



CORPORATE GOVERNANCE SEMINAR, SOLIHULL 6/2/95.

Rept. prim. add. pub/quoted co's, altho recs. shldrs / alts / auditors.

All recs. based on principles good corp. govr. wider ° applicability than comm. co's.

Only you decide relevant yr. pt. views. Describe framewk. made recs. & focus prime

tasks of shds. to be effective, whatever sector operate, time for dlich. deal matters with you

2 pts. keep in mind taking note recs. a/ fin asp. not. c.g. as whole.

Defined c.g. system by which co's directed / controlled. shldrs have fundamental

place in framewk. rept. + implement. recs. ∴ it is to shldrs. shds public co's alck.

Other bodies = alck. in diff. ways. Threads. test for shds. effectiveness / ability.

⌋ Ctee setup FRC. LSE. May prof. concerned lack of confidence fin rept.

value audits. well-publicised failures — no forwarding

Not anticipate % genl interest Technical enquiry; BCCI Bank,

Maxwell affair, Fay.

Published Rept/Code Dec 1992. & from end June '93. all co's listed SE.

State in annual rept. how far comply. Don't have to comply, have make statement.

Looking to mkt. opinion / shldrs. busy about compliance



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Code - NAAAT. not deal individ. pts. happy to discuss. Basis Code.

Need for adequate disclosure & appropriate checks/bal.

a) Disclosure. ensures all with legit interest in orgn info. o/s/resps. openness basis public confidence. system of govt.

b) Checks & balances within structure, bd level, guard concs of power.

All bds. need have regard disc. c/bal.

Genl. pt. Credible Confusion where resps. fin. mgt, control lay (Audition Director).

Resps. allocn resps fin. Control matter every effective bd. keep under review -

Final pt. Principles / prescription. a) No single 'gear' system.

b). Compliance not spirit.

Did not say must split Cmn / Cexec. In principle stld. Clearly accepted.

This relationship. exec. head orgn & bd. governs it is crucial, also universal. Clubs,

Schools, vol. bodies all kinds - co/NHS bds. Relationship dir/mgt. boundary lie needs

precisely defined as poss. Not easy & it develops, not fixed then time. Unless

clarity of role & trust between set policy & execute it confusion/difficultly.

2). Back to bds. Overall test what value do we as bd. members. add to orgn?

An effective bd. contributes to aims of orgn for which resp. & seen to do so.



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Tasks of an effective Bd.

- 1) Determine purpose of body for which resp. not quite as simple.
Purpose medical unit just as much prevent people becoming ill as efficient treatment after. Holding judicious balance prevention/cure.
Purposes change - Bd. alert to such changes ∴ easier to spot standing ^{day today.} back.
- 2) Bd. defines purpose, ensure everyone in orgn shares purpose, understands how parts, jobs contribute overall goal.
Way purpose expressed matters. Effective Bds. Communicate not only dir'n/aims but vision lies behind.
- 3) ^{Bd's resp for} 2 comments on setting goals.
 - a) Hammering out what enterprise exists to achieve & reviewing its continued relevance, true team task. Every Bd. member can & should contribute.
Does not require spec. knowl. but open/questioning mind.
 - b) Only by setting clear aims Bd. can measure its achievements
- 4) To vision & purpose, add values. Bd. resp. not only what is done but way it is done. Statements values, codes conduct hard to draw up, widely welcomed. Most of us want to know what is expected of us.
- 5) Final task turning purpose into action. Bd's job ensure nec. mgt. struct. policies in place " " "
Requires Bd. to draw boundary its resp. Rise of mgt.
Simple test is subsidiarity, Bd. confine activities to those which it alone can discharge.
Fact that Bd. delegates carrying out of strat. which determined does not dilute its resp. for outcome. Delegn. not abdication.

These tasks are all concerned with looking inwards at mechanics running enterprise: Bd's resp. getting things done.



