

Part Two – Chartered Governance Qualifying Programme

Boardroom Dynamics

Sample of Marking Scheme

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) 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 Les'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 focussed 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 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)

Question	Indicative content
<p>1 25 marks</p>	<p>Answers should demonstrate an understanding of the concept of team conflict and board role conflict including the Drama Triangle conflict, the different types of conflict and distinction between conflict which can be negative and tension which can be positive. Also how to challenge well in the boardroom. The required theoretical dimensions from Jen and Mannix (2001), and Katharina Pick, and also recommendations from Bvalco, and findings from the report from ICSA (CGIUKI), in partnership with Henley Business School, 'Conflict and tension in the boardroom: how managing disagreement improves board dynamics' (2017).</p> <p>Note to markers: Application to the case study could provide short analysis of several examples or more in-depth analysis of three examples, provided the framework is applied to the case study and there is an assessment of case study facts. The points below are only examples and marks should be awarded to candidates who give any such examples rather than just talking about the theory of questions. The importance being the application of the theory to the case study rather than their verbatim replication. Notes should be awarded for the style of the paper prepared which should be of an appropriate tone and presentation for a line manager and Chair.</p> <p>CURRENT CONFLICTS: There are many examples in the case study that can be included such as those listed below, which are also referred to in the theory and research findings noted below:</p> <p>Relationship conflict: This seems the most prevalent at the Board meetings e.g. (1) Long term historical relationship between Akin and Tyler and change to Akin's focus and priorities Akin feels undermined and stressed by Tyler who finds Akin distracted by personal matters, passive and lacking interest in the strategy of the business.</p>

There may be an emotional factor here given their long-term relationship and Akin has been instrumental in Eco's growth, but he now has other priorities. (2) Rene causing annoyance, frustration and irritation due to lacking a commercial approach (although positive discussion for her finance agenda item); (3) Les and Noel argue, and Rene and Charlie argue on their respective areas of expertise (law and finance)

Task conflict/tension: A couple of positive reference to this at the meeting – debate on an investment opportunity, and regarding an approach to a supplier who is in breach of contract

Process conflict: This is also a problem for Eco and there are a few references to blurred lines between NED and Executive Directors roles and who is responsible for what. For example, Tyler is giving Les instructions and therefore Les is not independent; Charlie's interference with Rene's work which is undermining; Akin asking Helen to do non-Eco work for him. There is general confusion regarding non-executive and executive duties.

There are some aggressive behaviours in the meetings.

There are references to Les dominating discussions and aiming for early consensus with decisions and there are references to the directors not following decisions after the meetings in part due to the lack of minutes of the meetings to record decisions and actions.

Personal behaviour and attitudes of directors are key considerations: For example, competing factions with the specialists competing (accountants and lawyers); directors having concerns about behaviours of the Chair, dominating discussions and rushing through meetings, dismissive and impatient. Tyler muttering under his breath when he did not agree with the discussions at the meeting and then walking out of the meeting but then returning when he had calmed down. Akin keeping his head down and also his comment regarding Tyler being the boss. There are other behaviours which will not help – leaving the meetings unannounced, leaving early without apologies.

There are several examples of relational tension between the NEDs and executive directors, issues with siloed working due to specialisms on the Board but also due to lack of agenda and papers, and one example of the Drama Triangle with Les insisting his views are correct and should be followed.

HOW TO MANAGE DISAGREEMENT AND CONFLICT:

Minutes to record decisions and actions.

Role profiles for NEDs, CEO and Executive directors.

Role profile to include Chair who should also receive briefings/training on his role as Chair and how to lead Board meetings.

Company Secretary to play key role in conflict resolution and facilitating and maintaining the board's ability to function effectively. As Chair also plays key role in this, their training/briefing should cover this.

Utilise the board evaluation to take soundings from the Board on the meetings with an action plan to improve the same.

Strategies for managing tension and minimising conflict include explicitly acknowledging concerns during board meetings, face-to-face conversations and de-personalising tension by reminding board members of the higher purpose – their legal duties and importance of collective decision-making.

Facilitate sessions outside the boardroom e.g. for Akin and Tyler regarding informal discussion between board members of personal conflicts and behaviours. Strategy and decision-making issues are more appropriately resolved inside the boardroom rather than ad hoc meetings with staff as appears to be the case. Providing guidance and training to chair, company secretary and senior independent director as they are perceived as playing the most important roles in managing tension and conflict resolution.

Company secretaries play a critical role in conflict resolution, facilitating and maintaining a board's ability to function.

See Bvalco recommendations for list of other ways to improve / manage the issues with the Eco Board which can be included in this answer.

Answers could include the following content

Overview of team conflict: A key issue related to interactions in the boardroom and across stakeholder groups is when tension and challenge turns to conflict. The word conflict itself tends to have negative connotations. However, it depends how one defines conflict.

Sources of conflict – describe these: relationship conflict, which involves personal issues such as dislike among group members and feelings such as annoyance, frustration, and irritation.

Task conflict (or tension), which is related to differences of opinion on how the team should go about the task; it does not have the negative feelings that can accompany relationship conflict (this is also known as cognitive conflict and arises from diversity of opinions and approaches); and

Process conflict, which is more about using resources, such as who has responsibility for which deliverable.

Research and surveys show that task conflict (or 'tension' as it was labelled in the ICOSA/ CGIUKI research) was largely positive, whereas relationship conflict was universally negative.

Analyse the above source of conflict against research conducted by Jen and Mannix (2001), higher levels of relationship conflict are likely to lead to problems and a team being less effective. However, higher levels of task and process conflict can be beneficial, depending upon when they occur in the team's evolution.

Summarise research conducted by Jen and Mannix – which suggests that it is beneficial for process conflict to occur at the start of a task when the team is forming, however, if strong team process norms are not quickly resolved, performance steeply decreases over time. The research also found that high levels of task conflict can be very beneficial to the quality of decision-making and discussion up until the midpoint of that discussion. Lower-performing teams are those who continue with high levels of task conflict, such that they are never able to agree and commit to a team decision. Or, indeed, they are those teams who never actually reach any level of task conflict earlier in the discussion to critically test and evaluate alternative ideas. They therefore reach consensus too early and suffer the negative consequences of groupthink.

Could include the findings from the **2013 International Finance Corporation's Corporate Governance Group, in association with the Centre for Effective Dispute Resolution**, which conducted an online survey of 191 board directors worldwide. Respondents came from the full range of organisational types, and a wide range of sectors, with nearly half the respondents having over 10 years' experience as a board member.

Their findings included:

The most common subject matter of board disputes was 'financial, structural or procedural workings of the organisation' (task conflict using the definitions above), closely followed by 'personal behaviour and attitudes of directors' (relationship conflict using the definitions above).

Respondents stated that the most difficult factors in resolving board disputes were issues related to competing factions on the board, and handling the emotions of those involved in separating personal and business interests.

It is interesting to note that, whilst the above research notes that around a third of directors have experienced task and relationship conflict, it is the relationship conflict that presents the biggest challenge to their boards.

