

Part Two - Chartered Governance Qualifying Programme

Boardroom Dynamics

Time allowed: 3 hours (plus 15 minutes reading time)

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 question is a UK Act or organisation.

Pre-released case study

Eco Holistic Hair Limited

Eco Holistic Hair Limited (Eco) was formed by Tyler Wright and Akin Sohal in 2010 as a manufacturer and supplier of sustainable and environmentally friendly hair salon equipment and products. Eco initially operated in one rented factory in the South of England, supplying to hairdresser distributors throughout the UK.

Tyler and Akin met at university. Tyler was studying Product Design & Technology and Akin who was studying Business and Marketing, was also working as a part-time hair stylist. After they graduated, both pursued separate, successful, careers but they stayed in touch. Due to their shared interest in establishing a business aligned to their own values and benefitting the environment, they formed Eco.

In 2013, Eco also began supplying directly to hair salons and self-employed hair stylists via online sales. With growing global interest in sustainability and the environment, customer demand for cruelty free and vegan products, Tyler's drive and Akin's extensive professional contacts, Eco grew sales substantially and continued to expand its product range. Within eight years, Eco had two operational sites each with its own factory in the North and South of England, allowing Eco to provide an increasingly wide range of salon equipment and products to its loyal and growing customer base. Eco has won national sustainability and environmentally friendly business awards for the last four years.

When Eco was formed, Tyler and Akin used personal funding and had equal shareholdings but they have since attracted external investment. The current shareholders are Tyler 50%; Akin 20%; and three external investors each with 10%.

There are seven directors on the Eco Board:

Role on Board:	Independent Chair	Chief Executive Officer (CEO)	Chief Financial Officer (CFO)	Chief Commercial Officer (CCO)	Non-Executive Director (NED)	Independent Non-Executive Director (iNED)	
Name:	Les Green	Tyler Wright	Rene Baker	Helen Gallagher	Akin Sohal	Noel Taylor	Charlie Cornish
Date appointed:	March 2021	March 2010	March 2013	March 2021	March 2021	March 2021	March 2022
Profession, and / or other roles / background:	Lawyer and Portfolio NED	Product Design and Technology background	Chartered Accountant	Marketing background	Former CCO and Marketing Director of Eco	Lawyer and Portfolio NED	Chartered Accountant and Portfolio NED

Tyler and Akin had a positive working relationship at Eco for several years. They could constructively challenge each other for the good of the business, and their differing views from their respective areas of expertise provided balance to discussions and decision-making. In recent years, Akin's day-to-day operational involvement has reduced due to changes with his priorities and focus on his personal life. Akin was appointed as a NED in 2021 having previously been the CCO and Marketing Director. There are now tensions between Tyler and Akin in Board meetings. Akin feels overpowered by Tyler and finds discussions stressful and undermining, particularly as he had been instrumental in Eco's growth. Tyler is concerned that Akin is passive at meetings as Akin does not express his true views on matters of strategic importance, and he seems to be distracted by personal issues, as he always checks his phone during meetings.

Les Green and Tyler meet regularly and work well together. Tyler tells Les his views before Board meetings and encourages Les to relay these views during the meetings, which Les does. Les is very busy with NED roles for other companies and prefers there to be minimal discussion at the Eco Board meetings, to get through the agenda items as quickly as possible, and he is therefore happy to agree with Tyler. This is Le's first role as chair.

Rene was recruited to bring increased financial oversight, during a period of Eco's rapid growth. Rene is a chartered accountant and a self-proclaimed 'pedant' who takes her profession seriously. Rene cares about the financial sustainability of Eco, and she is risk averse. Often, Rene's pedantic comments and attention to detail causes annoyance, frustration, and irritation to some of the other directors who feel that Rene should have more of a commercial outlook.

There are two lawyers, two chartered accountants and two directors with marketing backgrounds on the Board. Although this subject matter expertise is helpful for Eco, the directors do not make decisions collectively for the benefit of Eco as whole. Instead, they each contribute from their respective specialisms only. At Board meetings, Les and Noel often argue over legal points, and Rene and Charlie often argue about the financial points. This, as well as the directors' general lack of cohesion, causes frustrations on the Board. Rather than acting in his capacity as NED, Charlie tends to contact Rene in between Board meetings, to give her instructions regarding work he would like her to do, and he tends to get involved in the operational financial management of Eco which causes confusion in the business and undermines Rene.

Often the Board reluctantly reach an agreement during meetings, but then the directors work in different directions after the meetings because of confusion about what has been agreed, and a sense that they are being pressurised by Les to take certain action. This is not helped by the fact that minutes are not taken to outline the decisions taken and actions agreed.

Akin tends to ask Helen to undertake activity for Eco despite not having agreement from the Board. He also asks her to assist him with marketing for other projects which are not related to Eco. Helen does the tasks but is not happy about this.

