



Bvalco

Boards fit for the future

Exiting Coronavirus with a Stronger Board

How crisis management can be used to
strengthen board effectiveness

Foreword

By James Bagge, Alison Gill,
Eleanor Evans and Peter Snowden

Boards that took a step back to consider how effectively they responded to the current crisis will emerge stronger as a result.

The measures put in place to reduce the spread of coronavirus have tested boards as never before. Directors who sit between wanting to do the right thing, and not knowing what the right thing is to do, are having to make decisions at pace, with very little information about how and when the crisis might end.

Existing problems have also been brought to the fore. Perhaps decisions that should have been made before weren't made, the thinking isn't agile enough, or the right people, and maybe even the right CEO, isn't in place.

Although it would be easy to use the crisis as an excuse to continue in that situation, smart boards are addressing problems head-on and even looking for the opportunities the crisis presents for the board and organisation it represents to emerge even stronger.

board is focusing on the right things and using shared values to operate effectively as a unitary board.

It also requires thinking about what the new 'normal' will look like. If you'd told most companies before the crisis that they had to get everyone working from home by the end of the following week, the reaction would be that it wasn't possible. Yet it has been achieved. In tackling the current crisis, boards must think about whether they just want to go back to 'normal' or continuing transforming the business. Although uncertainty relating to the future can result in fear, it can also generate optimism.

We are now at a point where businesses are being given the freedom to reinvent themselves and think creatively about the future. Astute boards will use this as an opportunity to tackle existing problems and do things differently and better (*page 6*).

Sustaining board unity

Finding a way through the crisis to a better 'normal' will inevitably give rise to tensions as entrepreneurial-minded directors strive to get on with taking action, while those who are more risk-averse find themselves inclined to hold back for more information to base decisions on.

Critical to managing these tensions is encouraging directors to consider and commit to collective values that allow them to operate effectively as a unitary board. Although this might seem like an exercise for less hectic times, if not anchoring directors behind a shared set of values for solving difficult dilemmas, it will be all too easy for directors to get into negative conversations based on their own different viewpoints.

The danger being that when people come from a fixed mindset, based on their own beliefs, their focus will be on defending their viewpoint and building evidence to support their point of view, instead of using shared principles to work with others to find the best solutions.

In consequence, any time spent optimising the ability of the board to deal with this crisis, by considering the areas outlined in the remainder of this report, will not only save time and reduce conflict when making decisions, but also enhance its ability to emerge as a more effective team.

What will the 'new normal' look like?

Critical to emerging stronger from the crisis is making the right decisions. That in turn is dependent on applying the six elements of good corporate governance outlined in this report to the crisis at hand. Ranging from how to allocate roles and improve processes for considering risk, to how to make sure the



Increasing board effectiveness

We believe there are six elements boards need to consider if they want to increase their ability to operate effectively both during and after a crisis.



Source: Bvalco

Boards are just as much influenced by the culture, values and beliefs at play as they are by official charters, mandates and codes in place. Perhaps even more so in times of crisis.

It's therefore essential to consider all six of these elements when looking to enhance corporate governance and board effectiveness.

Culture

The culture of the organisation and board drives the behaviours that determine how things get done. In normal times you usually have to create some kind of event or moment to generate culture change, such as launching a new strategy or appointing a new leader that signifies that things are going to be done differently from now on.

Whether boards were looking to change the culture of the organisation or not, the impact of coronavirus is so significant that how companies respond to it will already be significantly impacting on the culture of the organisation. Organisations that told employees their safety was the most important thing and told them they were all going to start working from home, weeks before the government introduced the lockdown, will have created a culture where people feel valued and like they matter, in a way that the business might have been struggling to achieve before.

Whether you focus on it or not, the culture of the organisation will be impacted by this crisis, so it's

important to think about how you want it to be impacted. If the crisis requires the business to become more agile, innovative or productive, or you were looking to achieve those things anyway, what are the behaviours needed to create that culture? How can the board communicate the need for this change in an open and candid way and role-model the new behaviours required?

It's also important to think about how the crisis has already impacted on the culture and use any culture management or pulse survey tools in place to understand how people are feeling. Thinking about and responding to the challenges they face, for example by reducing sales targets to reflect reduced opportunities to sell, can only create more trust, loyalty and engagement. To create a culture that supports the business both now and as it comes out the other side of the crisis.

"The ability of directors to voice concerns and listen to one-another, is vitally important. Use empathy to enhance understanding."