Can refer to findings of the 2017 ICSA (CGIUKI) and Henley Business School, report entitled 'Conflict and tension in the boardroom: how managing disagreement improves board dynamics', including: Interviewees characterised tension as disagreement, which is often uncomfortable, but can be resolved by healthy debate.

Conflict, on the other hand, was regarded as aggressive tension that usually escalates to extreme and unresolved unresolvable levels.

Tension was seen as positive and necessary, while conflict was seen as disruptive and detrimental and fundamentally damaging to the dynamics of the board.

Tension and conflict are most likely to emerge during decision-making, or be linked to people, personality and historic issues. Tension is most likely to lead to destructive conflict when disagreements and concerns are left unresolved for too long. Board diversity was seen as positive and facilitative of healthy tension, and not an issue that was likely to lead to unresolvable conflict. Strategies for managing tension and minimising conflict included explicitly acknowledging concerns during board meetings, face-to-face conversations and de-personalising tension by reminding board members of the higher purpose. Conflict resolution takes place most effectively outside the boardroom as informal discussion between board members.

Strategy and decision-making issues are more appropriately resolved inside the boardroom. The chair, company secretary and senior independent director are perceived as playing the most important roles in managing tension and conflict resolution. Company secretaries play a critical role in conflict resolution, facilitating and maintaining boards ability to function.

Also, **2013 International Finance Corporation's Corporate Governance Group, in association with the Centre for Effective Dispute Resolution, found that 75%** describe training in the ability to deal with different personalities as very useful. A gender difference emerged regarding the kinds of training desired; women were far more interested in receiving training in negotiation skills, while men were more interested in training on how to deal with different personalities.

Board role conflict

Katharina Pick's research also identified two specific relational tensions on boards due to board members' potentially conflicting roles.

Firstly, there is the relational tension that exists between the non-executive directors and the executive directors. On the one hand, non-executive directors are supposed to be independent and fulfil an evaluating and monitoring governance role. On the other hand, however, they are also supposed to be mentors who fulfil an advising and joint decision-making role. For their part, executive directors are supposed to be in a reporting and perhaps often defending mode, while also similarly jointly responsible for those same board decisions. How the non-executive and executive directors relate to each other around these conflicting roles will largely be dictated by the role-modelling of the relationship between the chair and chief executive officer. If their relationship is open and balanced, then the broader non-executive/executive relationship will follow suit. However, if their relationship is more parent/child and adversarial, then the other directors are more likely to line up behind their particular captain and take sides.

The second relational tension that Pick suggests exists on the board is the tension between the team being comprised of siloed expertise versus the team having a more cohesive voice. While both roles are required, a careful balance needs to be struck between the two ends of these dynamics. If directors overly advocate expertise, there is a danger that the boardroom interaction can lead to concussive debate rather than cohesive inquiry and dialogue.

Overplaying one's expertise in the boardroom may also lead to another dynamic described by transactional analysis as the Drama Triangle. (Refer to example with Les and Noel and legal proceedings against Eco).

What can be done to enable the directors to manage disagreement and challenge constructively in the future?

The UK board review organisation Bvalco summarised a number of recommendations for challenging well in the boardroom. Bvalco suggests the following to encourage constructive challenge:

The chair should never start or finish a discussion with their opinion as this will stifle ownership and collective authority.

The chair's ability to listen to others, effectively summarise views around the table and encourage equal participation is vital.

The chair's role is to encourage evidence-based rather than person-centred challenge. Notice and raise an overly aggressive approach with the board. Understand whether this is a style or confidence issue and offer support. Get to know other directors individually and at a personal level to enable one to adapt one's style and approach to ensure challenge is heard. Verbally praise differences and the thorough consideration of options.

Use empathy and information search in equal doses. If people feel listened to, they will listen more attentively to others' views. Encourage directors to agree the single most important thing the board must do.

Expect input to the agenda, so that directors arrive at board meetings engaged.

Instil a sense of team authority, not just a board with a collective agenda. Thinking and deciding require different types of brain processes and stimulate different behavioural responses, so don't let them become intertwined.

Consciously apportioning time between informing, thinking and decision-making helps to frame expectation and promote effective behaviours.

Use the 3:1 ratio rule of appreciation versus criticism to promote resource for thinking and engagement rather than justification and rejection.

In the annual review of board performance, explicitly analyse the quality of constructive challenge using content and behavioural analysis.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1 (Fail)	1-12	<p>Limited reference to group, team and Board structure.</p> <p>Only a basic understanding of the concept of a Board as a team.</p> <p>Limited or no use of the case study material.</p> <p>Weak reference to and/or use of theories and research e.g. Jen and Mannix, Katharina Pick, Bvalco, ICSA and Henley Business School ('Conflict and tension in the boardroom: how managing disagreement improves board dynamics') and 2013 International Finance Corporation's Corporate Governance Group, in association with the Centre for Effective Dispute Resolution</p>
Level 2 (Pass)	13-16	<p>Explanation and reference to group, team and Board structure.</p> <p>A clear understanding of the concept of a Board as a team.</p> <p>Good use and reference to the case study material.</p> <p>Reasonable explanation and use of theories and research e.g. Jen and Mannix, Katharina Pick, Bvalco, ICSA and Henley Business School ('Conflict and tension in the boardroom: how managing disagreement improves board dynamics') and 2013 International Finance Corporation's Corporate Governance Group, in association with the Centre for Effective Dispute Resolution</p>
Level 3 (Merit / Distinction)	17-25	<p>Clear and extended reference to the theory of group, team and Board structure.</p> <p>Good understanding and exploration of the concept of a Board as a team.</p> <p>Extensive and expansive use of the case study material.</p> <p>Clear explanation and alignment of any of the following theories and research within the answer and to the case study: e.g. Jen and Mannix, Katharina Pick, Bvalco, ICSA and Henley Business School ('Conflict and tension in the boardroom: how managing disagreement improves board dynamics') and 2013 International Finance Corporation's Corporate Governance Group, in association with the Centre for Effective Dispute Resolution</p>

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.

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)

Question	Indicative content
2 25 marks	<p>Answers should demonstrate a clear understanding of what is meant by culture, differentiate between Board culture and company culture and use either the Deal and Kennedy model, or a suitable alternative, to evaluate the culture within Eco. The theory should be strongly aligned to and/or evidenced from the case study.</p> <p><i>Note to markers: there is no right or wrong way to apply the wider culture concepts or the Deal and Kennedy models, the key to awarding reasonable marks for this question is that candidates have made an effort to not just explain the theory, but also relate it to the case study.</i></p> <p>Answers could include the following content</p> <p>Culture</p> <p>At a basic level 'the way things are done around here'. Evidenced at a company-wide, but also a Boardroom level by the artefacts that you find in any organisation: the physical space, the office layout, what is on the wall, and less tangibly the 'buzz' that might exist within the working environment, is there a hum or, is it deathly silent?</p> <p>What people say about the business, sometimes known as the 'talk' what people do and how they interact, sometimes known as the 'walk'</p> <p>Culture is something experienced and embodied by those within a Board or company environment but is also something that can be observed and used to analyse how and why a particular group of people are behaving in a particular manner.</p> <p>Corporate culture has also been defined as: 'providing the human glue that can rally the collective energy of your company towards improvements and accomplishments, or it can be the glue that fastens your organisation to the way things have always been'.</p> <p>Board culture has two dimensions: The culture within the boardroom and the Board meetings themselves: how do the directors interact,</p> <p>What is the tone, is there an urgent positivity or, is there a procedural lethargy; and the culture that emanates from the boardroom to impact the wider company culture.</p>

Research suggests that the wider company culture either arises from the behaviours and beliefs of the people working in the company or is driven or set by the Board culture.

