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Lessons from London

Boardroom Failures Spur Corporate Governance Reforms

By Jennifer Sundberg

While Britain's athletes basked in the sporting spotlight at the London 2012 Olympics, just around the corner our commercial district found itself squirming under the glare of the interrogation lamp. Nearly one year on, I'm not sure what surprised Londoners more: our success on the Olympic scoreboard or our very public fall from grace as world leaders in corporate governance.

Research published in *The Lancet* just days before the London Olympics revealed the UK to be the eighth-most slothful population in the world. Within Europe, only Malta and Serbia's over-15s exert themselves less than in the UK (and in case you're wondering, the US fared somewhat better, ranking near the middle of the 119 countries surveyed). Such were expectations that as we approached the Games the official target for UK athletes was to win 47 medals — and bear in mind we'd won 46 at Beijing four years before. Needless to say, finishing third overall with a total of 65 medals surpassed our wildest dreams.

By contrast to our reputation on the athletics track, London had grown used to its celebrated spot on the governance podium, enjoying the accolade that comes with being the

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home of the Cadbury Report. Published in 1992, the report proposed such ideas as a majority of independent directors on the board and the principle of "comply-or-explain" in preference to binding law — ideas that were adopted both in Britain and abroad, positioning the UK as a trail-blazer for best-practice governance. So last year, as we prepared to celebrate the twentieth anniversary of the Cadbury Report, we were somewhat taken aback to find ourselves mired in scandal, with Barclays (Libor fixing), HSBC (money laundering), and G4S (failure to meet staffing commitments for the Olympics) dragging our systems of governance into disrepute.

However, whilst our success last year on the sports field has reportedly done little to drive Brits off their sofas, our boardroom failures have served as a spur to strengthen our systems of corporate governance.

Tripping over hidden hurdles

Since the global financial crisis that began in 2007, the people appointed to the boards of the largest companies in every major economy have been closely scrutinized. The conclusion that many drew back in 2007–8 was that the directors on many of these boards were not up to the job and that, as the UK's then-City Minister, Lord Myners, observed, "The typical bank board resembles a retirement home for the great and the good."

But since the summer of 2012, the attention in London has broadened out to consider the basis of an effective board, beyond board composition. There is no question that we need a diverse group of non-executives with the right skills, experience and attitude. But even if you are blessed with an A-Team of capable and diverse board members, those with an interest in governance are starting to point at an elephant in the room which is arguably much trickier to resolve: Many boards don't have access to the information they need to do the job.

Business schools and the case study method they favor reinforce the misnomer that business is about solving complex problems that are served up to you in neat reports. If only life were that simple. Information risk — the risk of "not knowing" — is arguably one of the biggest risks for any board.

Where the race is won

No matter how knowledgeable and experienced a board may be, its members are effectively blindfolded until they are provided with the information around which they formulate their judgment. As Benjamin Disraeli, a former British Prime Minister, once observed: "The most successful man in life is the man who has the best information."

A survey published by Korn/Ferry and KPMG last year revealed that one in five non-executives felt out of depth in boardroom discussions because of inadequate briefing materials. With one look at the information boards receive from management, it is easy to see why. The main source of information for most non-executives is the board pack, and regardless of sector or size of company these have certain characteristics in common: They are invariably too big to read, running to many hundreds of pages a month; They are too narrow in scope, being heavily weighted towards backward-looking financials; and they are so turgid in style they are "an obstacle to clear thinking," to quote one seasoned director.

Non-executive directors are not superhuman. They face the phenomenal task of supervising and stewarding the business within a handful of days per month, but this would be a whole lot easier if they were given the tools to do their job. Usain Bolt wouldn't show up to the 100m final in a beaten-up pair of old sneakers; nor should a non-executive director put up with inadequate briefing materials.

Equipping the team

As a first step, boards should be more demanding about the formal flow of information they receive. A well-configured board pack is short enough to be read cover-to-cover on a Sunday afternoon and allows the board to see how the business has fared in matters both financial and non-financial, as well as how their agreed strategy is guiding them towards their goals. And rather than be a many hundred-page-good-news-story, the board pack should provide clear, unvarnished and concise insight, which brings out the "so what?" Only once directors are equipped with high-quality information, can you hope to have a robust, forward-looking and strategic conversation in the boardroom focused on the things that matter.

But no matter how well configured the board papers may be, they will still only address Donald Rumsfeld's "known unknown." So what can be done about those risks (and opportunities) that management, as well as the board, may be blind to? What can be done to plug the blind spots?

Cass Business School in the UK produced a seminal piece of research exploring the near-death experiences of 21 companies from Coca-Cola to Shell and discovered that the source of their problems had been well known within the organisation, "but unknown to its leadership." Given the ease with which web-based surveys can be administered, we would recommend polling a cross-section of your workforce every month to make it easy for them to flag the risks and opportunities that they can see, that management and the board cannot.

Of course, even if you've done your utmost to plug the blind spots, neither senior management nor the board can know everything that matters, but that does not let the directors off the hook. The only real defense against the "unknown unknowns" is a healthy organizational culture, and it is the board's responsibility to satisfy themselves of this. After all, this is what drives employees' behavior when the rule book runs out and when judgment comes into play. And to really take the temperature of the culture the directors need to leave the confines of the boardroom and get out into the organisation. Executives and non-executives need to experience the business for themselves and speak to the people that work within the business. The board's work cannot be satisfied through board meetings and board briefing packs alone.

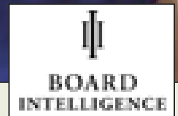
Getting back on the podium

When the Cadbury Report was published 20 years ago, it was in the wake of a series of corporate governance scandals in the UK, from Polly Peck (a FTSE 100 that went spectacularly bust) to the Maxwell Group (a publishing and newspaper empire that suffered the same fate). What followed was a step-change in the diligence and thoughtfulness of board behavior. And with the help of sensible guidance such as that of Lord Cadbury's — and spared the heavy hand of too much new legislation — boards in the UK upped their game.

In response to the more recent shockwaves, what we are seeing across every sector is another step-change in boardroom behavior. And given the great strides of the past and the challenges of the present, there is also an acceptance that there is no silver-bullet for excellence in governance any more than there is a silver-bullet for any form of human behavior. What we can and must do is continually strive to learn and improve and to stack the odds more and more in our favor.

The transformation of the composition of UK boards is one very positive step in this direction and with such high caliber directors around the table, the focus now is on how to unlock their potential and equip them with better tools for the job and high-quality information.

With the Olympic torch handed over to Rio for the 2016 Games, London's summer of sport is now just a warm memory. But our corporate players are likely to remain in the glare of the spotlight for far longer. The good news is that, unlike any athlete cursing themselves for missing out on the medals last summer, struggling companies don't have to wait four years for a shot at improving their game. They can get back on that podium right away.



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Jennifer has led over 60 strategy and governance assignments, with clients including Aviva, Compass, easyJet, The Economist Group, E.ON, Laird, RBS, and Universal Music, among others.

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