



Intercultural business negotiations

‘This third view involves the development of ethical concerns and attitudes related to the situation, given the legality and the legitimacy of a particular action, but with the understanding that what is considered legal and legitimate can differ in the home and the host country. Let us call this “moral pragmatism”.’

Jean-Claude Usunier

What’s the point of the board?

‘We have to have both the conviction to stick to our purpose and the antennae and good sense of judgement to know when to adapt it to ensure that we survive, to sustain success or to fulfil our organisation’s and our own potential. To conclude, it’s hard to have a board that is fit for purpose if you don’t know what the purpose is.’

Patrick Dunne

Content

News	3	FTSE 100 executive remuneration A recent report from Willis Towers Watson provides a final update for the 2019 AGM season on key pay developments
	4	Revised UK Stewardship Code⁹ The FRC has launched a revised version of the UK Stewardship Code, which will take effect from 1 January 2020
International	5	Global business ethics A comprehensive, cross-cultural survey of workplace behaviour which explores how senior managers across the globe view the ethics and compliance efforts of their organisations has been published by the Ethics & Compliance Initiative
Global News	6	Investors focusing on corporate governance Hong Kong and Mainland China governance practices Japanese Companies Act reforms Risk of more revolts over executive pensions
Features	7	Intercultural business negotiations Jean-Claude Usunier considers ethical issues when negotiating business across cultures
	10	What’s the point of the board? In an article extracted from Patrick Dunne’s latest book, <i>Boards: A Practical Perspective</i> , he looks at the purpose of a board across a range of sectors

Feature

.....

What's the point of the board?

In an article extracted from **Patrick Dunne's** latest book, *Boards: A Practical Perspective*, he looks at the purpose of a board across a range of sectors.

The basic premise of the first section of the book is that clarity of purpose for the organisation and for each individual, as well as the board as a whole, combined with getting the right people involved ought to maximise the chances of success and minimise the risks of failure. It absolutely doesn't mean that success is guaranteed or that risks will be obliterated. You still have to execute successfully, but it ought to mean you stand a better chance.

When I first wrote about the 'Purpose' of a board and the key participants in *Running Board Meetings* in the late 1990s the 'Purpose' word was nowhere near what it is today. These days it seems that the word has become very fashionable in a range of contexts. In an organisational sense this is probably being driven by the combination of societal questioning of the role of businesses, charities and the State; by the breakdown in trust in institutions; by the digital, data and communications revolution that is disrupting business models; by the emergence of 'Social Enterprise' and a whole host of other factors, including political flux.

The consequence is that boards of all sorts of organisations across the world are being prompted and challenged to answer that most basic of existential questions 'What's the point of the organisation?' as well as the consequential one: 'What's the point of the board?'

In this article we will make the simplifying assumption that the organisation has a valid purpose and focus our attention on what might be the purpose of the board, its sub-committees and advisory groups as well as that of the key participants involved including executives and advisers.

In summary, I think that the purpose and role of the board is to ensure that there is the right vision, purpose and strategy as well as the right resources and right governance to achieve them.

From a legal and regulatory perspective, we also need to ensure that in fulfilling our purpose we comply with, or take into account as relevant, our directors' or trustees' statutory duties and obligations, common law and fiduciary duties, the company's constitutional documents and any relevant codes of best practice. There are of course differences from country to country in the legal and regulatory frameworks, such as the preference for unitary or two-tier boards.

We also need to consider the role of the investors and of investor relations in influencing an organisation's purpose as well as in achieving alignment and the support and resources

to achieve that purpose. Investors are far from homogeneous in their nature, preferences, time horizon or behaviour and there is inevitably a 'chicken and egg' like quality to these relationships in terms of who comes first.

As a private business you can choose who your investors are but not so for public companies. Yet, even in a private company your investors' objectives may, with time, diverge from their original ones and produce conflicts over organisational purpose and strategy.

For charities, the role of members and funders in terms of influencing purpose is analogous. Examples of charities who suffer mission drift because funding isn't available for their real mission but is for something adjacent to it are as common as businesses adapting their aims to get funding. The range in nature of charity funders is probably as broad as those for business and the debate around how performance should be measured as lively. Competition for funding is also stimulating the adoption of Key Performance Indicators more closely associated with business.

The rise of 'social enterprise' and 'impact investing' and the morphing of many traditional foundations away from classic grant makers as well as the debate over 'Purpose' for business is causing the line between charity and business to become a better understood spectrum.

Professional service firms are also becoming a fascinating area in governance globally. Their complex structures combined with ever more challenging regulatory environments and demands for greater transparency are just some of the pressures forcing change. Add to this the challenges of achieving partner buy-in, containing risk, making timely decisions in the interests of the firm as a whole and ever broadening portfolio of services and it looks like a challenging time ahead for those responsible for their governance.

Public body boards are another area where the landscape for boards is changing globally. Quite rightly governments have a need to show taxpayers and users of services provided by such bodies that they are well governed in every respect. Those interested in serving on such boards are generally public spirited, expect to, and are prepared to, provide their skills and experiences for well below their market rate. However, in recent years in some countries, the UK being one of them, the growing asymmetry between fulfilment and the amount of work, risk and pure hassle has led to many people who would be able to add a great deal to such boards to find other ways to contribute to society.