Most organisational culture incorporates a combination of both – the 'tone from the top' and the 'hum from the centre'.

Culture is formed from a combination of leadership beliefs, personal beliefs, and human behaviour.

Case study references: There is no collective tone from the top. There is a lack of cohesion and messaging from the Board. There are various conflicts and disagreements. There is confusion regarding agreed actions and a divide between exec and non-exec which will impact business culture. There is confusion regarding the roles of NEDs and executive directors. There seems to be a lack of awareness or respect for the importance of the Board as to ultimate accountability due to arrangements for Board meetings (e.g. lack of privacy). There seems to be a gap between passion and drive of Tyler and other directors and a tendency of directors to focus on specialism areas rather than the good of the company. The Chair's behaviours are not conducive to a positive culture as his personal interest and other commitments are taking precedence over his important role as Chair and he should be leading by example and display exemplary behaviours.

There are only a couple of examples of directors acting for the good of Eco e.g. Rene is delivering her item at the Board meeting This is all part of culture – in-room meeting culture for Boards will inevitably differ from a remote, online meeting culture. There are many issues with the in-room meetings which need to be addressed e.g. people leaving for food unannounced, falling asleep, walking out. These behaviours are not positive for the Board nor the company.

Impact of culture

Most organisations exist with a challenging mix of cultures. Why? Because culture is only ever about people, and most organisations exist with a challenging mix of people.

Problems within organisations will often arise from a culture clash. This could be driven by a basic bias difference between two people, or it could be driven by the positioning of different groups of people – such clashes are often evidenced by dimensions such as purpose (shareholder versus stakeholder), remuneration (differing levels, equality etc), expectations.

Case study references: There are examples of culture clash due to bias differences between individuals e.g. Tyler and Akin; between Helen and Noel; and between exec and non-exec.

Deal and Kennedy

During their work in the 1980's Deal and Kennedy produced two differing but complementary models of corporate culture.

The first of these considered the components and types of culture that exist in organisations and incorporates five elements:

The business environment – These are the elements around which an organisation will orientate, and which may influence specific cultural cycles, for example, in terms of technology, change or customer demand. These are often analysed further using a PESTLE model.

Case study references: The performance of Eco is positive and improving year on year.

Values – these are at the heart of corporate culture and successful companies are most clear about these so that senior leaders and managers can publicly reinforce them, promote them and use them to hopefully build the corporate reputation.

Case study references: The ethos of Eco is clear in the case study. We are not aware if these translate to values and whether the values are embedded in the business. From the information available it appears from the behaviours of the directors that clear values for Eco are not in place. The case study refers to an apparent culture gap between Tyler's vision and energy managing the business and the conflict, disagreements and frustrations at the Board meeting.

Heroes – these are people within an organisation who either do or can be used to personify the espoused organisational values, they provide role models against which employees and external stakeholders can compare behaviours. Often these are figurehead people such as Richard Branson or Elon Musk – the differences between these two examples serves to illustrate how and why the concept of a hero can be both beneficial and detrimental to organisational reputation.

Case study references: Initially Tyler and Akin have shared values regarding a sustainable environmentally friendly business, vegan and cruelty free. However, recent behaviours e.g. Tyler's apparent dominance and aggression and Akin's apathy could be determinantal to Eco's reputation.

Rites and rituals – These are the ceremonies and routine behaviours that reinforce the culture such as the common induction programmes for new directors and/or employees or an annual Board strategy day. Such rites often raise questions about why such things happen and whether they have just become habitual without adding value.

Case study references: There is an opportunity to assess this with the Board evaluation the Chair has asked you to undertake.

The cultural network – This is the rumour mill that exists in an organisation, the informal coalitions and gossip that exist to spread information about values, behaviours, and heroic myths. Often exemplified by how do employees talk about the business on a 1:1 basis, or in the pub, rather than in the formality of the workplace?

Case study references: There are many behaviours of the directors that illustrate informal coalitions and discussions that are not positive for Eco's culture. They also demonstrate a lack of transparency, openness and accountability e.g. Les taking forward Tyler's wishes for reasons that are not in Eco's best interests, actions being progressed after meetings that were not agreed at the meeting, individual directors progressing separate activities not agreed by the Board and not in Eco's best interests.

Their second cultural model identifies four types of corporate culture that emanate from the above five cultural elements. These are created by the risk attached to the company's activities and the speed of feedback to employees.

The tough-guy culture – Characterised by high risk and quick feedback, it is entrepreneurial and individualistic. Companies with this culture follow a cycle of boom and bust and are opportunistic.

The work-hard, play-hard culture – Characterised by low risk but quick feedback on success. This culture is where an individual works alone, but has a supportive team, for example, a high-volume sales company.

The bet-your-company culture – Found in high-risk, long-term industries such as oil and aerospace businesses, which require significant technical expertise.

The process culture – Characterised by low risk and low feedback and typifies the public sector and institutional banks which prioritise status and the conduct of work.

Case study references: The models can be used to analyse the case study situations and characters rather than categorise these into boxes. For example, Rene brings more of the process culture however the comments from other directors that they find her comments frustrating and annoying suggest that there is a 'tough guy culture'. The infrequent board meetings, lack of agenda, papers and minutes, suggests that there is a high risk culture.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1 (Fail)	1-12	<p>A limited discussion of corporate culture from a generic perspective.</p> <p>No attempt to differentiate or evaluate how Board culture and company culture are related.</p> <p>Limited or no use of the case study material.</p> <p>Limited or no use of either the Deal and Kennedy culture model, or another suitable alternative.</p>
Level 2 (Pass)	13-16	<p>A good discussion of corporate culture from a generic perspective, showing a clarity of understanding.</p> <p>A clear differentiation evidenced between Board culture and company culture.</p> <p>Reasonable use of the case study material.</p> <p>Reasonable use of either the Deal and Kennedy culture model, or another suitable alternative.</p>
Level 3 (Merit / Distinction)	17-25	<p>A clear and focused discussion and evaluation of corporate culture from a generic perspective.</p> <p>A focused evaluation of how and why Board culture and company culture are related.</p> <p>Detailed and thorough use of the case study material.</p> <p>Informative and challenging evaluation of either the Deal and Kennedy culture model, or another suitable alternative, and how they could be used to better understand the case study issues.</p>