Noel has concerns over the way the Board meetings are managed by Les as there are seldom agendas for meetings and papers are rarely circulated in advance. The meetings are only held three times a year and they tend to last between seven and eight hours. The meetings generally do not have full attendance and Akin invariably joins the meeting late or has to leave early. Noel, himself, struggles to attend the full seven or eight-hour meetings due to his other commitments. Noel is also concerned that Charlie's financial knowledge is out of date. Noel has tried to raise his concerns about this at the meeting with no success and has asked Les if they could meet outside the Board meeting to discuss Noel's concerns. It has been several weeks, and Les has not yet responded to Noel.

Meetings are not private as other members of staff use the room to gain access to another meeting room, and the office cleaners walk in and out of the meeting room as their cleaning products are stored there.

Performance

Eco's global revenue has increased steadily each year, and in the last two years from £37 million in 2021-2022 to £41 million in 2022-2023. Eco currently has 92 employees which is an increase from 80 in 2022-2023

You have recently been appointed as Company Secretary of Eco. Your line manager is Sammie Rosewood. Sammie is the Head of Governance and Compliance, and he is relatively new in post. Sammie has shared with you his intention to benchmark Eco against the UK Corporate Governance Code to enable a gap analysis to be prepared for Les so that Eco can adopt the highest standards of corporate governance.

Your first Board meeting in March 2023

On 6 March 2023, you attended your first Board meeting, in person with Sammie. Prior to the meeting, Sammie had asked you to pay particular attention to the dynamics in the meeting as he is keen to improve this. The meeting lasted eight hours, partly because it was slow to start with the directors waiting for Helen to join as she had been dealing with a staff issue. Refreshments were not provided and there was only one short comfort break.

Two directors left the meeting together after a couple of hours to get sandwiches from a local shop and when they returned began eating them in the meeting room, which was a distraction as the meeting did not pause for a break at this time. The meeting room was very hot as the air conditioning was broken, and the lights kept turning off automatically due to limited movement in the room.

As Sammie had expected, the meeting was intense and challenging. Les dominated every aspect of the meeting, introducing each item with his own opinions, which were from Tyler, to sway the Board debate and decision-making. Les was impatient when other directors were discussing agenda items as he kept looking at his watch and saying he needed to move on to the next item. The meeting lacked structure with no formal agenda and all items being verbal updates, except for Rene's financial report, which was circulated in advance.

Rene presented her report at the Board and received positive challenge from most of the directors who engaged in constructive debate and demonstrated diversity of opinion on a property investment proposal that she made.

During the meeting, Tyler was passionate about the business, however, the other directors found him aggressive. The subject matter experts focused on their areas of expertise only, without presenting a broader collective view for the business. Akin was distracted on his phone and checking emails and when Tyler made suggestions for a new strategic initiative to recycle hair waste, Akin would respond “*whatever you say Tyler, you’re the boss*”. Akin then left the meeting early without giving apologies to Les.

Other issues were:

- Les was rudely and openly dismissive of views that did not align with his and Tyler’s views.
- Akin was very quiet overall, and whilst he attempted to express his views on one occasion at the beginning of the meeting, he was quickly dismissed, and did not participate any further in any strategic discussions and kept his head down.
- There is an apparent culture gap between Tyler’s vision and energy managing the business and the conflict, disagreements, and frustrations at the Board meeting.
- During the meeting, Tyler was muttering under his breath when he did not agree with the discussions and then left the room in frustration and returned when he had calmed down.
- There was positive Board discussion with some of the directors regarding the approach Eco should take regarding a supplier who had reneged on a contract. However, Les then insisted that the Board take a course of action he advocated.
- There were no items covering risk other than limited financial risks covered in Rene’s financial report.
- As the room was so hot, Les fell asleep during one item.
- Due to the conflict between Tyler and Akin, there appeared to be a divide between the executive and non-executive directors.
- At the end of the meeting, Les commented that Sammie had suggested that an external Board evaluation be carried out. However, Les asked you as the new Company Secretary to undertake a short review of the Board as he thought that a full external review was a waste of time and cost.

Your evaluation findings

As agreed with Les, you carried out an evaluation in the following two-week period - holding individual interviews with each director, and some senior managers. In addition to the issues Sammie had briefed you on and you had already witnessed at the Board meeting, your findings included the following:

- The Articles of Association are weak with no confirmation of quorum for the meetings.
- There are no policies or other key governance documents in place for Eco and, therefore, a lack of guidance for the meeting format and processes.
- There are no role profiles for the Chair, CEO, executive directors or non-executive directors.
- There are no committees and therefore no decisions or recommendations are delegated by the Board to any other group.

Section A

Answer **three** questions in this section. Questions 1 to 4 are related to the pre-released case study.

