

**BOARDROOM CONVERSATIONS:**  
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EXPERT AND TAKE THE BENEFIT OF  
THEIR EXPERIENCE BACK TO YOUR  
BOARD

**“A BOARDROOM  
CONVERSATION WITH SIR  
SIMON ROBERTSON”**

FACILITATED BY JAMES BAGGE  
DIRECTOR OF BVALCO LTD

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*Bvalco hosted a conversation with Sir Simon 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.*

*Simon has been in Investment Banking for over 50 years, at Kleinwort Benson where he became Chairman and more recently at Goldman Sachs. He started his own company in August 2005, Simon Robertson Associates LLP, now called Robertson Robey Associates, offering corporate finance advice to a limited number of international companies.*

*He is Deputy Chairman & Senior Independent non-executive Director of HSBC Holdings plc and non-executive Director of The Economist Newspaper Ltd., Berry Brothers & Rudd Ltd., Troy Asset Management Ltd., and NewShore Partners. He is a Trustee of the Royal Opera House Endowment Fund and of the Eden Trust. He is the former Chairman of Rolls-Royce Holdings plc.*

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

During this engaging conversation Sir Simon drew on his diverse experience in the City and on boards of financial institutions and corporate organisations. In particular, he contrasted his experiences as Chair of an international engineering company, Rolls Royce, with his position as Senior Independent Director (SID) of HSBC Holdings, a global bank. The conversation spanned a range of topics including regulatory challenges, size and diversity of boards, and the relationship between executives and non- executives. Overall, Sir Simon’s insights made clear his understanding of the critical influence of behaviour on the effective functioning of boards and the ability of those who populate them to fulfil their roles.

**Asked to give a comparison on the challenges of being on the board of an international engineering company with those of a board of a global financial institution...**

*Sir Simon said that the true test of any effective board was about how it reacted to a crisis. The foundations of board effectiveness, like the Chairman having a supportive relationship with the CEO and knowing which are the strategic levers of the business, are vital – most boards get this part right. The real test of a board’s mettle is how it reacts in a crisis.*

*Sir Simon gave a vivid account of the challenges which confronted the board of Rolls Royce immediately following the highly publicised failure of the jet engine of a QANTAS aircraft. He described the pressure on the board in a highly charged and fast moving situation of having to respond to press enquiries at first without even knowing if anyone had been killed (they hadn’t). He felt his board had reacted in a measured and appropriate way. They had a vital call to make: ground the fleet and ruin the long term relationship with the customers - the airlines - or fly on and risk actual lives. The Board weighed up the risks and decided it was safe based on mitigating actions which had been taken to fly; this had not been an easy decision. After considered debate they took a view, and stuck to it. Thanks to the experience, technical expertise and good dynamics of the whole board, history shows they made the right call. With hindsight Sir Simon indicated that on the public relations side the board had probably underestimated the immediacy of the requirements that are now needed to deal with the power of modern social media. It was no longer enough to say ‘no comment’. In today’s world of instant information, some level of instant response is expected even if it cannot give a full explanation. In this case he was glad, that the crisis had come sometime after his appointment as chair; the then composition and harmony of the board meant it was working sufficiently well to work through the issues of the situation.*

*The challenges faced by the board of HSBC in 2011 and 2012 during the US Senate enquiry in to money laundering allegations and subsequent financial penalty from the DOJ were of a different type; more relentless and with impact that was less easy immediately to determine. During such stressful times, what really matters is for boards to have members who will stand up and be counted. Directors of banks, who are immersed in an “extremely onerous, testing regulatory environment”, need to have a good appreciation of and confidence in the governance arrangements to feel confident that they in turn have discharged their duties.*

**Asked what could reasonably be expected of a non-executive? Is too much expected of them? Is there a risk that they become immersed in too much detail and lose the ability to see ‘wood from trees’?**

*In a non-executive position, it’s crucial you trust the CEO and the company secretary to level with you. It’s not fair for NEDs to be overloaded with too much information.*

*They have to be able to keep above the detail and use their experience, judgment, knowledge and intuition, which is what they're there for. They have to be allowed to do this on a board; as a non-exec, get stuck into the detail and you'll flounder."*