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)

Question	Indicative content
3 25 marks	<p>Answers should demonstrate an understanding of the meaning of Board demographics, an understanding of the purpose of analysing and challenging the demographics, how the demographics affect the Board dynamics, and in particular the individual and aligned significance of capacity, capability and connections, as core attributes of directors.</p> <p>Answers could include the following content</p> <p>Board demographics Distinguish between Board demographics (the structure of the Board) and individual director demographics (the background, experience and attributes that each director brings to the Board).</p> <p>Taken together, the Board demographics are naturally derived from the individual director demographics.</p> <p>A view of Board demographics is likely to be found in the Chair's governance report.</p> <p>A view of individual director demographics is likely to be found in the (usually) abbreviated profile/biography provided for each director in the annual report.</p> <p>Theory that a Board full of independent and talented directors will be most likely to guarantee effective governance and delivery of success through profitable organisational performance.</p> <p>As evidenced through many corporate failures, this theory does not always hold. Many Boards have been populated with a textbook group of directors but have still failed (e.g. Carillion).</p> <p>Case study: The Board of Eco would seem to have an appropriate demographic mix for the nature of the business with strong experience – the technical requirement being satisfied by Tyler, Akin, Helen, Noel and Les, (marketing, legal, product and design) and the financial dimension by Rene and Charlie. However, there seems to be some duplication of skills in certain areas, and there seems to be a lack of the wider experience and challenge dimension with expertise focussed on a few areas rather than a breadth. There seems to be a lack of attention on risk which would be due to lack of experience of the directors in this area.</p>

The Chair appears to lack independence as he is led by Tyler, and Akin seems to be pursuing interests that are not Eco related.

How demographics influence dynamics

Agency, stewardship and stakeholder theories suggest that having the optimal mix of individual director demography will provide the optimal Board dynamics to drive an organisation forward.

One model of Board demographics suggests that the 'three C's' enable a good holistic structure – capacity, capability, connections.

Dynamics as a concept relates to the forces that enable movement within an entity or structure. The individual director demography could therefore be expected to drive momentum, but it is the aligned Board demography that should enable corporate success.

Case study: At Eco the skewed demographics of the Board (2 accountants, 2 lawyers, 2 marketeers) creates siloed input rather than constructive challenge and debate and collective decision making. Akin has contacts but is less interested in Eco's success and appears apathetic and/or not able to challenge, Tyler seems to be singlehandedly driving the business forward with ideas. 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.

The alignment of capacity and capability

Capacity and capability are closely related but the difference is important when considering the effective dynamics of a Board or otherwise.

Capacity – should the individual be allowed to be a Board director?

Capability – is the individual capable of being a director on this specific Board? Can the individual help in the achievement of the strategic objectives and purpose of the company?

In turn these are related to a further sense-check of competence: does the individual have the ability to apply and use their capability?

Capacity

Capacity of a director can be sense-checked through some core considerations:

The fit and proper purpose test, which will determine whether the director is legally allowed to function on a Board, whether they are of good mental and physical health and whether they have the appropriate qualifications necessary to function in the specific director role at that company?

In the case of an NED, there will need to be an additional consideration of their existing commitments. Do they have the time and energy to serve this particular Board, or might there be a conflict with other existing commitments?

Are there any apparent business conflicts of interest which would not allow this person to fully function as a director of this company?

Case study: At Eco a core capacity question for Akin would be around his time and energy available. Also, he is demonstrating behaviours which indicate he may not be in positive state of mental health if this is a change in behaviour and not the result of some other issues e.g. keeping his head down in meetings, being quiet, sarcastic. Akin also feels overpowered by Tyler and finds debates stressful and undermining,

Also Noel, as a lawyer and portfolio NED appears to have many commitments outside of Eco and limited time to dedicate to Eco. Les also has similar commitments and does not have the time to dedicate to Eco hence agreeing with Tyler without any challenge and leading the Board meeting unilaterally the way he does.

Capability

Likewise, the potential capability of a director needs consideration:

Does the director have appropriate professional capital – appropriate experience either within the sector or within the skillset that is required, acceptable and relevant qualifications and education?

Financial awareness and literacy have increasingly become important as a consideration when appointing a director.

Will the appointment of this director enhance the diversity of the Board? There has been increasing emphasis on creating diverse Boards during the last ten years, initially focused on gender diversity, but increasingly also including ethnic and cognitive diversity around the table.

Does the director bring appropriate and useful connections both inside and outside the direct sectoral focus of the organisation?

Will they enhance or detract from the reputation of the company?

Case study: Other than the new intellectual and experience breadth of the Board at Eco we are not given sufficient information to truly assess capability. The behaviours of the two lawyers and two accountants arguing over points show that the NEDs involved may not have sufficient capability to understand their roles and importance of the broader collective decision-making rather than siloed approaches. However, there are concerns that Charlie's financial information is not current and that he is therefore not in any position to challenge Rene on the finances. We also know Les does not have Chair experience and his conduct as Chair shows he lacks sufficient knowledge to chair property/effectively and that he lacks independence

Other attributes

Competence is often aligned with capacity and capability.

A definition for competency is 'a cluster of related knowledge, skills and attitudes that affect a major part of one's job (a role or responsibility), that correlates with performance on the job, that can be measured against well accepted standards, and that can be improved via training and development'.

Competence can be considered from a specific Board need or a more general leadership perspective, or both.

Competence usually requires an appropriate level of intellectual intelligence (as measured through standard academic and professional routes) aligned closely with an appropriate level of emotional intelligence - 'the ability to identify and manage one's own emotions, as well as the emotions of others' (Goleman).

Resilience is often an attribute that enables the longer-term viability of a company. Case study: At Eco, some NEDs (e.g. Akin) would appear to have run out of resilience, whereas Tyler appears to be energised to move the company forward.

Rene is maintaining her professionalism and acting in Eco's best interest notwithstanding her approach is not consistent with the culture at the Board meetings generally.

Increasingly, directors are required to have high levels of digital intelligence and computer literacy.

Commitment is required from a director to ensure that they allow and apply appropriate levels of time and energy to the role.

Often this is just associated with NEDs, but it is equally important that an ED is able to distinguish between time spent on the executive role, and time spent on the wider Board governance role. Case study: There are several examples of concerns with the commitment of individual directors including the Chair, Noel, Akin. We know meetings are rarely attended fully.

Character is used to describe the ethical nature of a director and their ability to deal with bias. Research at Cass Business School has identified a close relationship between failures in character, high-risk corporate behaviour and ethically dubious decision making.

Case study: At Eco there has clearly been a character change within Akin. It will be important for the other directors to be able to understand what has happened, and why, to enable the rebuilding of an effective Board dynamic. Les does not appear to have suitable characteristics to Chair or lacks knowledge which leads to dubious decision to support Tyler for reasons not linked to Eco's interests or an effective Board meeting.

