

BOARDROOM CONVERSATIONS:
CONVERSE WITH AN ACKNOWLEDGED
EXPERT AND TAKE THE BENEFIT OF
THEIR EXPERIENCE BACK TO YOUR
BOARD

26 JUNE 2012

**“A BOARDROOM
CONVERSATION WITH RACHEL
LOMAX”**

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Bvalco hosted the conversation with Rachel Lomax as part of the ‘Boardroom Conversations’ series of targeted discussions with experienced Chairmen enabling them to share their insights and learning experiences of boards and corporate governance.

The following paper is a summary of the conversation including questions from the floor.

1. RACHEL, YOU HAVE AN IMMENSE BREADTH OF EXPERIENCE SERVING ON BOARDS BOTH IN THE PUBLIC AND PRIVATE SECTOR AND OF LISTED COMPANIES AND PRIVATE COMPANIES. WHAT IN YOUR VIEW ARE THE ESSENTIAL INGREDIENTS OF A COHESIVE AND EFFECTIVE BOARD?

I spent all my executive career in the public sector. At that time I could only take appointments on the boards of not-for-profit organisations and I did this to make me be a better executive, to see things from the other side of the table.

I have since spent four years on boards of commercial organisations both listed and privately owned and I do question whether the essential ingredients of success are actually different. In both cases any positive effect you bring to an

organisation has to be done as a team, where there is a shared sense of process and mutual respect; effective leadership is therefore essential. However the external pressures can be very different. Being on the board of HSBC where there are no shareholder representatives on the board has a totally different set of pressures to being on the board of BAA, where there are shareholder representatives on the board. Although on paper the responsibilities are the same, the experience is totally different. Similarly the size of a board can affect the experience. Being on big and small boards is totally different.

2. HOW THEN DO THESE DIFFERENCES IMPACT ON HOW YOU APPROACH THE TASK OF BEING A NON-EXECUTIVE?

It is critical to understand why you have been appointed to that board and what therefore are others' expectations of what you can deliver. I'm on the HSBC board because of my experience of the bigger picture, at the Treasury and then at Bank of England and so on.

I draw on other experiences as a member of the BAA board such as my time at the Department of Transport. The shareholder representatives on that board have a very tight grip on the finances. My role is to bring much more of a strategic, advisory perspective; and crucially, an understanding of the British political scene.

When vetting people to be on the Court of the Bank I tried to develop a clear idea of what a well-balanced board would look like. People ought to think about the different sorts of experience and skills around the table.

When joining a board, if I had to think about what gap I filled I wouldn't want to be on the board. Unless I'm convinced of this, then it is a waste of my time and the board's.

3. WHAT ABOUT WHAT THE OTHER DIRECTORS BRING TO THE PARTY?

The flip side of understanding why you are invited to be a member of a board is to appreciate who else is on there. There needs to be an interesting group of people to get to know – it's part of the fun. As to who else is on the board, having a shared understanding, an ability to have good discussion and being able to trust each others' judgement underlies the raison d'être of the board. The other people are more important than a perfect chairman,

which is often billed as the most crucial thing to consider about being on a board. You want to keep well-connected, learn things you don't know.

4. HOW DO YOU STRIKE THE RIGHT BALANCE BETWEEN PLACING RELIANCE ON SOMEONE ELSE'S EXPERIENCE AND EXPERTISE AND FULFILLING YOUR OWN INDIVIDUAL RESPONSIBILITIES TO HAVE YOUR OWN VIEW?

I spent 25 years in the Treasury. An institution often accused of arrogance. It certainly teaches you to ask questions and evaluate what other people say. As a non-executive you should not just take what other board members say blindly on trust any more than you would do for the executives.

5. YOU SPOKE EARLIER ABOUT THE NEED FOR EFFECTIVE LEADERSHIP ON A BOARD. TELL US A BIT ABOUT WHAT YOU HAVE OBSERVED INCLUDING BOTH POSITIVE AND NEGATIVE LEADERSHIP SKILLS.

There are many different ways of chairing a board. Here are some examples of situations where the chair has managed a situation well:

When he was Chair of the Court of the Bank of England, transitioning from a body run by the Governor to non-executive, John Parker developed a collegiate sense among the non executives, by building relationships with them outside the board room and by regulating the formal discussions to prevent a few directors from dominating the debate.

The second example is Chris Hogg at the National Theatre board. That was an amazing board – very diverse, with a rich mix of directors from creative and

business backgrounds. There was always a free-flowing conversation to which everybody contributed. Chris was excellent at directing the meetings but not dominating, like an artistic director himself.

Both these Chairs demonstrated a kind of 'look no hands' way of running a board well, but their approaches were very different.

John Parker achieved a lot of change by developing bilateral relationships with board members outside the boardroom. As far as I could tell, Chris Hogg was the opposite, and achieved results through unobtrusive but highly effective formal chairing skill and natural authority.

People need to use their personalities effectively, and these two chairs did that.

