



The role of the Senior Independent Director

'... the SID also needs to be able to act as a lightning rod – picking up signs of emerging conflict or disquiet amongst fellow board members and giving voice to it at an appropriate time (particularly when the Chair is not responding to these tensions) so that issues don't fester.'

David Archer and Alex Cameron

70% of FTSE 350 Chairs under pressure to step down

'The purpose of a good Chair isn't to lead thinking for the board, but rather to be an independent facilitator. Someone capable of encouraging people to think around topics and seek knowledge and data to make good decisions, instead of relying on existing beliefs.'

Alison Gill

Content

News	3	Quality and effectiveness of audit An independent review has been launched calling for views and information on the purpose, scope, quality and effectiveness of statutory audit in the UK
International	4	Governance and performance in emerging markets Investors, including the IFC and other development finance institutions, increasingly look at governance as an indicator of firm quality and a factor in investment selection, according to recently published research
	5	CEO transitions in US companies Spencer Stuart's annual review, <i>2018 US CEO Transitions</i> , tracks CEO departures among Standard & Poor's (S&P) 500 companies. In addition to cataloguing the reasons for CEO departures the review examines information about the successors, including whether or not they are internal candidates
Global News	6	JSE proposes changes to Listings Requirements Global Capital Confidence Barometer New beneficial ownership register Top risks for Singapore SMEs
Features	8	The role of the Senior Independent Director Based on the discussions of a recent Round Table held with experienced board directors David Archer and Alex Cameron look at the importance of the role played by a good SID
	9	Lessons from Benjamin Graham Anthony Fitzsimmons argues that there are still lessons to be learnt today from Benjamin Graham's book <i>The Intelligent Investor</i> published in 1949
	10	70% of FTSE 350 Chairs under pressure to step down Alison Gill looks at what makes a good Chair of a board and why Chair independence matters

Feature

.....

70% of FTSE 350 Chairs under pressure to step down

Alison Gill looks at what makes a good Chair of a board and why Chair independence matters.

The nine-year limit for Chairs is putting a number FTSE 350 companies under pressure to replace their Chairs. But is this cause for concern or a good thing?

Pub chain founder Tim Martin is vehemently opposed to the idea that he should no longer sit as Chair of JD Weatherspoon, after already serving 36 years in the role. Telling the *Financial Times* that the revised corporate governance rules, which now include a requirement that Chairs step down after serving on the board for nine years, are 'deeply flawed' and 'institutionalise inexperience'.

While in America, Facebook founder, Mark Zuckerberg, is more than a little reluctant to relinquish his dual role as CEO and Chair, despite increasing calls for him to install an independent Chair after a series of scandals recently knocked \$37 billion off the company's Market Cap in just four days.

What's more, it's not just company founders who are reluctant to let go of the reins. According to research by Minerva Analytics, just under a third of the FTSE 350 (110 companies) have Chairs who are already non-compliant with the nine-year rule. And a further two-fifths (137 companies) have Chairs in place who have already served more than eight years.

This means an overwhelming 70% of FTSE 350 Chairs now face pressure to step down if their organisation is to 'comply' with the Code. Or, where there are good reasons for them not to do so, 'explain' their decision to stay on to the FRC.

And that's assuming shareholders don't get there first. Mike Turner CBE, Chair of Babcock, the FTSE 250 defence contractor, recently told reporters his decision to step down after 10 years was prompted by two top-20 shareholders informing him that they thought the company would have more credibility if he resigned in response to the new Code.

Why Chair independence matters

The purpose of a good Chair isn't to lead thinking for the board, but rather to be an independent facilitator. Someone capable of encouraging people to think around topics and seek knowledge and data to make good decisions, instead of relying on existing beliefs.

Unfortunately, as soon as you put people in groups, they become notoriously bad at making good decisions, because of the psychological phenomenon known as 'group think', which encourages group members to withhold dissenting opinions and gravitate towards popular decisions and consensus, without critical evaluation of alternative viewpoints.