Connections

A final aspect of an individual director's demographics includes their personal connections, collectively known as their 'social capital'. These might include their professional networks (including their specific board committee membership networks as well as broader work-related links), their alumni networks (which are often exceptionally strong in the older educational establishments) and their social networks (which may include family, broader acquaintances and those within their class structure). Taking research on social class as an example, a study of the French corporate elite has found that certain social classes are also disproportionately represented on boards. Perhaps unsurprisingly, those from the upper and especially upper-middle classes tend to dominate.

More broadly, perhaps as a reaction to our increasingly networked professional existence online, through platforms such as LinkedIn, social capital has increasingly become the subject of practical consultancy advice in addition to the interest of theoretical academic research. In relation to boards, one study has recently measured social capital as a reflection of an individual director's number of connections to other professionals in a relationship capital management database provided by BoardEX (Charas, 2014). This provided a score that represented the number of connections each director had in a database of over 500,000 directors of both public and private organisations. The hypothesis behind the research, and the assumptive value underpinning the consultancy firm that owns the database, is that the more connections one has, the more valuable the director may be. Following stakeholder theory, this has historically been one of the criteria on which directors have been recruited.

However, the researchers found that the predictive power of social capital, in addition to professional capital, was negligible compared to more psychological attributes of board directors.

Case study: For Eco, it appears that Akin, and Tyler, have the strongest networks and connections having been in the industry for a significant period of time. It could be expected that the directors in professions could have networks within those professions. Eco has won national awards for sustainability and environmentally friendly initiatives which has broadened Eco's reach and networks generally.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1 (Fail)	1-12	<p>Limited or no understanding of demographics and its relevance to Board dynamics.</p> <p>Only a basic differentiation between capacity and capability and connections and how they might enable effective Board dynamics.</p> <p>Little or no consideration of other Board attributes and how they might enable effective Board dynamics.</p> <p>Limited or no use of the case study material.</p>
Level 2 (Pass)	13-16	<p>Reasonable understanding and explanation of the meaning of demographics and its relevance to Board dynamics.</p> <p>Focused and reasonably well explained differentiation between capacity and capability and connections and how they might enable effective Board dynamics.</p> <p>Discussion and further consideration of other Board attributes and how they might enable effective Board dynamics.</p> <p>Good use of the case study material.</p>
Level 3 (Merit / Distinction)	17-25	<p>Robust and clear understanding and explanation of demographics in the context of Board dynamics.</p> <p>Detailed and explanatory differentiation between capacity and capability and connections and how they might enable effective Board dynamics.</p> <p>Wide discussion and consideration of other Board attributes and how they might enable effective Board dynamics.</p> <p>Detailed, frequent, and relevant use of the case study material.</p>

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. 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)

Question	Indicative content
4 25 marks	<p>Answers should demonstrate an understanding of the importance and effect of meeting design on boardroom dynamics; the challenges observed from the meeting the Company Secretary has attended and which the Company Secretary is otherwise aware of from the information they have been provided with. Answers will evaluate weaknesses, areas for improvement and strengths relating to the quality of the design of the meetings. For the areas of improvement, good answers will highlight how the student, as Company Secretary, can support to enhance the meeting design, as well as the importance of meeting design generally in the context of the scenario. Answers should be presented in the appropriate format for a formal Board paper.</p> <p><i>Note to markers: the weight of the answer to this question will focus on the case study scenario with references to the study text (chapter 9). The structure of the answer may cover the characteristics, for example, categorising the response by referring to temporal characteristics, physical characteristics, procedural characteristics, and attendee characteristics. These are only examples and marks should be awarded to candidates who give any such examples with evaluation. Better answers will present a breadth of the different categories (temporal, physical, procedural, attendee) and more marks would be provided for such breadth and structure with answers, although the question does not specify which characteristics to focus on provided at least three examples for each of the strengths, weaknesses and areas for improvement are provided. There are several examples in the case study, many of which are noted below.</i></p> <p>Answers could include the following content:</p> <p>Temporal characteristics Meeting length, promptness of start and end, use of breaks, time of day</p> <p>Strengths and weaknesses: Long meetings (8 hours) impact concentration and focus, particularly where there are no refreshments or suitable breaks and the meeting is held from mid-afternoon until late evening. Whilst all day meetings provide ample time for consideration and debate, the Eco Board meeting lacked papers and an agenda and therefore there was no structure for focus or ability for the directors to prepare in advance to contribute usefully at the meeting.</p>

Meetings late afternoon and over lunch/dinner periods can be ineffectual if refreshments are not provided beforehand, or directors are taking meals during the meeting. The time of the meeting is therefore not the optimal time of the day for directors to concentrate and focus. Also, meetings starting in the middle of the day may not be most effective due to other commitments before and after the meetings. Not many comfort breaks. Delayed starts of meetings cause distraction and time wasting. Directors left the meeting for food without advance notice. There are three meetings a year. Frequent meetings are important to enable the Board to consider important issues on a timely basis and to maintain oversight of the business.

Areas for improvements: Encourage use of shorter meetings, more frequent meetings and even virtual meetings to enhance participation. Consider holding Board meetings in the morning or end of the day rather than over periods when directors may need to eat (lunch or dinner times). Also, develop and ask the Board to agree to behavioural protocols/codes of conduct to resolves issues with directors attending late and leaving meetings early without warning or turning their cameras off when this is not usual practice.

Physical characteristics

Lighting, noise, temperature, refreshments, meeting space, technology use, seating dynamics, meeting space arrangement, interruptions (not private meeting space)

Strengths: In-person meetings enable face to face social interaction and difficult conversations, versus virtual meetings where this interaction can be limited. Use of summary slide deck and substantive paper for the finance item.

Weaknesses: The facts of the case present a disruptive and ineffectual meeting without any pre-planning. The room was too hot, and people were interrupting the meeting – the space was not private. There were no refreshments and directors had to leave the meeting to obtain food. The lights kept turning off automatically.

Areas for improvements: Consider virtual meetings as an alternative or consider alternating between in person and virtual meetings which can help encourage attendance and engagement. In any event, increase number of meetings. Develop and agree protocols for virtual meetings and use the Company Secretary to facilitate and manage virtual meetings, supporting the Chair as with in person meetings given directors. Resolve the issues with air conditioning and ensure the meeting room is private.

Procedural characteristics

Meeting goals, agenda use, pre-meeting talk, visual displays, meeting agreements, minutes.

Strengths: The CFO uses visual displays and circulates a paper in advance. The meeting is chaired.

Weaknesses: The Board does not contribute or input to the agenda and it is not shared in advance of the meetings, the meeting content is led by the Chair and Tyler unilaterally (with the exception of Rene's finance report). There are no minutes. There have not been welcome/introduction briefings / pre-meeting talks of any kind ahead of the meetings to set the scene, introduce the Company Secretary, put directors at ease, highlight focus of the meetings, etc. Again, lack of pre-meeting talk and context can negatively impact the effectiveness of Board meetings.

