‘More robust guidance on boardroom behaviours needed’ says ICSA study

8 June 2009: The Institute of Chartered Secretaries (ICSA) has today published its report on boardroom behaviours which has been submitted to Sir David Walker as part of his review of corporate governance in UK banks. The report follows a study by ICSA of boardroom behaviours , which took the form of a survey and a number of roundtable meetings with company secretaries. The process distilled the considerable knowledge, skills and experience of the company secretarial community on what constitutes good – and bad – boardroom behaviour. Areas covered in the survey included boardroom culture and behaviour, the Combined Code, directors’ skills and resources, disclosure, risk management and the role of shareholders.

In ICSA’s view, best practice in boardroom behaviour is characterised, amongst other things, by a clear understanding of the role of the board; the appropriate deployment of knowledge, skills, experience and judgment; independent thinking; the questioning of assumptions and established views, and a supportive decision-making environment. The degree to which these behaviours can be delivered is shaped, *inter alia*, by the character and personality of the directors and the balance in the relationship between the key players in the boardroom.

General conclusions from ICSA’s study are that: risk management is not properly overseen, monitored and reviewed at board level; boards generally are not formulating the appropriate risk tolerances of their companies; remuneration and incentivisation are not aligned with shareholders objectives; and disclosure is inadequate.

Specific conclusions are that:

- The absence of guidance on appropriate boardroom behaviours represents a structural weakness in the current system of corporate governance. Had such guidance been available and observed, ICSA argues, the consequences of the current crisis may have been less severe
- Prevention of a recurrence of the events of the last year is at least partly dependent upon more robust guidance on boardroom behaviours being incorporated in the Combined Code
- Better articulation of the business case for best practice corporate governance, and more focus on directors’ responsibilities and potential liabilities, should incentivise directors to exhibit appropriate boardroom behaviours

The Combined Code, ICSA recommends, should be amended to incorporate wording relating to appropriate boardroom behaviours and the business case for pursuing best practice corporate governance. It is also suggested that a best practice guidance note on how boards can improve boardroom behaviour should support the Code.

David Wilson, ICSA's Director of Policy and Strategy comments:

'The results of this study demonstrate that while it is vitally important to construct the right architecture for the UK corporate governance framework, in itself that is not enough. The organisational and institutional aspects of governance cannot be expected to operate efficiently in the absence of a commitment by Britain's company directors to appropriate standards of boardroom behaviour. Better articulation of the case for best practice corporate governance is likely to incentivise appropriate boardroom behaviour and in turn strengthen the process and quality of decision-making in the boardroom.'

To view the full report, please click here.

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Editor's notes

The Institute of Chartered Secretaries and Administrators (ICSA) is the qualifying body for company secretaries and a leading authority on corporate governance. It publishes guidance notes and best practice guides and through its subsidiaries provides events, information and training, boardroom performance evaluation and dedicated software. The ICSA has 36,000 members worldwide and is represented in over 70 countries.

Sir David Walker's review will examine board management of risk (including the effectiveness of risk and audit committees), incentives to manage risk in bank remuneration policies, the competences needed on bank boards, board practices and structures, and the role played by institutional shareholders. The review will present preliminary conclusions to commissioning Ministers in the autumn, and make final recommendations by the end of the year.

Following a meeting with Treasury officials on 12 March, it was agreed that ICSA would contribute to the review by conducting research on ‘appropriate boardroom behaviours’. The basis for this work was the position ICSA had adopted in relation to corporate governance issues, particularly through the ICSA Hermes Transparency in Governance Awards, its specific expertise as ‘owners’ of boardroom process, the special privilege enjoyed by many of its members in terms of boardroom access, and the professional qualities of its members in terms of independence and integrity.