6. AT HSBC THE FORMER FINANCE DIRECTOR HAS NOW BECOME CHAIR. WHAT DO YOU SEE AS THE ADVANTAGES AND DISADVANTAGES OF THIS?

What any board looks for in a chair reflects its particular circumstances. The arrangements at HSBC have changed over the past few years. Stephen Green was initially an executive chair but he became a full time non-executive chair in his last couple of years. His successor, Douglas Flint, is a full time non-executive chair too. Following the financial crisis, dealing with governments and regulators has become hugely important, for HSBC as for other global banks, and it is a major focus for Douglas, who has established strengths in this area. In other words, he is the right person for the job, at this juncture.

7. DOES HAVING A FORMER EXECUTIVE CHAIRING THE BOARD IMPACT ON THE DYNAMICS AROUND THE TABLE?

If we hadn't been convinced he had the capacity to reposition himself as no longer part of the executive the board would not have appointed him. He has had to form new relationships with the board.

8. WHAT ABOUT THE BEHAVIOURS OF INDIVIDUAL MEMBERS OF THE BOARD? WHAT'S GOOD AND WHAT'S NOT SO GOOD?

I have a particular aversion to board members who are longwinded and domineering –or just take up too much air time - or worst of all, try and usurp the chair's function and take control of the agenda whenever the chair pauses for breath. This is one of the disadvantages of having "big beasts" around the table – people who might chair other boards.

At the other extreme not contributing, "sitting and sulking" is nearly as bad though it is a fault that all male boards are somewhat less prone to.

Boards become ineffective when the relationship with the executive goes wrong – either because some directors get too close to the executive and lose independent perspective, or because the executive ignores or tries to run rings around the board. It's all about mutual respect, and where that's missing, things go wrong.

The evolution of subgroups within the board can be disruptive particularly where, as a result, information or opinions are shared on a selective basis among the members of a board. There is a difficult balance to strike here.

Of course boards, particularly large boards, have to have committees. But the committee structure can itself be unhelpful. They may not meet very frequently and you can't really get to know the rest of the board this way. Active steps need to be taken to see this happens whether by dinners for non-executives before a board meeting, or away days, and encouraging email exchanges.

I recognise that there are always going to be groups within a board who know each other better. The executives know each other much better than non-executives. But too much clubbiness, whether between executives or with and between non executives, can undermine a board's effectiveness.

9. HAVE BOARD EVALUATIONS BEEN HELPFUL IN YOUR EXPERIENCE?

They certainly can be. I have had a number of positive experiences. But they are still in their infancy. No two board effectiveness reviews are the same. Meaningless box ticking is a waste of time. A board review needs conversations. It must be meaningful; when a board is working badly, a good board review can break the log jam – or set the board even further back. Much depends on the skill of the reviewer – and of course the chair.

10. IS A BOARD REVIEW A GOOD OPPORTUNITY TO RAISE ISSUES AS A NON-EXEC?

Yes, it's a good time to raise things; to stop and ask yourself questions. It can act as a stop check. If there are too many of these issues boiling up, you have a bad board.

11. FINALLY WE HAVE SEEN RECENT EXAMPLES, PARTICULARLY CONCERNING REMUNERATION, OF GREATER SHAREHOLDER INVOLVEMENT AND ACTIVISM. IS THIS SOMETHING YOU WOULD ENCOURAGE AND HOW DOES A BOARD BEST HARNESS THIS ENERGY AND ENGAGEMENT?

My experience of private companies suggests that private shareholders focus intently on remuneration, as a key lever for motivating managers. Clearly, Remuneration is a major issue for shareholders. But in a public company with a widely dispersed shareholding I would question whether the dream of a dialogue with shareholders is realistic. There may be thousands of shareholders, none of whom own more than a tiny proportion of the company, any of whom can sell their shares at any moment. Investor relations is a branch of public or even press relations. It's not like the dialogue with some shareholders who own substantial stakes in a private company. There is a different dynamic. The ownership model is indirect.

QUESTIONS FROM THE FLOOR: WHEN YOU WENT INTO BEING AN NED, HOW DID YOU MAKE SURE YOU WERE ADDING VALUE?

You have chats with the Chair who tells you. A lot is down to self-assessment. Are you really making contributions? At this stage in your career you should be able to tell whether you're making a difference. You have to think not just, 'am I right', but 'are people listening to me, am I having an influence?'

QUESTIONS FROM THE FLOOR: CAN YOU TALK ABOUT THE DIVERSITY OF THINKING BETWEEN THE BOARDS OF BAA AND HSBC.

HOW DO YOU GET YOUR HEAD ROUND ALL THE ISSUES?

I have relevant background for all my boards. I was Permanent Secretary of the Department of Transport which is a good background for an airports board. I wouldn't have joined the BAA board if I didn't feel I could relate to the aviation industry. It's the same with banks, and HSBC as an economist, and an ex deputy Governor of the Bank of England. I understand a lot about the context. HSBC gives me a great opportunity to think about global issues.