Currently, there are no policies or other key governance documents in place Eco and, therefore, a lack of guidance for meeting. Also, arguably, certain decisions could be delegated to committees to enable the board to focus on Substantive items which enhance the effectiveness of the Board meeting.

Areas for improvement: Agreement as to the conduct of Eco's meetings and protocols are needed to enhance effectiveness. This will include ensuring the agenda and papers are circulated ahead of the meeting and taking minutes of the meetings. Create time and space for pre-meeting talk by scheduling this as part of Board meetings. Giving apologies for absences, protocols for number of meetings that can be missed.

Attendee characteristics

Number of attendees, presence of a meeting facilitator.

Strengths and weaknesses: Meetings are rarely fully attended. Good attendance means a breadth of views when taking decisions, assuming the Chair encourages participation of directors. The Chair currently does not encourage participation of all directors and tends to try to sway the directors to his way of thinking. The appointment of a Company Secretary is positive as the role can include facilitation of the meetings and ensuring preparatory work is complete ahead of meetings and advising on good governance for effective meetings.

Areas for improvement: Introduce Chair briefing notes to encourage the Chair to be inclusive and encourage participation from all directors at meetings. Arrange for the Chair to address dissatisfied, pre-existing issues / concerns brought to the meeting at the appropriate time/forum, if not appropriate to address this at the Board meeting itself. Address inappropriate behaviours directly or via new Board meeting protocols to enhance Board effectiveness. Examples of such behaviours are listed below.

Akin checking emails, using phone, tending to personal matters on his laptop.

Director expressing frustration by talking under their breath and then walking out.

Issues not addressed by the Chair at the meeting or beforehand.

Directors disengaged – going out for food, falling asleep, leaving the meeting for food and causing disruption on return.

Other areas for improvement not otherwise covered above:

Development of the Chair to encourage equal participation of directors and to provide opportunity for all to contribute. Provide training on the role of the Chair and NEDs.

	<p>Other areas for improvement are to address each of the weaknesses above with a proposed solution. For example: Improve frequency and length of meetings to ensure optimal timing and duration.</p>
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	<p>Introduce service level agreements for the Board to receive papers/Board packs a certain number of days prior to the meeting to allow directors to review the packs etc (for example, one week before the meeting). You, as Company Secretary, can lead on developing and facilitating effective processes.</p>
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Marking Scheme

Level	Mark	Descriptor
	0	No rewardable material.
Level 1 (Fail)	1-12	<p>The answer may attempt to explain meeting design, but it is likely to be unclear and not explained in full.</p> <p>The answer demonstrates limited understanding of the quality of the design of the meetings and the characteristics. This is communicated in a basic way with simple or generalised statements.</p> <p>Points made are not applied to the case study or the weaknesses, strengths and areas for improvement in meeting design at Eco.</p> <p>The answer includes limited analysis of the factors that underpin meeting design. Analysis is not used to make a judgement and is not supported by examples.</p>
Level 2 (Pass)	13-16	<p>The answer includes explanation of meeting design.</p> <p>The answer demonstrates a good understanding of the quality of the design of the meetings and the characteristics. It expresses ideas with clarity. Points made are applied to the case study and the weaknesses, strengths and areas for improvement in meeting design at Eco.</p> <p>The answer includes analysis of the factors that underpin meeting design. Analysis is used to make a judgement and is supported by relevant examples.</p>
Level 3 (Merit / Distinction)	17-25	<p>The answer includes a clear and detailed explanation of meeting design.</p> <p>The answer demonstrates a thorough understanding of the quality of the design of the meetings and the characteristics. It is communicated in a logical writing structure.</p> <p>A wide range of points are made which are applied to the case study and at least three of each of the weaknesses, strengths and areas for improvement in meeting design at Eco with reference to how the Company Secretary can support areas for improvement. The answer includes in-depth analysis of the factors that underpin meeting design.</p> <p>Analysis is used to a make a clear judgement which is supported with appropriate examples.</p>

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.

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	Indicative content
<p>5 25 marks</p>	<p>Answers should demonstrate an understanding of the need for Board and director performance evaluation and management programmes. Answers should present the rationale and suggest various different stages which might occur during an evaluation process. The details in the PP scenario should be included in the answers where relevant, and highlight subject areas for the students to include and focus in their answers, including the growing level of complacency amongst the directors; retrospective focus at Board meetings, different focus of NEDs and EDs in terms of PP's strategic direction, and remuneration.</p> <p>Answers could include the following content</p> <p>Board and director evaluation</p> <p>In a company complying with the UK Corporate Governance Code, Board and director evaluation is expected to occur on an annual basis, and for FTSE350 companies, externally facilitated board evaluations should happen at least every three years.</p> <p>What such an evaluation covers, and how it is handled, varies significantly based on the company itself, the expectations and beliefs of the Chair, sometimes the influence of one or more directors, often the amount of time and money that the company is prepared to spend on the exercise.</p> <p>Most Board evaluations will include some element of individual director evaluation and comment, but at PP, this had been excluded. The inclusion of director evaluation will often increase the cost of the process.</p> <p>Many Boards will run a separate director evaluation and development programme, and the Governance Professional or Company Secretary, in their Board oversight and director resource role, will often be heavily involved in the oversight and administration of such a programme.</p> <p>Performance assessment</p> <p>Performance assessment of the directors in the boardroom should be no different to the rest of the organisation. Performance and individual contribution need to be linked to how an organisation sets its goals, evaluates work, and determines development needs. This is to ensure that each individual is contributing to the achievement of the goals. The performance expectations of directors should be as aligned to strategic objectives as the goals of other employees. Without this, the Board structure risks becoming a tick-box of compliance.</p> <p>Often, within companies there are yearly or half-yearly competency-based assessments for all or some employees, a growing trend being to complete this as a 360-degree feedback exercise.</p>

Whilst this calendar approach to appraisal and performance assessment is currently considered best practice, many organisations are reassessing whether this is something that they should continue. As with many such schemes the practice often becomes an onerous additional process task for the evaluator and fails to delve beneath the surface.

At the Board level, some companies will use an external evaluator on a regular or periodic basis to act as a mentor and challenger to the individual directors.

In other companies the Chair or SID will undertake a review of director performance on either a periodic or ongoing manner.

Some Boards undertake a short self-review at the end of each meeting, either openly or anonymously.

Other Boards like PP, and there are many such Boards, undertake the Board evaluation as a formulaic required governance ritual and totally ignore the performance or contribution of individual directors. With PP, there is 'group consensus that individual personal and professional development is not the business of the Board but is a matter for each individual director, which needs to be addressed.

Effectiveness

Directors are recruited to the Board (ED and NED) to contribute to the strategic viability of the organisation, promoting success within the wider stakeholder environment (CA2006 s172). Their contribution and effectiveness need to be assessed, taking the opportunity to be able to consider and challenge a number of aspects of their role.

The appropriateness of their role description in a changing corporate environment.

Whether they match the expectations of the role description.