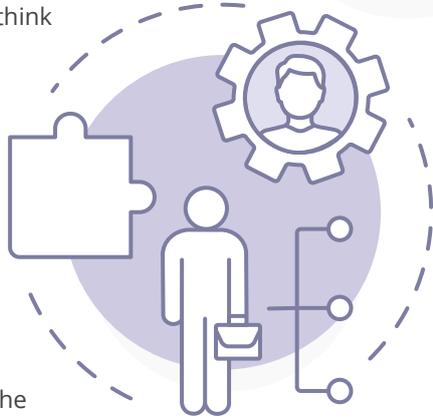
Alison Gill, CEO, Bvalco





Roles

Ensuring the right people are doing the right roles, and that everyone has a clear and shared understanding of roles, is important at the best of times but even more so during a crisis. In tackling the crisis, it's important to think about how to keep the rest of the business functioning and avoid the need for everyone to debate every decision being made. A crisis management sub-committee, made up of non-executive directors and one key executive, can reduce the burden on the executive so they can continue to run the business at this difficult time.



When allocating roles, find out what crisis management, digital, finance, supply chain, marketing and communications skills NEDs already have, as you might already have people with excellent experience at the table and think about how to establish a good communication chain back into the executive.

Where a particular issue is of significant concern, the board should also consider appointing someone to own and take control of this issue, in much the same way that the government appointed a minister for personal protective equipment (PPE) to accelerate progress on protecting frontline healthcare workers following union demands for this.

The pandemic has also demonstrated its indiscriminate ability to take leaders, including British Prime Minister Boris Johnson, out of action for significant periods of time. It's therefore important to think about both temporary and permanent succession planning for all major roles, including the CEO, and identify the best person to take over if needed. What is different now is that most succession plans would assume a normal level of churn, not potentially several key people being out of action at the same time. Depth of succession planning will also be key as people are promoted and gaps appear lower in the organisation.



Processes

The need for more agile working and responsive decision-making must be balanced against the need to ensure appropriate decision-making, oversight and organisational processes are still in place. This includes measures to review the point at which an operational risk, causing business disruption, is likely to turn into a strategic risk that could cause the company to fail.

The Board retains primary responsibility for oversight of defining and managing risk. It is essential therefore that in times of crisis all members of the board are given an opportunity to contribute and be heard. A diversity of views can be very valuable, so the ability of directors to voice concerns and listen to one-another is vitally important. As is ensuring the board has the right skills, information and expertise to consider risk and ensuring the topic is being given sufficient time on the agenda.

As well as putting in place processes to calculate risk effectively, the processes around information gathering, decision-making and communication also need to be reviewed. As the board takes action to protect the business, reducing hours, pay and services, the reasons for this strategy and how it will benefit people in the long run needs to be explained to employees, customers and even the financial regulator. If they learn about major changes via the press this could cause problems. Processes to increase the tempo of decision-making also need to be reviewed. Napoleon was heralded as one of the greatest minds in military warfare not due to any drastic changes in tactics, but because of the speed at which he could process information to develop a course of action. Good information is critical to understanding the nature of the challenges facing the business, so if information flow to the board wasn't good before, now is the time to fix that.

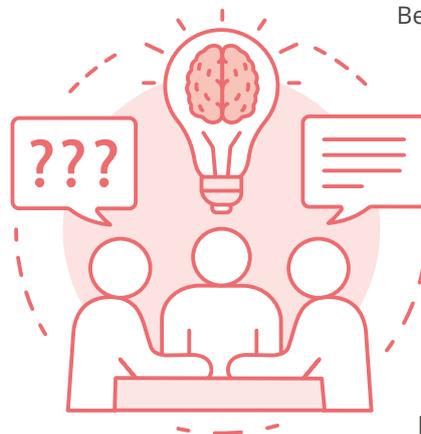


Strategy

Everyone wants to find a way forward, but despite the Government's roadmap many questions on how and when remain unanswered and boards are having to come up with strategies for the immediate, medium and long-term, despite not having all the facts and information to hand.

This is problematic because crisis situations are characterised by a threat to the long-term objectives and sustainability of the organisation. As humans, our survival depends on our ability to make predictions, and a primary function of the brain is to predict when and how we can avoid threats.

Because the brain seeks to make accurate predictions, it has an aversion to uncertainty which can cause boards, as well as individual directors to experience anxiety.



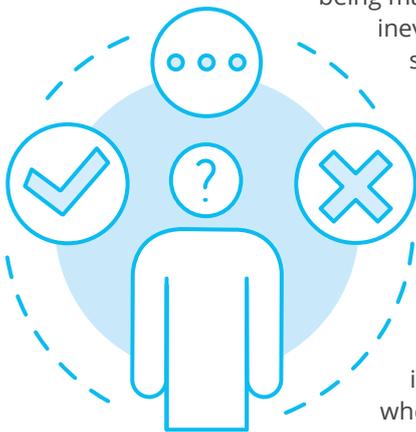
Rather than pretending these feelings of anxiety don't exist, or pushing them away, it's important that we use these feelings of anxiety to help enhance

decision-making. Emotion is a vital source of information, so adopting a 'feel-think-act-review' cycle ensures that boards can leverage all the information available, including emotional.