QUESTION FROM THE FLOOR: AS A DIRECTOR OF A VERY LARGE ORGANISATION THERE IS THE RISK OF A PERCEPTION OF IT BEING VERY AMORPHOUS. HOW DO YOU DEAL WITH THAT?

I had a lot of experience of large organisations during my executive career. Running the Department for Work and Pensions which employs over 100, 000 people was a good way to get a handle on a large organisation. The World Bank, where I worked in the mid 1990s, is as global as HSBC. In all these places, I realised that you've got to find a mental model, a way of understanding the organisation that works for you. This training and experience has been crucial for thinking about how large organisations work.

QUESTION FROM THE FLOOR: IT SEEMS TO ME THERE ARE THREE ELEMENTS TO A BOARD: THE STRUCTURE, THE CULTURE AND THE STRENGTH OF PERSONALITIES. WHAT IS THEIR RELATIVE IMPORTANCE?

The structure is more important than we give it credit for. One board I was on was

almost wholly run by committees. The board meetings were half an hour long. A lot of strategic issues simply got crowded out. Getting the structure right is underrated.

Culture is difficult to define in the context of a board. It needs to be congruent with an organisation. It is less easy to generalise about the culture of a board than it is the culture of an organisation. People matter enormously. I have had one experience where a change of chairman has made an enormous difference to the quality of the conversation.

QUESTION FROM THE FLOOR: IS THERE A BIG DIFFERENCE IN CORPORATE GOVERNANCE BETWEEN THE PUBLIC AND PRIVATE SECTORS?

Yes, at least in formal terms. In the public sector, senior officials have a personal accountability to parliament, as Accounting Officers, and although departments now have their own boards, at the end of the day, the accountability is individual not collective. At the Department for Work and Pensions we had a board with non-executive members to give us the advantages of a outside perspectives and advice but I remained accountable as the Permanent Secretary.

In the Bank of England we had a corporate board with non executives and an executive chair; they still do. But in reality no one round the board table has the power to sack the governor. He has his own accountability. This makes a huge difference.

In stark contrast, corporate boards hire and fire management. That's probably the most important thing they do.

QUESTION FROM THE FLOOR: IS THERE ANYTHING PUBLIC COMPANY BOARDS CAN LEARN FROM THE PRIVATE COMPANY MODEL?

Not a lot. The models are very different. Public companies are bedeviled with principal agent problems, but I don't see any simple solutions to them.

QUESTION FROM THE FLOOR: IS THERE ANY ALIGNMENT OF INTERESTS BETWEEN THE BOARD AND THE SHAREHOLDERS? AT THE POINT YOU INVEST SURELY INTERESTS MUST BE ALIGNED?

IT USUALLY COMES DOWN TO WHAT'S IN THE LONG TERM INTERESTS OF THE COMPANY, BUT THE SHAREHOLDERS WANT WHAT'S BEST NOW.

ATTENTION MUST BE PAID TO REMUNERATION STRUCTURES.

More time is spent thinking about remuneration to incentivise managers. Shareholders are different people with different interests all over the world.

AGMs are unsatisfactory and ridiculous. None of the institutional shareholders ever turn up. You just have special interest groups and exhibitionists seeking a platform.

You need to get vocal support so when you are attacked by the press institutional shareholders will speak up supportively.

AN HSBC INSTITUTIONAL SHAREHOLDER WHO WAS PRESENT AT THE DISCUSSION CONTRIBUTED: I TEND TO AGREE. YOU WANT THE BOARD TO TAKE A VIEW HAVING DONE WHAT WE'VE DESCRIBED. THE PRESENT STATE OF AFFAIRS IS UNSATISFACTORY. IDEAS AND VIEWS SHOULD NOT BE WATERED

On that note we will close the conversation. Thank you Rachel for sharing your insights, experiences and reflections.

DOWN BY INTERMEDIARIES BETWEEN THE SHAREHOLDERS AND THE BOARD.

In the short term people want to make a quick buck. It's important to be able to sell your shares if you don't like what the company is doing. That's the discipline. It's about striking a balance between the short and long term view; about pursuing sustainable policies. Getting that judgement right. Sustainability is a good framework.

QUESTION FROM THE FLOOR: TO WHAT EXTENT IS IT HELPFUL FOR BOARD MEMBERS TO SIT ON OTHER BOARDS TOO? IN BOARD REVIEWS, THAT ISN'T SOMETHING REVIEWERS FOCUS ON.

Being on more boards is useful because it provides perspective and helps to ensure independence. Public sector experience on a private board is undervalued. Some of the issues are similar. There needs to be more cross-fertilisation.

QUESTION FROM THE FLOOR: THE 19TH CENTURY CONCEPT OF CHARACTER IS OUT OF FASHION, BUT IS CREEPING BACK. WHAT DO YOU THINK ABOUT CHARACTER OR PSYCHOLOGY?

It is hugely helpful. Boards are about personality types. A good chair has a different personality to a chief executive. The subject has only relatively recently been understood – especially in the U.S. Gender is important – women are more comfortable to say 'I don't know' than men.