Whether their specific skills are being used within the Board environment.

Are they lacking in particular knowledge or skills to enable them to fulfil their role effectively?

Do they bring diversity and challenge to Board discussions?

Are they prepared to challenge and disagree when required?

PP Board meetings are short and focused retrospectively, with the NEDs failing to engage fully in the strategic planning, instead relying on the EDs to give the strategic direction. Therefore either skills not being used or could be lacking in particularly knowledge or skills to enable effective performance of roles.

Development needs and plan

A review of individual director effectiveness should identify individual development needs.

The problem with this exercise at a Board and director level is that often the people undertaking the role of director have had a long career with vast experience.

The challenge for an evaluator is to be able to subtly help a director recognise a knowledge gap, or a people-dynamic behavioural gap, and then to consider how to help fill such a gap with appropriate development.

Whilst the individual development needs still of a director might not be as extensive as other employees, there will be gaps, and there will still be the need for some form of challenge – even directors are fallible irrational human beings.

Finding the right person to help undertake individual director assessment and the recognition of development needs is often a significant challenge for a company. There is no one right method, or one right type of person. Even within a single Board of directors it might be necessary to involve more than one evaluator. This requires the 1:1 dynamic of trust to be optimal.

Alignment with remuneration

Board director remuneration is often viewed as a key component of the performance management aspect of Board talent management and is linked to initial goalsetting and corresponding assessment.

This has historically been a thorny issue and has received significant media and compliance attention.

This paper on director performance assessment does not go into the detail of different types of remuneration and remuneration package.

Much media attention on financial reward is due to the fact that Boards have often been driven by the 'war for talent' philosophy as the Board is not surprisingly always considered to be the place where significant talent resides in the organisation.

Under this paradigm, directors are required to be rewarded handsomely and often induced to join an organisation through significant short-term rewards that hard-nosed contract clauses bonuses might provide.

There are many problems with this approach, not least the 'gaming' and unethical behaviours it is likely to engender.

The current best practice in reward is, on the contrary, that it should be more aligned to long-term outcomes. The current UK Corporate Governance Code provides significant detail on how this might be done, summarising an effective approach as embracing clarity, simplicity, risk, predictability, proportionality and culture.

A future-focused approach to remuneration, though, may recognise and appreciate that the research on extrinsic rewards unequivocally finds that they lead to negative outcomes and, in many cases, lower performance.

If we can, then, also link performance more to intrinsic motivation and cultural values, such as the universal human needs of autonomy, belonging, competence, and purpose or meaning, then Board directors will be motivated more by these pull factors than needing the push that inflated reward often clumsily provides.

Building a director and Board performance assessment programme

There is no one right method for an assessment programme, but certain characteristics are fundamental.

All directors must have trust in the process and be willing to participate when required – the director complacency identified at PP needs challenging and will require an experienced evaluator and/or mentor to start to help to change the Board culture.

Development should begin with director induction, although not applicable at this stage at PP, the consideration of what would/should be included in an induction programme can provide a useful structure for consideration of future development through identifying all key aspects of the organisation and how and why the director role adds value.

At PP, the evaluator will need to combine a generic approach (so each director trusts that this is a mutual process) with the time and ability to talk to each individual director.

A likely resultant development programme will include a mixture of:

Generic update/development topic, often related to finance and or changes in law or governance expectations. Given the change for the FRC into the statutory regulator ARGA, this would be a good example of a generic update required for all directors. Individual focus on gaps or areas of agreed development for each director. It is important that this should normally include the Chair as well as each director, although this might be more problematic at PP.

Given the expected rotation of directors to help to deliver effective and challenging governance, it would also be usual for any such development programme to include some aspect of succession planning. Given the continuing aligned term of all of the PP directors and the fact that they have already been in office for nearly nine years, this is an area which needs detailed consideration as part of the individual and Board development strategy.

As PP is a supplier of UK retailers, there will be a growing ESG expectation from PP, as a supplier, to show how the Board drive the business and take their stakeholders responsibilities seriously.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1 (Fail)	1-12	<p>A limited discussion on performance evaluation and management.</p> <p>No attempt to align to the scenario in the question.</p> <p>Evidence of limited knowledge of the likely contents, structure and requirement of director evaluation and performance management.</p>
Level 2 (Pass)	13-16	<p>A reasonable and challenging discussion on performance evaluation and management programmes for directors.</p> <p>Some alignment to the scenario in the question.</p> <p>Evidence of a good knowledge of the likely contents, structure and requirement of director evaluation and performance management.</p>
Level 3 (Merit / Distinction)	17-25	<p>A robust discussion on performance evaluation and management programmes for directors within the wider Board setting.</p> <p>Sensible use of the scenario within the context of the answer.</p> <p>Evidence of a strong and challenging knowledge of the likely contents, structure and requirement of director evaluation and performance management.</p>

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.

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)

Question	Indicative content
<p>6(a) 12 marks</p>	<p>Answers should demonstrate an understanding of the difference between Board dynamics and boardroom dynamics and provide substantive comment on the drivers behind both. The answer should be set out as a paper for the directors of VisionX. The style of the paper for 6(a) should be a formal board paper.</p> <p>Answers could include the following content</p> <p>The short VisionX scenario should be used by candidates as a lever to illustrate particular aspects of dynamics, such as the discontinuity that often exists between what happens during a meeting (boardroom) and then how the individuals behave outside the meeting environment (Board). Candidates should be able to recognise and comment on the likely dynamic that will exist between lawyers, accountants, IT and HR professionals, as well as different types of HR professionals (generalist versus recruitment) and the CEO and Finance Director and why they might take different perspectives. They might also comment on likely or known issues within professional firms as a result of worldwide events such as, Brexit and the pandemic.</p> <p><i>Note to markers: There is no single correct way to answer this question. Answers should show the ability to recognise how and why people behave differently inside and outside the boardroom and the impact this can have on an organisation.</i></p> <p>Board dynamics</p> <p>The interactions between Board members individually and collectively. How these interactions influence and are influenced by a wide stakeholder system.</p> <p>Might be described as the way directors separately or jointly appear to the world outside the boardroom.</p> <p>Interpreted from a psychological dimension as behaviourism, observing and measuring the manner in which people behave, including concepts of stimulus and response – this gives a useful link between the differing concepts of Board and boardroom – a particular stimulus such as a challenging question from an activist investor will receive a particular response depending, at least in part, on which director the question is addressed to. If there is a pre-agreed united response to such a question, then this will have been pre-formed in the boardroom through effective boardroom dynamics.</p> <p>In the 11Cs model in the study text the Board dynamics quadrant suggests that Board dynamics are formed through the pairing together of cohesion and challenge to create a culture. This culture is the visible presence of the company to a wide stakeholder group, but perception will differ between stakeholders. Perception will also be affected by creation of an (often artificial) collective response or the individual response of an individual director.</p> <p>Board dynamics is therefore about the individuals expressing their independence but also combining as a ‘unitary’ Board to portray corporate culture and activity.</p>

Boardroom dynamics

The interactions between Board members individually and collectively within the boardroom.