QUESTION 1

Sammie has asked you, as the new Company Secretary, to prepare a paper for him and the Chair to help improve the boardroom dynamics of Eco, which should include:

- a brief discussion of what conflict in the boardroom is.
- analysis of how and why the current conflicts on the Eco Board have arisen, providing at least **three** examples.
- what can be done to enable the directors to manage disagreement and challenge more constructively in the future.

(25 marks)

Pilot Paper

QUESTION 2

Sammie has an interest in Board and company culture and their potential impact on the finances and governance of a company. He has asked for your help in evaluating how general concepts of culture, together with the 'Deal and Kennedy' culture model, or another appropriate culture model, could be used to better understand the cultural differences that clearly exist within the Eco Board and also the business.

REQUIRED:

He asks you to prepare a report for the Board with findings to help the Directors consider how and why the Board of Eco might need cultural change.

(25 marks)

Pilot Paper

QUESTION 3

You have been asked to prepare a paper discussing individual technical components of Board demographics, with specific reference to the directors and Board of Eco.

In your paper you are also required to compare the relationship between capacity, capability and connections, and any other relevant Board attributes, including suggesting how these attributes might enable effective Board dynamics.

(25 marks)

Pilot Paper

QUESTION 4

Sammie invites you to a meeting with him to discuss your observations of the first Eco Board meeting you attended in March 2023.

REQUIRED:

He asks you to write a paper for the Board evaluating the quality in the design of the Eco Board meetings, covering each of the following with reference to design characteristics:

- at least **three** existing strengths.
- at least **three** weaknesses.
- at least **three** suggestions for improvement.

(25 Marks)

Pilot Paper

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.

QUESTION 5

PaperandPens plc (PP) is a manufacturing company supplying high-end stationery retail outlets with a range of branded stationery products. The most recent Board review of PP was conducted by a specialist consultancy six months ago. One of the recommendations from that review was for a skills assessment for each director and the provision of any personal development arising from that assessment. The review had been restricted to a whole-Board evaluation, but the evaluator had felt the issue was significant enough to highlight the importance of ongoing individual director development. The report further indicated that there seemed to be a 'group consensus' that individual personal and professional development was not the business of the Board but was a matter for each individual director.

There are four executive directors (EDs), and five non-executive directors (NEDs) and they have been with the business since its listing on the London Stock Exchange (LSE) eight years ago.

The business itself is flourishing, and the share price is very healthy. However, one of the other findings from the review was that there seemed to be a growing level of complacency amongst the directors. Board meetings were short and focused retrospectively, with the NEDs failing to engage fully in strategic planning, instead relying on the EDs to give them strategic direction.

ED remuneration is aligned to KPI results, while NED remuneration is fixed and sits in the upper quartile for the sector.

REQUIRED:

You are a governance professional working on a short-term contract for PP. The Chair, concerned about perceptions of the Board and under pressure from a group of key institutional investors, has asked you to write a report providing the following:

- An outline of the purpose of a Board and director performance evaluation and management programme and how that might be conducted, with reference to PP's Board, where relevant and appropriate.

(25 Marks)

QUESTION 6

VisionX Search Consultancy Services Limited (VisionX) is a large search and recruitment consultancy. It specialises in executive-level and departmental leadership assignments comprising C-level (CEOs, CFOs, COOs, CIOs) roles across all industries with a global presence and a strong client base across diverse jurisdictions. The Board of directors at VisionX includes an IT expert, two Human Resources professionals (one a generalist and one a recruitment specialist), a lawyer, and two accountants (one of whom is the CEO and the other the Finance Director).

The Board members are all highly competent, motivated and energetic professionals but find it difficult to collaborate effectively at Board meetings and to co-ordinate their efforts in the interests of the objectives of VisionX. Over the last five Board meetings, the Chair has reverted to an exclusively online Board meeting format (as was the case during the Pandemic). This is ostensibly to save costs but, in reality, it is because the Chair finds it difficult to facilitate productive face-to-face conversations, which would move the organisation forward in an agreed direction, and he finds online meetings easier to control and to diffuse tensions when emotions run high. Subsequently, there is a noticeable lack of substantive and productive challenge which would come from face-to-face debate. VisionX has faced economic and other challenges during the past three years.

REQUIRED:

You are a senior governance professional recently appointed as Head of Governance for VisionX. Your first main project is to build a governance consultancy service for VisionX's clients.

- a) Originating from some confusion amongst the directors as to how to use the word 'dynamics' in the marketing material for the new governance consultancy client service, you have been asked to write a formal paper for the directors of VisionX. Your paper should explain the difference between Board dynamics and boardroom dynamics, in the context of VisionX, discussing the drivers that are involved.

(12 marks)

- b) As part of VisionX's new governance consultancy service, and to support the marketing of VisionX, you are now responsible for writing quarterly articles and blogs on topical governance subjects for VisionX's clients. For the first one using VisionX as the basis of your analysis, write an article on how to build a resilient board.

(13 marks)

(Total: 25 marks)

Pilot Paper

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.

END