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Bds. also look outwards: customers / communities serves. In this context -

- a) Bds have consciously hold ^{appropri.} bal. between interests of orgn & those it serves.
- b) Bds. continually alert to issue their a/cbility.
- to whom does it render a/c stewardship? - to whom some form resp?

Bds. have to balance claims made on their orgns. from within / without.
& balance needs of today against needs of tomorrow.

like to comment on 4 aspect of ~~the~~ ^{the} working of a bd.

- The board as a team
- Role of o/s dir.
- Role of chmn.
- Bd. appraisal.

To sum up the watchwords for bds of any kind.

are 'effectiveness' & 'accountability'. They are the two tests

which bds have continually to meet.

The Board as a Team

The effectiveness of a board is a reflection of how well the members work together as a team, so the composition of the board is important. Chairmen are looking for a balance between inside knowledge and outside experience, and between personalities, ~~skills~~ and age.

experience

Equally, when vacancies occur on a board, board members need to think through what skills and experience would best complement those already present. The search should start with a description of the kind of person the board is looking for and not, as it far too often does, with names.

espec. dealing w/lt govt

Boards like other teams need to be made up of people with different attributes. Without that mix there would be insufficient debate and challenge. Board members, however, have to strike a balance between standing up for their individual opinions and standing behind the views of the rest of the board team.

Boards should not become too cosy or club-like - you need a degree of tension. But there is no place on an effective board for the intransigent or for passengers - nor is there for directors, who see their role as representing some particular set of interests. The duty of all directors is solely to the institution for which they are responsible.

Chairmen should, therefore, have everyone's support in bringing about whatever changes are necessary to the board team to promote effectiveness.

What should hold members of the board team together is their belief in a common cause. If they are dedicated to the same task, they should be able to strike the right balance between individuality and collegiality.

The Role of Outside Directors

This leads on to the role which outside directors play on a board. I prefer the title outside director to non-executive director, because it is a more accurate description of their position. Outside directors bring their own outlook and experience to the board, which will be different from those of the inside or executive directors. In addition, they have the advantage of standing further back from the day-to-day working of the body which they are directing and thus are freer to exercise their independence of judgement.

Because they do not hold executive posts within the organisation, outside directors are in a position to review the performance of those that do. Equally, they are well-placed to take the lead over issues where the interests of the executive management and of the institution could diverge, for example over top management succession or over executive pay, because their interests are less directly affected.

The contribution of outside directors to the business of a board is to a great extent dependent on the information which they receive and the use which they make of it. There can never be equality of information between those working in an organisation and those outside it. But it is up to the chairman and the board secretary to ensure that board members are given sufficiently relevant and timely information to arrive at considered judgements on the issues before them.

The Chairman

The chairman is crucial to board effectiveness. I do not think that the degree to which board effectiveness depends on the skill and competence of the chairman is sufficiently appreciated. It is because the job of the chairman of a public company is so demanding that, all other reasons apart, I would not make it harder by combining it with that of the chief executive.

To obtain full value from a board meeting is a difficult task. While thoughtful preparation beforehand by the chairman is essential, there is no way of knowing in advance just how a meeting will develop. We are talking about a collective process and a dynamic one. All board members are equally responsible for the board's work and chairmen need to encourage them to contribute on an equal footing. The job of the chairman is to stimulate board members to give of their individual best in a co-operative cause.

Self-assessment

The hardest part of a board's job is that of assessing its own performance. Here it is normally for chairmen to take the lead, but it is up to each board member to contribute to the review. Boards can only improve their effectiveness, if directors are open with each other and with their chairmen as to ways in which they could be of more value.

Boards have to make time to review their own methods of working, as without a determined effort this chance for collective learning will be crowded out by all the urgent issues of the day. New board members need to consider how they can best prepare themselves for the considerable responsibilities which they are taking on and all board members need to determine how best they can continue to develop their directorial skills.

Conclusion

I have discussed the principles behind our Committee's proposals and some of our recommendations

While they centre on the financial aspects of corporate governance in the commercial world, I hope that you will be able to draw on them, when you put into action the thoughts which you will be taking away from today's Conference.