This creates an opportunity to better define the problem that needs to be solved, create a richer dialogue, enhance engagement and leverage whole-brain thinking to consider all the options available. It empowers boards to embrace the state of 'not knowing', ensuring a fluid decision-making cycle that allows strategies to be created based on possible outcomes, including worst-case scenarios, then quickly reviewed in the light of fresh evidence to allow for new developments.

Beliefs

Beliefs become very important during a crisis, because there are often few certainties in place. Any decisions being made will almost inevitably be based on some underlying assumptions, so it's important to test if those assumptions are valid. Working on false assumptions can mean risks are not identified or ignored, particularly where there is a collective enthusiasm for a course of action.



Rather than letting unspoken beliefs and assumptions guide the board's thinking almost unnoticed, it's important to acknowledge how the beliefs of individual directors and the board as a whole are guiding thinking and to challenge those beliefs where possible.

For example, there may be a belief that customers are expecting a level of service to continue during the crisis, when they might actually prefer a reduction in price in return for a reduced service. There may be a belief that the board is better off giving no comment, when this could be hurting its relationship with stakeholders and greater transparency and more professional communications are needed.

To make good decisions, boards need to be aware of the beliefs and assumptions at play. The first step to uncovering them is by recognising them, without judgement, simply by noticing them. It is the role of the chair to facilitate this process by asking for individual perspectives and encouraging directors to explain what assumptions they're making when drawing conclusions or advocating a course of action.



"Any decisions being made will almost inevitably be based on some underlying assumptions, so it's important to test if those assumptions are valid."

James Bagge,
Executive Chairman, Bvalco

Values

Values define how a group goes about making decisions and difficult choices. A boardroom environment that allows people to safely voice concerns and differences of opinion, while also anchoring them to shared values, will reduce conflict and enhance and speed up decision-making.

Critical to creating this shared belief system is establishing the values to underpin the board's decision-making. For example, the board of a bank has a difficult decision about where to draw the line between meeting their conduct regulations to allow people to delay paying their mortgages at this time and their prudential regulations that require them to protect their capital, this could easily give rise to conflicting opinions. As can the desire to support customers but not for so long that they risk losing all the equity in their home, putting them at risk of repossession.

Having agreed values, such as the value to 'treat customers fairly', creates a shared framework which can be used to encourage debate around how best to 'live' those values when faced with difficult dilemmas. All of which will encourage directors to share differing views and opinions around a shared focus, instead of resorting to using their own individual values and potentially conflicting moral beliefs to create and defend a position.

Similarly, an organisation that has a value of 'kindness towards the community' might want to live that value by making products now needed by the NHS and care sector and give away services or resources for free, as part of its wider focus on creating and sustaining goodwill.



Defining a “new normal”

The disruption caused by coronavirus provides a unique opportunity to rethink business models, defining new and better ways of working.

The disruption has affected everyone's lives, providing an opportunity to think about if they just want things to go back to how they were before or add in a little bit more disruption to rethink how things are done.

The following areas are just some of the existing issues that boards now have an opportunity to tackle as part of their efforts to come out of the crisis stronger and better...



Ways of working -

Many employees will not want to return to commuting and working fixed hours in an office. Instead of aspiring to return to this 'norm', employers now have an opportunity to use the current disruption to shift their focus from the hours people are working to how effectively they're working to extend the opportunity to work flexibly to many more people. In a way that will also help to reduce gender pay gaps by removing the stigma currently associated with flexible working, which has introduced career barriers for women and made it culturally unacceptable for men to play a more involved role at home and in their children's lives. All of which can now be challenged to redefine what the future of work should look like.

Supply Chains -

If there's been a reluctance to tackle inefficient supply chains but this hasn't been progressed for fear of disrupting business, now is also a good time to look at alternatives available and consider how to revise them to meet other objectives. These could include reduced carbon emissions within the supply chain itself, to meet challenging 'scope 3' emissions, relating to the emissions generated in the supply chain, as opposed to directly by the company itself. Other ethical considerations could range from the use of overseas child labour to identifying suppliers with better inventory management and better approaches to risk management.



Executive pay -

Many boards have long been concerned about addressing growing discontent over executive pay but have been reluctant to address the issue. Employees being furloughed on 80% of their salaries and staff being asked to take unpaid leave provides an opportunity to reconsider how best to create a culture of fairness when it comes to executive pay. Are directors sharing the consequences of cost-cutting measures fairly, in keeping with revisions to section 172 of the Companies Act, which requires the director of a company to 'act in the way he [or she] considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole' – specifically including 'the interests of the company's employees'.

Learning from the crisis

How the board performed during the crisis and any lessons learned can be used to strengthen its performance going forward.

