

**ICSA Qualifying Programme**

# Boardroom Dynamics

**Sample assessment material 2019****Time allowed:** 3 hours (plus 15 minutes reading time)**Do not open this examination paper until the presiding officer or an invigilator tells you to.****You must not take this paper out of the examination room.**

The examination paper contains **6** questions of which you must attempt **4**. You must attempt **3** **questions** in Section A and **1** **question** in Section B. The questions in Section A are based on the pre-released case study whereas the questions in Section B are not based on the pre-released case study.

Each question is allocated 25 marks. There are **100 marks** available in total for the paper.

**Note:** Unless otherwise specified, you should assume that an Act or an organisation referred to in the questions is a UK Act or organisation.

# Case study

## 992 Limited

992 Limited (992) is a UK company limited by shares. It employs around 500 staff and has a turnover of £158million. 992 designs and manufactures seat coverings and has operated for 20 years. Its current structure is the result of several mergers and acquisitions over a short timeframe, and as a consequence there is an unusual mixture of directors on the 992 Board. This mixture has created a divided Board with plenty of tensions, but the highly-skilled workforce is loyal and long-serving. 992 aims to comply with the UK Corporate Governance Code.

992 has been in the hands of private equity owners for almost two years and is being prepared for sale. The market in which it operates is volatile and whilst 992 has previously focused on providing seat coverings for the luxury car market, it is now looking to expand into aviation and yachting. One of 992's most valuable assets is its design division, which is currently developing a new seat covering, "enviropoz", which is sourced from natural fibres with very low environmental impact.

The company needs to move into new markets, but the timing of this has not been agreed and in particular whether this should be before or after any sale.

The main members of the Board are:

The Non-executive Chair, Mike Cromar, who is a director with a portfolio of non-executive director (NED) roles. He was appointed by the private equity owners when they bought the company and his main attribute is that he is eager to please and does not like confrontation. The Board has not been evaluated in recent memory, and the owners have let Mike know that this is perfectly acceptable as they conduct all necessary evaluation on a rolling basis.

The CEO is Sarah Williams, a retail specialist who until recently worked in the automotive sector. She is considered to be a future leader of bigger organisations and is highly regarded in the sector. She does not have much respect for Mike but knows that he may not be in the role for much longer. Sarah is supportive of the company and is very keen to become Mike's successor. The private equity owners have told her they see the advantage of this plan (especially in the lead up to sale) and intend to appoint Sarah in the next month, removing Mike. It is likely that Sarah will become the Executive Chair of 992.

The CFO is Andy Jett, who has been in the company for all of its 20 years, having arrived as an apprentice accountant. He is passionate about 992 and its employees and wants to be in the company for life.

Of the remaining four NEDs, two are long-serving: John Jonson and Leoni Watson. They are firm friends and resent the presence of the private equity owners. They tend to always side with each other in terms of Board voting. John specialises in HR issues and Leoni is a corporate lawyer. They have been on the Board for 12 and 17 years respectively.

The other two NEDs are Marcus Pink and Sven Allae, both appointed by the private equity owners. Marcus is a forensic accountant who tends to concentrate on increasing efficiencies in companies, and Sven is a technology specialist. Both display little interest in their broader responsibilities as directors - they believe they are on the Board solely to carry out the wishes of the owners.

Mike, Marcus and Sven, together with the two executives, Sarah and Andy, are well paid and have received strong bonus payments and above average pay rises.

The two other NEDs, John and Leoni, are paid a modest directors' fee which has not been reviewed for five years. They believe that they are only tolerated by the owners because they are a good advertisement for 992 and are popular with the workforce and trade unions alike.

There are other problems facing the 992 Board. The Health and Safety Regulator is taking a close interest after an accident in the main manufacturing plant last year. The accident involved a spillage of solvents, where the fumes caused illness amongst several employees. No-one was seriously hurt but the regulator considered the accident to be avoidable and it is now considering its next move (which may include a formal fine or potential further action). The Trade Unions have mounted a negative campaign in the media, implying that the current owners had been taking safety risks in order to save money. The media have taken this message and are constantly on the lookout for more evidence of this. As a consequence, the directors are under significant pressure.

