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“A BOARDROOM CONVERSATION WITH DOUGLAS FLINT CBE”

facilitated by Alison Gill, Director of
Bvalco Ltd

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At a recent event held at the Financial Times, jointly hosted by the FT NED Club and Bvalco, FT NED Diploma tutor and Bvalco Director Alison Gill was in conversation with Douglas Flint, Chairman of the Board of HSBC Holdings.

Mr Flint was appointed Chairman of the Institute of International Finance in June 2012. He is a member of both the Mayor of Beijing's and the Mayor of Shanghai's International Business Leaders' Advisory Councils, as well as a member of the International Advisory Board of the China Europe International Business School, Shanghai. He was an independent external member of the Financial Services Trade and Investment Board in the UK until July 2015 and has been, by invitation from the Prime Minister, a British Business Ambassador since January 2014.

Mr Flint felt that the role of the chairman had changed dramatically over the past five years. He described the increasing demands of the regulators, the impact of rapid changes in technology on business models and the competitive landscape and the change in customer expectations of banks since the financial crises as significant contributors to the changed role. Prior to becoming Chairman of HSBC plc he sat on the BP board as non-executive director for six years. He was on the board at the time of the Macondo well blowout and he felt he learnt a lot about dealing with reputational challenges during that experience. Experiences such as this he said, *'most NED's would try to avoid'; 'but they are experiences that prepare you for a time when you must step in and step up'.*

The chairman's role is to lead the board and in his opinion a significant part of this role is blending the skills around the board table to get the most effective debate and decision-making. *'Trust between the executives and the non-executives is absolutely vital,'* he said. Good information flow between the executive and non-executive directors is a key component of building this trust. The chairman cannot force this to happen but has a key role to select the right people and set this expectation.

When an issue arises, if the non-executives think they hadn't been given sufficient information, they will explore two possible scenarios. Either the executive team didn't know that the issue existed which calls into question their ability to operate effectively as an executive team. Or the executive team did know that the issue was there but chose to keep

the non-executives in the dark, which suggests that their judgement might be lacking. *'It's so important that the non-executives feel that the executives have good judgement in knowing what information the non-execs need to carry out their role effectively and in making sure they get that information.'*

HSBC is a large board with a total of 19 members, 15 non-executive, 3 executive and the chairman. Was this number too cumbersome? Mr Flint didn't think so. Some people have said that anything more than 12 members makes a board dysfunctional. *'That's too superficial,'* he felt. *'It depends on the business and the breadth of things you expect your non-executives to do. Having a larger number of people on a board provides a number of different mind sets and skill sets. The biggest challenge and the greatest skill of a chairman is building the interpersonal dynamics of a diverse group of people. There should be no cosiness but there should be mutual respect and trust so that they will readily work together. You also need to avoid duplication of skills.'* He used the analogy of a football team. *'You don't need four centre forwards. You won't get anywhere unless you balance the team.'*

One danger in a larger board is that factions can unintentionally build which is disruptive. The Chairman, CEO and SID need to work together to ensure that everyone is travelling in the right direction as a cohesive team. By keeping the lines of communication both formal and informal open, the Chairman and SID particularly can sense when differences in opinion need to be surfaced to clear. This is important to keep a united team.

HSBC is a complex business. The time commitment for each individual non-executive is substantial: 35/40 days per year on main board business, 15 days per year per committee and most board members sit on two committees so the commitment is 65/70 days a year each.

Surprisingly, despite this level of time commitment and given that there has been a lot of coverage on the reputational risks of being a non-executive on a financial services board recently, Mr Flint says it has not been difficult to get new board members for the HSBC board. *'I think that's down to the high calibre of the people sitting round the board table – people want to join a great team in a role that's challenging and interesting and we certainly can offer that.'*

He also stressed the importance of having a good induction process. *'It gives confidence to new non-executives if they know that they can have anything they want to prepare them for the role. We encourage our non-execs to undergo training, to have site visits to any of our offices anywhere in the world and, to meet anyone they want to meet. This openness doesn't only make them better informed about the business, it also promotes trust and openness, which as I said earlier is terribly important.'*

Asked about culture, Mr Flint says he prefers to think of it in terms of a company's character rather than culture. The character of a business is an aggregate of behaviours exhibited by individuals within the business. Good behaviour is a consequence of having clear and

transparent policies and practices so that everyone at all levels of the organisation understands what is expected of them and how they will be judged if they don't meet those levels of expectation.

