

Corporate Governance at the Crossroads

The reform of corporate governance from Cadbury (1992) to Higgs (2003) was strongly influenced by agency theory. The reformers' solution to perceived agency problems in countries with unitary boards was to prescribe rules for board structure, in particular by specifying the number and roles of non-executive directors (NEDs), and requiring the separation of the chairman and CEO functions. In vain did many of us (including eminent academics such as Andrew Pettigrew) point out that it was 'soft' issues such as the behaviour of individual directors and their relationships with colleagues that were the major determinants of board performance, and that the prescribed structures could even be destroying shareholder value. The policy-makers seemed deaf to our entreaties. The structuralists got their way and even Higgs, the most sensitive of the reformers, failed to take on board the full implications of the research he had commissioned for his report.

Much of the debate has centred on the disruption of board cohesion by the governance structures, particularly by requiring the NEDs to perform a dual role of team member and policeman. (Higgs glided round this point.) But another unfortunate consequence has been boards' obsession with compliance, rather than with strategy. A recent survey showed them spending 70% of their time on compliance and 30% on strategy. Board members were reported as saying that these proportions ought to be reversed. You could say that boards' behaviour reflects the attitude of society in general to the health and safety regulations. In both cases there is fear of being caught up in litigation.

So what has all this rather costly structural regulation brought us? It brought us Enron, Equitable Life, Northern Rock, and RBS, to name just some of the high-profile disasters, their boards all packed with heavyweight NEDs. Structural regulation has not prevented boards getting derailed, or even failing spectacularly when the going gets really tough. Boards like these are simply not carrying out their responsibilities. It is no exaggeration to say that corporate governance is at a crossroads. But what can be done to help boards re-assert their leadership?

Recent work on employee engagement can help answer this question. There is evidence that passionate, highly engaged employees are associated with superior company performance. It is emerging that this effect applies equally to directors. Boards that are passionate about what they do are also associated with superior performance. It is not hard for NEDs to do some social loafing and withdraw from active participation if they are bored by their agendas. The research commissioned by Higgs makes the point (not referred to in his report) that the attitude of the executive directors to the NEDs is crucial in determining NED engagement and contribution. If the NEDs are respected, a benign spiral occurs in which NED contribution continually improves. If they are not, the reverse happens, and the NEDs rapidly disengage. It is vital that both types of director understand this.

We have devised a one-day seminar (9am to 5pm) to help members direct their behaviour in such a way that their boards become more passionate and engaged with their companies, and reassert the leadership role. An outline of the seminar is given below.

Provisional seminar agenda:

Avoiding Boredom in the Boardroom

Brief review of corporate governance developments since 1992

Why, despite widespread adoption of the evolving regulations, boards continue to fail. (Facilitated discussion)

Team dynamics

The importance of values

Understanding what drives director behaviour: discussing the undiscussable

Discussion: the way ahead.

Topics will be illustrated by role play and group work.

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