Although there might be good reasons for someone staying on as Chair past the nine-year tenure rule ...the longer someone remains as Chair, the more likely they are to inadvertently lead the board into group think and the less likely they are to look at new and emerging issues with a fresh perspective.

Essential to overcoming this human tendency, especially in light of the constantly changing economic, social and governance (ESG) issues, is the ability of the Chair to not only emulate agendas based on the most important emerging priorities, but also encourage open debate to deliver the benefits of independent thinking.

Although there might be good reasons for someone staying on as Chair past the nine-year tenure rule, for example where the organisation has particularly long business cycles, the longer someone remains as Chair, the more likely they are to inadvertently lead the board into group think and the less likely they are to look at new and emerging issues with a fresh perspective. This means blind spots can easily build up.

Entrenchment isn't good for business

Another risk associated with entrenched Chairs is the extent to which the board and business can become dependent, meaning the board struggles to initiate ideas or reach decisions without the Chair's input. This exacerbates the stress and anxiety associated with the prospect of replacing a particularly long-serving Chair – when they eventually decide to step down or retire, all of which can impact negatively on the business and share price.

Also, at the heart of being a good leader is the ability to make yourself redundant by encouraging other leaders to develop and flourish and by making the process of decision-making independent of you, so that new people can come in and run it.

Feature

Although good Chairs recognise that the organisation is bigger than themselves and know when to step down, the problem is there's never a good time to step down.

The pace of change being driven by the fourth industrial revolution, threats from disruptive technologies and the need to address increasingly complex ESG issues, at the same time as remaining on top of ongoing business decision-making, means few boards have a second to take a breath, let alone replace the glue responsible for holding them together.

Also, no one wants to ask someone who is doing a good job when they're planning to leave, unless they enjoy awkward conversations, especially when the person whose tenure in question is the Chair of the board. So Chair succession planning can often become an unspoken source of anxiety.

All of which means that as soon as a Chair becomes entrenched, the opportunities for someone new to take over become much less. So, it's perhaps a good thing that the revised Code is forcing boards to consider the incredibly important issue of Chair succession planning as a matter of course. By introducing a timeframe that prevents Chairs from becoming automatically entrenched.

This has already started to encourage some Chairs to move on sooner than they would have otherwise, with Imperial Brands, the FTSE 100 tobacco company saying it has already begun to find a successor to Chair Mark Williamson, who has been on the board since 2007. And as mentioned above Mike Turner, Chair of Babcock, the FTSE 250 defence contractor, recently said he had decided to step down after 10 years in response to the new rules.

Succession planning fit for the future

With the new rules already encouraging several FTSE boards to consider Chair succession planning and Chair independence sooner than they otherwise might have, the next challenge will be finding an appropriate successor.

Given the scrutiny that boards are under, the temptation may well be to 'play it safe' by appointing another tried and tested FTSE Chair. The problem here though is that if all FTSE 350 boards are doing is effectively swapping Chairs around amongst themselves, everyone will be fishing from the same pool, exacerbating diversity and executive remuneration issues while unnecessarily limiting their choices.

Although it's understandable to see why boards have placed a great emphasis on finding experienced Chairs, it's their ability to fulfil the role of a great facilitator to bring the board together, corral people to timely discussion, synthesise ideas and information and get the best out of all the other members of the board that matters most.

So, instead of turning to the same closed industry and professional networks, boards would do well to consider the fundamental behaviours that go into making up a great Chair. Namely, the ability to be a great facilitator, active listener, get the best out of different types of people, recognise differences yet galvanise opinion, and be a succinct yet inspiring communicator.

Looking at the current pool of Chairs, it would be easy to assume that these are skills predominantly residing in white men over the age of 60, when this is of course by no means the case. Going forward, it's essential that the FTSE 350 try to make the most out of the opportunities the nine-year rule presents for increasing diversity of representation *and* diversity of thought, by prioritising the behaviours needed for good Chairmanship over length of service or existing track-record.