Predictably, John and Leoni were concerned about the employees while Marcus, Sven and Mike were only worried about the effect on the company's value. Sarah and Andy know that they had missed a safety issue which maybe should have appeared on the Board's risk register. They all agree however that 992's reputation is weakened as a result.

The Board meets on average three times a year, although this is not a regular pattern. There is also an 'Owners' Committee' which meets just before each Board meeting and consists of Mike, Sarah and the private equity NEDs, Marcus and Sven. This is where the real decisions are considered and are then taken to the Board meeting for endorsement. There is one committee of the Board, an Audit Committee, which tends to cover just financial reporting. Other common committee tasks, such as remuneration and risk oversight, are managed in the Owners' Committee and passed to the Board to ratify.

The two most recent Board meetings of 992 have not gone well. They have overrun in terms of timings; Mike has not stuck to the agenda and there have been some inconclusive arguments about the causes of the accident and the wisdom of selling the company until this is resolved. Board meetings also have a large number of other attendees and Mike allows advisers and other middle management to attend.

The 992 directors seem to find it hard to reach agreement, divide easily into two groups (one in favour of the owners' wishes and one against). All agree that the meetings are too long and have become very exhausting to sit through. Matters are not helped because the private equity owners have decided to sell 992 within six months, regardless of whether the accident enquiry has been resolved, which is increasing the pressure on the Board.

The Board is due to hold a meeting next week, scheduled as usual just after an Owners' Committee meeting. It is going to consider timings for the possible sale, all the issues around the launch of 'enviropoz' as well as appointing advisers who can conduct a due diligence exercise to assess the readiness of the company for sale.

You are the newly appointed Company Secretary of 992.

# Section A

Answer **three** questions in this section.

1. The private equity owners, as part of a pre-sale due diligence process, decide to review the effectiveness of the 992 Board:

(a) Analyse the current and planned governance structure of 992. (15marks)

(b) Discuss aspects of 992's structure which match the evolution of UK governance codes and those which do not. (10marks)

[Total for Question 1 = 25 marks]

2. Prepare a briefing paper for Mike Cromar, ahead of the imminent Board meeting, discussing the key decisions that 992's Board needs to take, how the decisions should be based on evidence, and suggesting a tool that could help.

[Total for Question 2 = 25 marks]

3. 992 is being prepared for sale:

(a) Discuss the different perspectives of 992 that the directors might hold and how this could ultimately affect its reputation. (12 marks)

(b) Produce an outline plan for the Board to establish its stakeholder engagement and communications in the event of a potential sale of 992. (13marks)

[Total for Question 3 = 25 marks]

4. Analyse, in the context of 992, how the influences of the directors, corporate culture and their approach to meetings can affect boardroom dynamics.

[Total for Question 4 = 25 marks]

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**TOTAL FOR SECTION A = 75 MARKS**

## Section B

Answer **one** question only. Questions 5 and 6 do not relate to the pre-released case study.

5. Evaluate the differences between individual and team coaching. In your answer, discuss how a Company Secretary can facilitate the coaching process.

[Total for Question 5 = 25 marks]

6. You are the Company Secretary of a media organisation – “Vission”. The company is under pressure, losing money and is seeking the next big news story to improve its fortunes. The Chair approaches you and expresses concern about the tensions amongst the directors: the Board cannot agree on its future strategy and is arguing. He wonders if the directors might be showing signs of stress. You confirm that you share this concern and that you have also observed significant tensions between the CEO and HR Director (both Board members). This has arisen because the HR Director believes that senior managers are being put under too much pressure to find new news items, but lacks the confidence to make this point more openly.

- (a) Prepare a briefing note to the Chair discussing some of the symptoms of stress, linking these to behaviours in the Vission boardroom.

(12 marks)

- (b) Evaluate the methods that could be used to improve resilience amongst the Vission directors.

(13marks)

[Total for Question 6 = 25 marks]

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**TOTAL FOR SECTION B = 25 MARKS**  
**TOTAL FOR PAPER = 100 MARKS**

*The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental.*