The Ideal Board

The "Ideal Board" is applicable to publicly listed Companies, such as those listed on the London Stock Exchange, who define shares listed on the Main Market as listed and shares listed on AIM as quoted. The UK Corporate Governance Code applies to companies listed on the Main Market. The Quoted Company Alliance Code (QCA Code) is used by companies on AIM which is the London Stock Exchange's international market for smaller growing companies.

Other Businesses such as growth companies, PE backed, family companies and not-for-profits should also strive for "best practise" and start out in the way they intend to continue, and many will have their own Governance Codes.

The "ideal" Board overview

The ideal Board should be simultaneously entrepreneurial, to drive the business forward while keeping it under prudent control with appropriate financial and risk expertise. The entrepreneurial drive (the accelerator) and the Brake covering finance, risk and compliance (Governance) are polar opposites so it is essential that a Board has Directors in both camps to ensure healthy debate.

The ideal Board should be sufficiently knowledgeable about the workings of the company, be answerable for its actions, yet be able to stand back from the day to day management of the company to retain a long-term view. In order to do this successfully a balance of different skills and personality types are required around the Boardroom table.

The Board should be sensitive to the pressures of short term issues and yet be informed about broader long term trends in the industry and should focus on the long term commercial needs and goals of the business while acting responsibly towards stakeholders, employees, customers, suppliers, business partners, shareholders and society as a whole.

The "ideal" Board should:

The Board should debate and agree the best strategy for the company and then set itself regular performance objectives and regularly review the achievements of the Executives against the strategic objectives it sets which are usually done through Key Performance Indicators (KPIs).

The ideal Board requires a diversity of thought, skills, personalities, age, gender, ethnicity and knowledge so it can debate healthily and deliver against future strategies; this helps to avoid "group think" which happens when a Board has Directors from a similar background which means the Board view things in the same way and problems get overlooked.

Boards should have each of these six core competencies: Strategic Management, Risk Management, Market Knowledge, Governance, Financial Management and Regulation.

The diversity of skills Boards should have, will depend on the size and type of business. However, in addition to the above, there are other skills Boards benefit from such as sector experience, HR, legal, cyber, fund raising, property and new skills such as technology, digital/E-Commerce and an understanding of social media could be considered; many of these can be provided by specialist Non Execs.

Every Board also needs the right balance of types or categories of people to operate effectively. One of the simplest ways to assess the character of people was developed by David Kolb who categorised people in four ways: activist, pragmatist, theorist and reflector. True for business, and also true for learning how to ride a bike:

- The Activist – tests by trying (and failing, and hopefully learning).
- The Pragmatist – tests implications: copies, improves.
- The Theorist – forms abstract concepts. Natural planner.
- The Reflector – observes and reflects and asks why/why not?

The Board should be up to date with all regulatory legislation and market activity in particular with competitive developments and must be able to respond constructively and quickly to opportunities, problems or crises.

The ideal Board will be well led by an effective Chair.

Non-Executive Directors

As per the UK Corporate Governance Code except for smaller companies at least half the Board excluding the Chair should comprise Non-Executive Directors who are truly independent. A smaller company should have at least two independent Non-Executive Directors.

Companies should strive to appoint truly independent Non-Executive Directors (the independence criteria are set out in the UK Corporate Governance Code) with relevant skills who are capable of making a significant impact which means they put in 40 days + a year, compared with 19 days for the less engaged Non Execs (McKinsey survey). High impact Non Execs do not spend any more time on Board attendance, Sub-Committees, compliance and Governance issues they spend more time on preparation, getting to know the company and its culture, visiting clients and company sites and talking informally with key managers, other staff, customers, suppliers, shareholders and other stakeholders.

The Non Execs who on joining, should be provided with a full, formal and tailored induction, should be well prepared and well informed for each Board meeting, having read the papers thoroughly, devoting sufficient time and effort to understand the company and its business. Non Execs should ideally attend a Non Exec training course and the Board should be aware that training never ends!

Non Execs should make strong contributions to Board meetings especially on the two key areas of developing the strategy and risk management. There is no justification for a Board retaining underperforming Non Execs or ones who contribute little. Non Execs should be resolute in maintaining their views whilst constructively resisting pressure from others and effectively follow up areas of concern.

