

## BITESIZE GOVERNANCE: REAL WORLD GOVERNANCE

# Good governance is more than just a box-ticking exercise

The intense public scrutiny and comment on corporate governance over recent years has certainly done one thing, namely to emphasise that good governance must be considerably more than a 'box ticking' exercise.

With this in mind, Wedlake Bell, Bridgehouse Company Secretaries, First Flight Non-Executive Directors and UHY Hacker Young have developed a new 'Bitesize Governance' initiative. Our common objective is to use a series of roundtable discussions with non-executive and executive directors and governance professionals to share real-life experiences and learn more about the challenges of the board room in order to support good practice - and not just good paper processes. This document covers the discussion in our October 2017 meeting.

### Challenges of balancing openness, strategy and management

- Think about three practical areas – strategy, resources and oversight
- Integrate non-executives properly into all parts of important decision-making processes
- Be honest about bad outcomes and deal with issues swiftly



A key challenge for many businesses is balancing the daily concerns and challenges of running an organisation and having to think about governance. This challenge is even more real for small and start-up businesses whose main priority is often cashflow. Thinking about the three areas in practical terms may help with this, including making sure you have an agreed strategy, the resources to implement the strategy and fundamentally, oversight of each. In practice, it is therefore vital to maintain robust processes, including the discipline of detailed agendas and minutes for meetings, as well as thorough risk reporting with explanations as to how and why risks may change.

Whilst there was also some consensus that the strategy of a business should not be constantly changing, there was recognition that smaller companies may require greater flexibility within a corporate strategy. In the case of technology start-ups, it may be necessary to review the strategy on a more frequent basis given fast changing markets

and the potential for other disruptive technologies to emerge quickly. In reality, such companies will be honing a business strategy as the business develops and markets change.

The theme of openness was also raised in the context of high profile governance failures, such as those in the banking sector during the financial crisis. Only time will tell whether a true culture of positive challenge has now been developed, or whether non-executive directors simply add some challenge for the benefit of the Prudential Regulation Authority's review of the minutes.

The need for genuine corporate transparency was also a recurring theme. However, this can mean many things. It was seen as important (and refreshing) for the board to be honest about bad decisions, as this means issues can be fixed quickly, instead of burying mistakes and dealing with the resulting (greater) problems further down the line.

## Conveying corporate vision and values

- Adapt your strategic thinking as necessary for the environment
- Maintain motivation by rewarding people for success – however it was achieved
- The Chair is key to setting the right cultural tone for the entire company, and should be a sounding board for the CEO

Setting the right culture and values is dependent on the Chair – his or her views can set the tone for the whole company

Sometimes businesses have too much of a focus on their initial vision (Plan A), without considering other options that could add value (Plans B, C or D). Good governance involves adapting strategic thinking as necessary and recognising that the world changes and so should your strategy (where necessary). However, this must be a balanced approach as the corporate vision and objectives shouldn't constantly fluctuate, although it is right to question them.

An interesting example was cited of a company that was focused on an early sell off with the remuneration strategy of the board also aligned to this. In this case, it was apparent that opportunities for growth might have been missed due to a focus on an overly narrow set of objectives. The hard economic reality is, that if you do not seize the opportunity of progress, your competitor will.

Executive remuneration was acknowledged to be a particularly sensitive issue. It was

noted that people must be fairly rewarded for success which is aligned to the interests of shareholders, even if this hasn't been through the rigid adherence to a prescribed strategy, as this approach is more likely to maintain the motivation of key directors and staff. Accordingly ensuring that appropriate incentive packages are in place is vital and a good executive remuneration arrangement should set the scene for similar arrangements throughout the business.

It was generally acknowledged that a good Chairperson will set a clear vision of culture and values for the organisation from the board room, and that the executives will then take this into the business. The inter-action between the Chair and the CEO was also highlighted as critical for the good functioning of the board, if not the wider organisation, with a particularly productive approach being for the Chair to act a mentor and sounding board for the CEO (who needs to accept and understand the benefits of such a model).

## Maintaining healthy relations with stakeholders and the role of the non-executive director

- Diversity on the board is crucial for good governance
- Understand that group dynamics can have an impact on strategy and objectives
- The non-executive director should have a dual role: to hone creativity and assess risks but also to encourage and suggest new opportunities

Diversity of views and backgrounds on the board can be crucial. On several occasions, it was noted that both risk adverse and entrepreneurial personalities are needed to ensure a good balance of challenge, scrutiny and energy, leading to corporate success.

Some attendees saw the role of the non-executive director as being the person to hone and direct creativity. Others

suggested that the non-executive director has a more proactive role, encouraging the business towards new opportunities. It was acknowledged that a good non-executive director offers more than the ability to highlight and manage risks.

Overall, it is important to understand the group dynamics on your board and the resulting impact that might have on strategy and objectives.

## New corporate criminal offence of failing to prevent tax evasion

In the context of risk management and how boards deal with this, the new corporate criminal offence of failing to prevent the facilitation of tax evasion was discussed. This new piece of legislation states that companies could have committed a criminal offence if their employees knowingly facilitate tax evasion. There are some similarities in defence terms at least to the UK Bribery Act, in so much as the business must demonstrate that procedures have been put in place to prevent tax evasion.

It was highlighted that the focus is really on the oversight of these procedures, i.e. having someone (and the right person) managing this oversight and that is another area where corporate governance, culture and ethics is arising. Organisations also need to create an environment where people feel comfortable about speaking openly about an issue that can be material to a company's profitability.

The new offence raises an interesting question: if the company's tax planning practices are technically legal, but potentially considered aggressive, does a non-executive director have the responsibility to be the moral compass and if so, how is that assessed?

## Conclusions

Fundamentally, governance can be viewed as knowing what an organisation is doing, why and when, as well as keeping everything on track in practical way. Regardless of what sector your organisation may work in, the vision and strategy of the company should be regularly assessed to ensure the foundations on which it is based are still relevant. There should also be time taken to build a team feeling in the board room, but it is the non-executive's role to have a wider focus and perceive issues in a different way to add real value.

### About the Bitesize Governance Series

The aim of the series of workshops is to support a shift in perception: changing the views organisations typically have of what good governance is, encouraging investors to care more about an organisation's health, well-being and governance and reinforcing the role of the company secretary in ensuring an organisation is properly governed.

We all understand the need to think in a fresh, collaborative manner and this is why Wedlake Bell, Bridgehouse Company Secretaries, First Flight Non-Executive Directors and UHY Hacker Young have come together to create the Bitesize Governance Series. If you are interested in any of the issues mentioned in this paper and you would like to take part in a future Bitesize Governance event, please contact [Natalie Maskell](#) at UHY Hacker Young, or your usual contact at one of the promoting firms, for more information.

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