Might be described as the way directors appear to each other within the confines of the boardroom and/or across the wider Board agenda.

Boardroom dynamics is therefore far more of an internal activity and structure and will be created through a range of different concepts.

Board meeting culture, which is bound by parameters of time, frequency of meeting, need to make decisions, asymmetrical information, rapid creation of strategy, rapid assessment of financial viability, mixture of insiders (EDs) and outsiders (NEDs), potential profiles of individual directors, conflict of time and other commitments, possible representation of a particular stakeholder group, specific compliance process, duty to create a transparent 'true and fair' report to wider stakeholder groups.

Concept of a Board as a high-performing team – views differ as to whether a Board should be a team with a united view, or a group with a healthy continual scepticism and challenge – the former risks groupthink, the latter risks chaos and conflict.

VisionX's meeting forum itself – online versus physical meetings – and impact on culture of the meetings

Level	Mark	Descriptor
	0	No rewardable material.
Level 1 (Fail)	1-5	<p>The answer only includes a few basic points.</p> <p>Answers show little or no understanding of the meaning of Board dynamics.</p> <p>Answers show little or no understanding of the meaning of boardroom dynamics.</p>
Level 2 (Pass)	6-7	<p>The answer only includes precise points.</p> <p>Answers show a reasonable understanding of the meaning of Board dynamics.</p> <p>Answers show a reasonable understanding of the meaning of boardroom dynamics.</p>
Level 3 (Merit / Distinction)	8-12	<p>The answer includes a wide range of relevant points.</p> <p>Answers show and discuss an in-depth understanding of the meaning of Board dynamics.</p> <p>Answers show and discuss an in-depth understanding of the meaning of boardroom dynamics.</p>

Question	Indicative content
<p>6(b) 13 marks</p>	<p>Answers should demonstrate an understanding of the need for, and dimensions of, resilience and how these can be applied to a Board of directors, and inevitably the individual directors involved. It is important that the answer does not just focus on the individuals but does also consider the Board as a combination of individuals where the resilience needs uniting. Answers should be set out as an article or briefing paper for VisionX's clients so the tone and style of the paper needs to be appropriate, given this context. Whilst examples from VisionX can be included, they need to be non-attributable to VisionX given the audience.</p> <p>Answers could include the following content</p> <p>The VisionX scenario can be used in this answer to illustrate how the directors of VisionX might need to tackle resilience from different perspectives:</p> <p>Personal, given their different professions, but probably also recognising areas of common ground such as professional ethics.</p> <p>Business, given the impact of Brexit and the pandemic, but also the constant need to maintain a professional client focus and maintain and build the reputation of VisionX. (Adaptability to pandemic with virtual meetings however reluctance to reinstate pre-Pandemic meeting format).</p> <p>Resilience At its simplest “the ability to bounce back”</p> <p>In a more convoluted psychological definition “the process of adapting well in the face of adversity, trauma, tragedy, threats or significant sources of stress – such as family and relationship problems, serious health problems or workplace and financial stressors. It means bouncing back from difficult experiences”.</p> <p>At a personal level there are a range of characteristics that are associated with resilience: looking after your physical condition; developing and training regularly in multiple areas (emotional, mental, moral, physical, etc.); a positive attitude and optimism; developing coping strategies and making use of them; developing cognitive flexibility and learning to reframe; facing your fears; having actively found resilient role models; recognising and developing your signature strengths; a strong personal moral compass and sense of purpose; and establishing and nurturing a supportive social network.</p> <p>There can be additional challenges to resilience through being a Board director:</p> <p>Life as a director can be lonely and largely unsupervised, whereby each director has to find his or her own way of being and behaving; managing and being part of a team that often has difficult personalities that can be a destructive force in the life of the Board;</p>

Being part of the Board that has unrealistic expectations of itself, its members and its Chair, which can lead to disillusionment at best, or personal and organisational breakdown at worst, poor Board processes or processes that are offered in ways that are inaccessible, inappropriate, or even not available at all, such as induction, evaluation, performance management, mentoring, etc., such that the learning Board is not yet a reality; and a failure to review the work of the Board, especially if this does not compare well with the increasing role of accountability found within the rest of the organisation.

Robertson and Cooper developed an i-resilience model for individuals which moves us much closer to the concept of a wider Board resilience. This has four aspects

Confidence – ‘Having feelings of competence, effectiveness in coping with stressful situations and strong self-esteem’.

Social support – ‘Building good relationships with others and seeking support... rather than trying to cope on their own’.

Adaptability – ‘Flexibility in adapting to changing situations which are beyond our control... [and the ability] to cope well with change and recover from its impact quicker’.

Purposefulness – ‘Having a clear sense of purpose, clear values, drive and direction [to] help individuals to persist and achieve in the face of setbacks’.

A resilient Board

Robertson and Cooper expanded their work above to include the description of six essential conditions of well-being that are required to ensure a resilient Board or a ‘well Board’:

Resources and communication – Ensure that there is reduced pressure by providing appropriate resources and information. For example, ensure Board packs are distributed with ample time and include appropriate information that is easy to digest. More generally, ensure that there is continuous formal and informal ‘check-in’ communication between Board members.

Control and autonomy – Ensure that there are as few limitations on how the director job is done as possible to enable freedom to make appropriate decisions. This can be ensured through fully clarifying roles, expectations and boundaries through the induction process, by creating opportunities for input before meetings around agendas and after meetings to review meeting processes.

Balanced workload – Ensure that there are peaks and troughs in workload, that deadlines and unsociable hours are managed and that work–life balance challenges are worked through.

Job security and change – Manage the pressure from change and uncertainty about the future of the Board through regular updates on governance changes.

	<p>Work relationships – Appreciate that it is the company secretary’s role to facilitate, and if necessary mediate, the potentially high-pressure relationships between Board directors, with employees and with other key stakeholders.</p> <p>Job conditions – Strive to improve work conditions and the Boardroom environment, drawing on the factors mentioned in Chapter 9, even in the absence of tangible pay and benefits true of director roles in some sectors.</p>
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Marking Scheme

Level	Mark	Descriptor
	0	No rewardable material.
Level 1 (Fail)	1-6	<p>The answer shows little or no understanding of the meaning of resilience.</p> <p>The answer only discusses individual resilience.</p> <p>Answers show little or no understanding of the need for Board resilience.</p>
Level 2 (Pass)	7-8	<p>The answer shows a reasonable understanding of the meaning of resilience.</p> <p>The answer discusses individual resilience and Board resilience but only at a surface level.</p> <p>Answers show reasonable understanding of the need for Board resilience.</p>
Level 3 (Merit / Distinction)	9-13	<p>The answer shows a good and detailed understanding of the meaning of resilience.</p> <p>The answer discusses and aligns the need for both individual and Board resilience.</p> <p>Answers show thorough and well explained understanding of the need for Board resilience.</p>

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