Non Execs should think and speak independently, be business-savvy, be genuinely interested in the company, care deeply, be shareholder orientated and bring useful & specific qualities to the Board – we see many Boards where this is simply not the case.

The rarest quality of a Non Exec is to be "business savvy" and if it is lacking the other criteria are of little help to a Board as many people who are smart, articulate and admired have no real understanding of business and they may shine elsewhere but they don't belong on Corporate Boards.

Effective Boards spend up to 12 days a year on strategy, compared with just four for low-impact Boards which adds to the Non Exec's time commitment.

These factors will result in the management being more willing to discuss ideas with the Board. In the best situations, managers feel comfortable bringing forward not just their preferred strategy but also the runner-up. The well prepared Non Execs will know enough about the company's stress points to make meaningful suggestions on how to improve strategy.

The time commitment of Non Execs raises the issue of Non Exec pay - if a Non Exec role is stated as a "2 days per month" commitment with a £25-35k pa remuneration, does this mean two days a month or more likely they are they expected to do 4 days per month to include both formal and informal time in order to be "high impact" in which case the pay should be higher.

This also fits in with what we say about the maximum number of roles effective Non Execs should have - which is 3-4.

The role of the Chair

Good Boards are created by good Chairs. The Chair creates the conditions for effective Boards and the effectiveness of individual Directors. It is the responsibility of the Chair to lead the Board (the CEO, manage Board Meetings by setting the Board agenda ensuring the Board Pack is distributed well ahead of Board Meetings and is not be an "information dump" and not too large (a maximum of 80 pages).

The Chair should provide strong but not dominant leadership, whilst encouraging all Board members to contribute and robustly debate all key issues. He/she must ensure the effective implementation of Board decisions.

Chairs in our view should never hold more than two Chair roles.

Please see our separate article on "The role of the Chair".

Board Evaluations

A Company's Board should undertake an annual evaluation of its own performance and the evaluation should include a "competency and skills" evaluation to ensure that the company has the breadth & depth of skills it requires and types of Directors to debate all issues effectively. The Chair is responsible for addressing any weaknesses that the Board has identified.

Board Evaluations are probably the single most important Governance initiative in the last 20 years – if you don't measure the performance of the Board how do you or your shareholders know if it is performing effectively?

Audit Committee

The Audit Committee should present to the Board a balanced and understandable assessment of the company's position and prospects based on sound systems of internal control and meet regularly to monitor financial info and provide regular reviews of controls and audit function. The Audit Committee has a responsibility to provide confidence to shareholders on the integrity of the financial results of the company. The Audit Committee should challenge the external Auditors. The Audit Committee has a key role in the oversight of the risk management and internal controls of the company. Some companies may establish a separate Risk Committee.

Remuneration Committee

There should be a formal and transparent procedure for developing policy on executive remuneration and no Director should be responsible for deciding his or her own remuneration. Remuneration Committee members must be independent and able to resist inappropriate demands from Executive Directors and it is the responsibility of the RemCom to take into account the views of shareholders.

Nomination Committee

This Committee is often thought the weakest Sub-Committee but if a company's Board is going to have an effective succession plan it needs to be effective and have the right Directors and Non Execs.

Nomination Committees do not always approach Board appointments in a 'professional' or 'transparent' manner and are often unduly influenced by either deep rooted 'traditions' or fashionable causes. They should take professional advice when determining the role and capabilities required for a particular appointment.

The Nom Com, should be made up of a majority of independent Non Execs and must lead the process for new Board appointments and as stated in the Governance Codes use a robust, formal, rigorous and transparent process for the appointment of Directors including Non Execs. It should identify what skills and competencies the Board requires and fill the gaps with appropriate Non Execs; the NomCom should manage these appointments, so the Chair and/or CEO don't dominate the process. The evaluation of the Board's current skills and where the gaps are is a complex process and it is, probably best to engage the help of experts or can be part of an external Board Evaluation.

The NomCom should, when appropriate take steps to remove underperforming Executive and Non-Executive Directors.

Shareholder Relations

The Chair, MD, Finance Director and Non-Executive Directors should have regular dialogue and meetings with major stakeholders including shareholders both institutions and retail. The Chair is responsible for ensuring that the Board are aware of the views of key stakeholders.

Written by Chris Spencer-Phillips, Managing Director
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