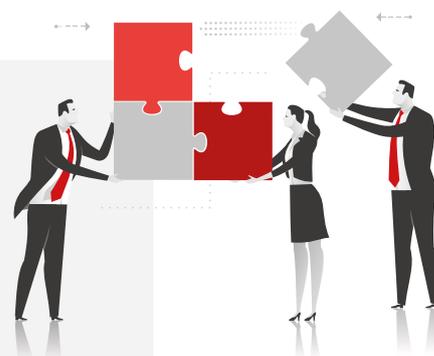
For those companies that didn't have the opportunity to carry out a board review to assess how well they were responding to the crisis as it unfolded, the second half

of this year still presents a valuable opportunity to reflect on how it actually performed and what it can learn.

Boost teamwork

If directors found themselves in conflict with one another and people were more interested in protecting their reputations and defending their viewpoints than listening to others to find more creative ways of moving forward, how can that be rectified now?

If non-executive directors weren't given an equal voice and equal airtime, how can their skills and expertise be better incorporated next time, and how can they be equipped with the skills needed to work more effectively with the executive team?



Improve decision making

If some of the assumptions used to base decisions on weren't tested properly, the pace of decision-making wasn't agile enough or was too rushed, what learnings can be used to improve decision-making and oversight processes going forward?

If the ability of the business to review the effectiveness of decisions was too slow, meaning poor decisions took too long to be adjusted or retracted, how can this be improved? What is the role of directors in creating greater transparency around the relationship between how the board is working and how the business is performing?



"Is the board operating as a unified entity that is able to utilise diversity of opinion to drive creative thinking?"

Peter Snowdon,
Associate, Bvalco

Establish values

Is the board operating as a unified entity that is able to utilise diversity of opinion to drive creative thinking, problem-solving and innovation, in a way that still anchors the strategy to shared values?

How can those values be used to help shape the behaviour and ethics of the board and not just what it's doing but how it's going about doing that?

Conclusion

The disruption and uncertainty caused by the coronavirus pose genuine threats to businesses, but also opportunities for the board to really come together to increase its effectiveness.

By reviewing how well it is performing across six key governance elements (culture, roles, processes, strategy, beliefs and values), directors have a unique opportunity not only to improve their ability to respond to the crisis, but also, to emerge as a stronger board.

At the same time, by considering what they want the new 'normal' to look like, boards can finally address long-standing concerns, ranging from environmental issues and supply chain efficiency to executive pay and flexible working.



"By considering what they want the new 'normal' to look like, boards can address long-standing concerns."

**Eleanor Evans,
Associate, Bvalco**

DO...

Use values-led decision-making to maintain a unified board

Ensure people on the board have the right roles and experience

Increase the flow of data and pace of decision-making

Test the assumptions decisions are being based on

DON'T...

Ignore existing problems the crisis has brought to the fore

Overlook the importance of feelings for informing decisions

Forget to put good succession plans in place for all key roles

Miss the opportunity to define a 'new normal' going forward

About Bvalco

Bvalco helps boards to prepare for the future, with external board reviews that catalyse open debate into the best ways to boost the health of the board going forward.

Our unique blend of business, governance and human behavioural expertise enables us to provide deep - yet actionable - insights into any issues limiting the ability of your board to thrive.



Alison Gill, CEO

Alison Gill is a founding director and CEO of Bvalco. She designs and delivers external board reviews, with a particular emphasis on the human behaviour and dynamics elements that can contribute to, or undermine, board effectiveness.



James Bagge, Executive Chairman

James Bagge is a founding director and executive chairman of Bvalco. He is one of the leading practitioners on corporate governance issues, having spent more than twenty years advising clients on managing complicated and sensitive regulatory issues at the highest level.



Peter Snowdon, Associate

Peter Snowdon is a legal and corporate governance expert, with a particular interest in issues affecting financial services firms, banks and investment firms. A former partner at Norton Rose LLP, he has also worked for the Financial Services Authority (FSA).



Eleanor Evans, Associate

Eleanor Evans is a governance and risk advisor, with twenty years experience of working at the top level of global corporate business. She has extensive experience of overseeing ethics, regulatory compliance, international trade, environment, security and risk functions.

BOARD DEVELOPMENT WORKSHOPS

Bvalco is now offering board development workshops to help you to review how effectively your board is working on its response and operating across the six elements of good governance outlined in this report: culture, roles, processes, strategy, beliefs, values.

By conducting short interviews with the chair, directors and key executives, and observing your virtual crisis board meetings, we can provide succinct and actionable recommendations that will help you to reflect on the 'in-flight' lessons that are important to learn as you go. And when the time is appropriate, we can conduct 'deep dive' reviews on the effectiveness of how your board responded to this crisis.

Contact us to find out more and set up a **free video consultation** to discuss your needs:-



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