Feature

In many countries government departments have also been appointing independent non-executives and, although best practice is still developing in this space, there are many examples of this adding considerable value. The wise on such department boards will be well aware of where the power really lies and alert to the 'majority of one' power of a minister whether they are formally a member of the board or not. Most government departments are of the scale of large corporates and have many common challenges in terms of retaining clarity of purpose, attracting and developing talent and dealing with rapid changes in technology, communications and expectations. However, the annual budget mindset and the short tenure of ministers can often bring an overweight focus on the short term at the expense of the future.

University boards can also make for fascinating appointments. These are complex organisations with demanding stakeholders and a heavy regulatory influence in most countries. They are legitimately polymath in purpose, subject to a wide range of external influences and have an interesting mix of short- and very long-term decisions to make. My time on the University of Warwick board was endlessly interesting and challenging. Not least because of the colourful cocktail of board members including faculty, students and people from a wide cross-section of society.

In order to sustain academic excellence and meet ever rising expectations in terms of student experience, universities are increasingly investing in commercial activities to generate sustainable income. Warwick was a pioneer in this right from its inception in 1965 so this all felt natural. A frequent challenge for university boards is often their size. In an attempt to achieve diversity and satisfy the needs of a wide range of stakeholders they can often end up being too big. The common way to address the challenge is to use some of the sub-committees effectively as the real decision-making bodies, with the board as a whole then effectively endorsing their decisions. In the UK the finance and general purposes committee tends to be the powerhouse in this context.

Much has been written recently about the importance of organisational culture and values. It is good to see this as it is implicit to having the right vision and resources. An important element of an organisation's culture and values is its approach to diversity and inclusion. In clearing out some old papers the other day I came across notes from our work on the 2003 Higgs Review. It was striking how important we all felt it was to change the game on gender diversity, as well as to find a mechanism to enable swifter change of 'mouldy' Chairs. At the time only 4% of executive directors and only 6% of non-executives in UK listed companies were women and there were only two female Chairs in the FTSE 350 (one at 3i by the way).

The formalisation of the role of the senior independent director (SID) has led to shorter sell-by dates for Chairs. Yet 16 years later we have only just passed the 30% point for women. This feels like very slow progress and with regard to ethnic and social diversity it feels like there is still an enormous amount to do.

The role of the sub-committees is to undertake work delegated by the board, make recommendations to the board and to enhance board productivity. In the book we consider some general points about sub-committees and how they interact with the board and executive and go into more detail on the most popular ones namely audit and risk, remuneration and nominations committees as well as look at some of the issues around having committees for other organisational or sectoral aspects, eg regulatory committee. In doing all of the above we also consider how their role changes in different operating environments, eg the nature of a remuneration committee changes significantly when a company goes public.

The role of the senior executive group is to develop and deliver the strategy and business plan, with input from others including the board, and to maintain financial and operational integrity. For the key participants we focus on the Chair, chief executive officer, chief financial officer, SID, independent director, company secretary and communications director. First looking at their roles and then looking at how they interact and are aligned with the board. We look in more detail at selection processes and the characteristics required to fulfil these roles as well as the behavioural dynamics of the board.

The dilemmas also dive deep into the practical challenges of these roles. As a boy I was mesmerised by the brilliance of the Venn diagram and how such a simple thing could be used in so many ways. I was also struck by the power of the idea that we can be ourselves and do our own thing, but we can also be part of a group where we have a common purpose or common characteristics. I think this concept has a lot of relevance in the boardroom in the context of the alignment between the board and the executive and for the independent directors or trustees who have to be their own person but also part of a group.

John Venn, born in 1834, was not only a brilliant mathematician, philosopher and logician but also belonged to the 'Clapham set' of pioneering social entrepreneurs and was a strong advocate of votes for women. I would imagine that he saw himself as being multi-purpose and that he was someone who was adept at modifying his purpose, or of those he was helping, to adapt to circumstances either present or anticipated. This I think is fundamental to success as a board and as a board member. We have to have both the conviction

continued on page 12



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:

Table with 4 columns: Currency, £UK, Euro, US\$. Rows for 1Yr and 2Yr.

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

Form fields: I enclose a cheque/bankers draft for, Currency, Value, Please invoice me, Specify currency, Order reference, Title, First name, Surname, Position, Company/Organisation, Address, Postcode, Email, Tel, Fax.

continued from page 11

to stick to our purpose and the antennae and good sense of judgement to know when to adapt it to ensure that we survive, to sustain success or to fulfil our organisation's and our own potential. To conclude, it's hard to have a board that is fit for purpose if you don't know what the purpose is. It's dangerous to assume that everyone arrives with the same idea about what the purpose of the board, the executive, the sub-committees and individual roles is. A good Chair will ensure that there is a discussion as well as a common agreement and understanding of what it is and that the board and the executive use this as a touchstone for all that they do.

Patrick Dunne has extensive experience of working with boards around the world in the business, public body, education and social sectors. He Chairs board consultancy Boardelta and the charities EY Foundation and ESSA – Education Sub Saharan Africa. He is a Trustee of the Chartered Management Institute, a Visiting Professor at Cranfield and the Founder of Warwick in Africa.

Governance subscribers can take advantage of the pre-publication price of £24.95 by visiting https://www.governance.co.uk/boards/ and ordering online.

What our subscribers say

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

Index

Index table listing Organisations, Companies, and People with page numbers.

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

