

1st February, 2018

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Dear Ms Horton

THE GUIDANCE ON BOARD EFFECTIVENESS

Boardroom Review Limited ("BRL") welcomes the opportunity to respond to the Financial Reporting Council's ("FRC") consultation on the Guidance on Board Effectiveness.

BRL's work, as a trusted advisor and facilitator, is focused on optimising the Board's contribution to the long term success of the Company by building on current strengths, agreeing the challenges ahead, and preparing for the future.

The observations below are based on the learnings from over 200 Board evaluations and workshops over 14 years (including 33 FTSE 100 and 40 FTSE 250 Companies), and are intended to highlight areas which continue to be opportunities for improvement, and which the FRC may want to consider in the development of its Guidance.

1 LEADERSHIP AND PURPOSE

STAKEHOLDERS

The FRC notes the directors' duties in taking into account the interests of stakeholders, including, inter alia, the workforce, customers, suppliers, partners and communities (1:10 etc). However:

- the consideration of stakeholder interests is not yet deeply embedded in the Board's debate and decision-making due to a number of factors:
 - the wider stakeholder landscape, and significant trends, are not always captured through existing management tools, or shared with the Board;
 - a few stakeholder groups, including shareholders and regulators, have established and formalised communication channels in order to voice their views and concerns, and are able to communicate directly with specific Board directors. Other stakeholder groups, including the workforce, customers, suppliers, partners and communities, do not yet have established communication channels;
 - as others have already reported, there is limited diversity of perspective, and associated stakeholder understanding and experience, in the room; and
 - the Board's formal and informal time (for example, the use of site visits, strategy sessions and Board dinners) is not yet used sufficiently to broaden directors' understanding of stakeholder perspectives.
- in addition to the constituencies mentioned, important stakeholders also include financiers, government agencies and unions;
- as well as uncovering potential areas of conflict and concern, and managing a variety of interests, Boards should be encouraged to consult with stakeholders in order to understand significant changes in the landscape, predict future developments and trends, and re-align the strategy; and
- Boards need to be aware of the use and influence of powerful stakeholder communication channels (including traditional media and social media).

DECISION MAKING

The FRC notes important influences on decision making, such as personal biases, the exploration of options, the impact on culture and stakeholders, the use of multiple perspectives and reviews, and the quality of information (1:14 etc). However:

- it would be helpful to note that the Board's ability and determination to understand and test underlying assumptions is an essential ingredient of good decision making.

RELATIONS WITH SHAREHOLDERS

The FRC notes the importance of engaging with major shareholders (1:22 etc). However:

- it is often activists, not major shareholders, who dominate the Board's attention and who communicate directly with stakeholders. It would be helpful to encourage Boards to prepare for activist interventions and engagements.

MONITORING CULTURE

The FRC notes that there are many ways for Boards to seek assurance on culture (1:37 etc). However;

- many directors find it difficult to define and articulate culture, and it is important that the Board (and the Company) develops a common and consistent language; and
- it is essential that directors pay attention to;
 - the pressures of regulatory regimes;
 - the importance of corporate history, habits and traditions, and the development of silos; and
 - dynamics such as the acceptance or resistance to change and pace, and the resilience to stress.

2. DIVISION OF RESPONSIBILITIES

THE ROLE OF THE CHAIR

The FRC notes that the role of the Chair includes the organisation of NED-only meetings (1:49). Private NED-only and CEO/NED-only sessions have become an integral part of the Board's modus operandi across the FTSE, and are helpful in building relationships, providing deeper levels of information, solving areas of conflict, aligning views, and delivering constructive messages. However;

- Chairs should be encouraged to share the outcomes of NED-only meetings with the CEO.

The FRC notes the Chair's role in ensuring a tailored induction programme (1:50). However:

- it is important that the Chair provides guidance and mentoring to new directors.

THE ROLE OF THE SID

The FRC notes the various roles of the SID (1:56 etc). However:

- there are two additional areas of consideration when choosing the SID;
 - the role often demands a different personality type and approach to the role of the Chair or Committee Chair; and
 - it may be helpful for the SID to serve on several Committees in order to enhance knowledge.

BOARD SUPPORT AND THE ROLE OF THE COMPANY SECRETARY

The FRC notes the importance of the role of the Company Secretary (1:69 etc). However, the FRC should also note that:

- directors rely on an appropriate and permanent record of the Board's debate and decision making (which demands judgement from the Company Secretary);
- it is not only important that NEDs have *access* to independent professional advice, but that they are *actively encouraged* to take advice when appropriate. Too often this is seen as divisive by management, rather than as a valuable, unbiased method of testing and validating underlying assumptions and Board decisions;
- NEDs should have appropriate, long term, indemnities from the Company with regard to resource and assistance in the case of third party investigations and actions; and
- given the expansion of the NED role and responsibilities, an Office of the NEDs is helpful in providing the right level of resource and support.

3 COMPOSITION, SUCCESSION AND EVALUATION

ROLE OF THE NOMINATION COMMITTEE

The FRC notes that the NomCo may wish to set an upper limit on the number on NED appointments (1:78). However;

- NEDs may hold demanding non-FTSE (and less visible) appointments, for example in the third and charitable sectors. It is important therefore that individuals are encouraged to assess the demands of their portfolios on a holistic basis.

SUCCESSION PLANNING

The FRC notes the importance of NED tenure (1:84). However,

- the needs of the Company and the Board will change over time (planned and unplanned), and directors should be encouraged to be flexible with regard to term lengths and extensions; and
- occasionally individuals and Boards make mistakes with regard to appointments; there should be no embarrassment or long term implications associated with ending a NED term prematurely.

EVALUATION

The FRC notes that an evaluation might be led by the SID (1:91). However;

- the Chair is responsible for the effectiveness of the Board (and for acting on the evaluation outcomes), and if there is misalignment between the Chair and the SID on the approach, or the adoption of recommendations, the evaluation will have limited impact.

The FRC notes that an external evaluation might obtain feedback from the workforce and other stakeholders (1:94). However:

- this suggestion needs careful consideration in order to ensure that the evidence is valuable and relevant; and
- one way of obtaining feedback on specific areas of interest from the workforce might be to include questions on the perception of and engagement with the Board in the pulse or staff survey.

The FRC notes specific areas for consideration with regard to external evaluation (1:95), with the caveat that the list is not prescriptive or comprehensive. However:

- the FRC should encourage evaluations to explore the use of the Board's formal and informal time, as this is a critical influence on its effectiveness.

We hope that these observations are helpful, and we would be delighted to discuss them further.

Yours sincerely,

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By post and by email to codereview@frc.org.uk