*As far as the regulator is concerned, he distinguished between the financial services sector which is heavily regulated ("increasingly and rightly so") and the broader commercial sector. At Rolls Royce he left the chief executive and finance director to deal with the regulators and the shareholders. He would only engage with the shareholders as and when they wished it, usually once a year. In the financial services sector non-executives are becoming much more drawn into an engagement with the regulators and shareholders nowadays.*

*As the SID of HSBC, Sir Simon has to have a close and continuing discussion with the PRA every few months. Significantly he reported that their focus had been on behaviours. "What they ask me to update them on is the **behaviours**: am I satisfied the behaviours are changing sufficiently to ensure the highest standards." He has seen much more of this emphasis on behaviour over the past three years and thinks it's pitched at absolutely the right level.*

*Undoubtedly, banking and the financial services are in a different space now than they were several years ago. Legal and fiduciary duties carry more weight; key people have to be approved by the PRA, for example. Being on a board requires an understanding of your accountability. You have to know what's expected of you, and to have something to offer. As a non-executive, you have to realise that what is advertised as a 30 day a year commitment can easily become every day responsibility if for example an acquisition is undertaken or some crisis happens.*

### **Asked about the attributes of an effective board; how do balance size and diversity?**

*There may be a swathe of opinion that small boards are more effective, but Sir Simon's view is that the necessity to have the right composition of a board supersedes the need to be small. Rolls Royce needs a broad range of technical, financial and broader commercial expertise on its board. The board can't do without any of these because of the nature of the business. Likewise, HSBC, as a global enterprise needs diversity not only of technical financial skills but also regional expertise. Cultural diversity is essential if one is not going to misconstrue the local political and commercial dynamics.*

*He also said that you can achieve gender diversity on quality boards. If the company is of sufficient calibre, it will attract good people. Sometimes you have to ask around, and seek out the right people, but doing so will pay off.*

### **Asked about managing the critical relationship between executive and non-executive...**

*Sir Simon emphasised the need to have the necessary relationship of trust between the two. Where it did not exist and the 'air needed clearing' then it was essential for a chairman to act quickly and if necessary ruthlessly in the long term interests of the enterprise. He had also witnessed the advantages of broadening the executive directors' engagement with the board; quite often the chief executive can steal the limelight and as a practical step for example he would sometimes ask the executives for their view prior to ascertaining that of the chief executive. Despite initial discomfort with this approach, in his experience this step normally achieved a more open dialogue.*

*Any relationship between CEO and chair demands a balance that is tough to strike. Sir Simon warned that there are dangers in it becoming too pally: on the other hand "As a chair, you only have one ultimate sanction which is to sack the CEO". He cited the current dynamic between the chair and chief executive of HSBC as an excellent example of mutual respect, the right amount of distance, and the ability to resolve any disagreements amicably. After every board meeting Sir Simon has a private session with the NEDs to tell them what he's hearing from the chair and chief exec, and the regulators, and to learn of their concerns. He deduced, "I think this is really important."*

### **Reputation and respect are hard earned and very quickly and easily lost. The banking industry has experienced this and the energy companies are now. What role does a board have to play in re-establishing respect and reputation within and organisation and an industry?**

*In terms of company reputation, it is the board that is in the spotlight when the public forms judgements. The best thing a board can do to maintain the reputation of the organisation is to encourage the chair and chief executive to be as open and transparent about what is going on as possible. The board needs to keep a close eye on how the business is being portrayed by shareholders and in the press. Sir Simon said he is not in favour of individual board directors speaking to the press, but does believe there are plenty of ways of making your public relations "user friendly", including being proactive about pointing out to the Chair opportunities to be more open.*

### **Behaviour flows from the top of the organisation down, how do you make sure it penetrates through the organisation?**

*Sir Simon acknowledged the challenge faced in this respect by large enterprises such as HSBC. The messages had to be vigorously promulgated throughout the organisations to achieve such thorough behavioural change. When this isn't wholly effective, it may be necessary to make examples of people for even seemingly minor*

*mistakes. Compensation packages can be designed to reward both financial and non-financial/ethical targets. At HSBC there are global standards which have to be adhered to throughout the organisation. Compensation is directly affected, both individually and collectively if global standards are not met.*

