, that actually he is making sure that management follow up on what the board is saying and the comment and objectives it's setting? Is he/she forcing management to be accountable?

"It's his/her job at the end of the day to make sure those things happen effectively. I suppose, as a board, the outside communication of the message of what you're seeking to achieve, how you're achieving it, and how quickly you're achieving it, is a key thing. Again, a board has to look at how they are communicating. All of those things go together to make a board effective."

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THE NETWORK
OF LEADERS

CRITICALEYE

Featuring commentary from:



Professor Sir Andrew Likierman
Non-executive Director
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Alan Giles
Non-executive Director
Rentokil Initial plc



Anthony Fry
Non-executive Director
Dairy Crest Group plc



John Whybrow
Chairman, AZ Electronic
Materials SA



Sir Peter Mason
Senior Independent Director
BAE Systems plc



Mike Turner
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Joe Darby
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