Reputation is something that Mr Flint felt has to be earned but he cautioned that you must also remember that people will ascribe a particular reputation to you. Part of the challenge is working through those external assumptions and perceptions to communicate the message you want to get across. He emphasised that the board has a role to play in timely communication with employees as well as the outside world, particularly when something has gone wrong.

How boards actually make the decisions they do is always a topic of interest and Mr Flint gave a fascinating insight into the process behind the decision to keep HSBC's headquarters in London. *'We made sure that we took our time, 10 months in all. I saw it as my role to keep asking the board what more information they needed to make the decision. It wasn't until we were all sure that we all had all the information about every aspect of the issue that we had the discussion that led to the final decision; it was unanimous.'*

When asked about board evaluation, Mr Flint said he is a supporter of the process, as long as it is carried out effectively. *'You need to have an evaluation report that is written in clear, short and sharp sentences. It's useless if the evaluation team speaks in code, requiring the chairman and the board members to read between the lines to interpret the real meaning,'* he said. The most satisfactory board evaluations serve to confirm what you know. He gave a medical analogy – *'It's like going to the doctor for your annual health check, you know that you should probably be eating a more healthy diet but it isn't until the doctor actually points it out to you that you really take it on board and act on it'.*

'And every now and then, you find out something that you didn't know. A really skilled evaluator can get non-execs to say things that they are finding difficult to say (or be heard) to the Chairman or their fellow directors. And if you get three or four people saying the same thing, then you need to act on it. The non-execs must feel that if they say something, they will be listened to and suggestions will be acted upon.'

Mr Flint has already announced his plan to move on. He feels about five to eight years in post is about right and that a smooth transition from one chairman to another is vital. *'You need to start planning for your successor the day you are appointed,'* he said. *'It takes time to clarify the role, to identify the type of person you are looking for, identify the correct person, make sure that they are a good fit with the board and will work well with them, and vice versa, and then have an appropriate handover period.'* He also commented that it's not just a question of having an excellent chairman and an excellent CEO. They might both be very talented individuals but it's equally important that they complement each other and can work well together.

One other important role of the chairman is to deal with public policy and regulatory matters. The chairman needs to have enough depth of knowledge of the industry to be able to attend and contribute to the number of meetings that only the CEO and the Chairman are typically invited to. Attendance at such meetings can be a distraction for the CEO from their main role of running the business, so the Chairman can protect the CEOs time by being able to attend.

Finally, he gave some thoughts on what the next five years might bring. The challenge of the current regulatory environment is that it's still looking backwards not forwards. One reason for the continuing retrospection is that it is possible to continue digging ever deeper into past conduct as digital data is so much easier to interrogate than paper. Regulators can go back and interrogate ten years of data which inevitably gives rise to issues to be investigated and resolve which no-one was expecting. This in and of itself brings its own problems given the elapsed time and the lack of contemporaneous context through which to assess past actions.

Bad governance is rightly pointed to as a reason for failure but he questions what evidence there is that good governance drives outperformance. It contributes surely but the critical drivers are business model and competitive position. He also worries that the focus of investors is still too much on the financial numbers and not enough on people and technology planning.

He also expressed concern that in light of public concerns when things go so wrong, it's too easy to over-regulate and over-legislate to compensate without recognising that behavioural change takes time to embed. It's not possible to regulate behaviour. His concern is that it is often tempting to make boards (as opposed to management) more responsible for customer outcomes which blurs the distinction between executive and non-executive directors; this makes the role of the non-executive more of a challenge.

One thing that came through abundantly clearly from the whole conversation was how much effort Mr Flint spends on getting the right people on the board, facilitating interaction between them and concentrating on creating an environment where there is openness and trust; providing the cement to create a unitary board. It could be argued that that is the role of the Chairman in a nutshell.