This diversity matters, not only from a perspective of ensuring the leadership team better represents the views of changing workforce and customer demographics, but also because of the importance of achieving 'diversity of thought'. The idea being that even though each individual could probably come up with a solution to a problem, talking to people with differing views will give them the different perspectives and insights needed to help them make a better and more rounded decision.

Another key requirement for any new Chair is the ability to manage this diversity of thought. Not by using their position as leader to influence thinking but by bringing people together to find the common ground so that they feel safe to challenge each of the assumptions they hold individually and work together to find more creative shared solutions than a group of people who all think alike could hope to achieve.

Fortunately, just as you don't need to be a lead violinist to conduct an orchestra, nor do you need to have had extensive FTSE boardroom experience to make a good Chair. Meaning that boards will have to consider giving the natural-born facilitators – many of whom are currently residing in charities, not-for-profits and smaller organisations – the opportunities they deserve to step into the role of Chair, if they want to make shorter Chair tenures and the new nine-year rule a success.

.....
*Alison Gill is a behavioural psychologist, triple Olympian and the co-founder of Bvalco, a board evaluation consultancy focused on helping boards become fit for the future. <https://bvalco.com>
 Tel +44 (0) 1491 577511*

Subscription form

Please complete this form and send by mail to:

Subscriptions Department Governance
Publishing and Information Services Ltd
The Old Stables, Market Street,
Highbridge, Somerset TA9 3BP, UK

Tel: +44 (0) 1278 793300

Email: info@governance.co.uk

Website: www.governance.co.uk

(Please tick one)

Yes! I would like to subscribe to Governance for one year

Or, save with a 2 year subscription

Governance international subscription costs:

	£UK	Euro	US\$
1Yr	325	450	490
2Yr	585	790	855

Governance can accept cheques in other currencies but an administration fee of £15 will be charged.

<input type="checkbox"/> I enclose a cheque/bankers draft for
Currency Value
<input type="checkbox"/> Please invoice me
Specify currency:
Order reference:
Title:
First name:
Surname:
Position:
Company/Organisation:
Address:
Postcode:
Email:
Tel:
Fax:

continued from page 8

what early warning signs you might need to address, and what questions you could ask to check out different perspectives on any concerns being raised. This sort of preparation helps a SID be ready to act as the calm voice of reason at times when emotions might be running high.

And finally

A good SID is not ambitious. It's not a 'Deputy Chair' role, although in some boards these roles are combined. One of our roundtable participants described an effective SID as 'a capable but reluctant Chair' – able to take on a board leadership role but only when the situation demands it.

.....
© David Archer & Alex Cameron – Socia Ltd 2019. David and Alex are both partners in Socia Ltd. Socia is an independent consultancy focused on board development and board evaluation www.socia.co.uk

What our subscribers say

'Governance is a great publication that I look forward to reading.'

'Governance is a useful means of keeping up to date on developments in a field which is assuming greater importance by the day.'

Index

Organisations		Benjamin Graham	9
FCA	9	Companies	
FRC	9, 10	Aon	6
People		Bvalco	10
David Archer	8	EY	6
Sir Donald Brydon	3	International Finance Corp	4
Alex Cameron	8	Reputability LLP	9
Anthony Fitzsimmons	9	Socia Ltd	8
Alison Gill	10	Spencer Stuart	5

Designed and printed by

WithPrint
Riverside Studio, Gills Lane, Rooksbridge, Somerset, BS26 2TY
www.with-print.co.uk

ISSN 1358-5142

© Governance Publishing 2019. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without written permission of the copyright holder.

Governance Publishing and Information Services Ltd
The Old Stables, Market Street, Highbridge, Somerset TA9 3BP, UK
Tel: +44 (0) 1278 793300
Email: info@governance.co.uk Website: www.governance.co.uk

