JRBH
STRATEGY MANAGEMENT

Adam Gray
Long-term Focus Consultation
Department for Business, Innovation and Skills
1 Victoria Street
London, SW1H 0ET

10 January, 2011

Dear Mr Gray,

Re: BIS Consultation: "*A Long-Term Focus for Corporate Britain*: *A Call for Evidence*"

Our experience as a firm offering strategic advice to FTSE 100 and FTSE 250 clients has given us exposure to a range of plc boards. We therefore welcome the opportunity to participate in this consultation process that builds on the progress already made in the revised UK Corporate Governance Code and the new UK Stewardship Code, and seeks to determine whether the UK corporate governance system promotes decision-making that focuses on long-term growth.

In our capacity as advisors on board effectiveness, we observe how heavily non-executives rely on information provided to them by the executive as the basis for boardroom debate - yet such information is often found wanting. We advocate improving the scope and quality of the information made available to board members to ensure this information acts as appropriate stimulus for the discussion and decision-making that takes place in UK boardrooms. Our experience is that the information provided to UK boards is often overly focused on backward-looking financial and does not provide a platform for forward-looking strategic debate and a focus on the long term.

We have limited our contribution to our area of expertise and, as such, have focused on the first, overarching consultation question, "Do UK boards have a long-term focus – if not, why not?"

We hope you find our contribution to the consultation constructive and we would welcome a meeting to discuss our recommendations in greater detail.

Please feel free to contact me to discuss any points raised in this submission.

Yours sincerely,

[submitted electronically]

Pippa Croney

Director, Board Consulting

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QUESTION: „Do UK boards have a long-term focus – if not, why not?"

Executive Summary

In our experience, many boards of the UK"s largest organizations spend far too much time immersed in retrospective financial information and far too little time challenging what the future may hold and where the threats and opportunities will come from in the medium-long term.

A contributing factor to this situation is the Board Pack that board members receive as a stimulus prior to a board meeting. Board Packs play an important role in shaping a board"s focus and agenda, but our experience is that they are almost entirely made up of backward-looking financial data and that forward-looking and strategic issues are under-represented. This focus on retrospective and internal matters within the Board Pack has an inevitable impact on the content of the discussion that ensues within the boardroom.

The scope and quality of information provided to board members has received relatively little attention in the various corporate governance consultations carried out over the last few years. We would advocate a change in practice in this respect and welcome this opportunity to influence that change. We believe that getting the Board Pack „right" has the potential to improve the board"s focus on the long term.

Why do Board Packs matter?

Boards provide supervision and stewardship, as well as independent insight and specialist expertise, but their effectiveness is dependent on the scope and quality of the information they receive. Non-executives have limited time and resources to obtain information beyond that which is provided for them by the executive team and, therefore, rely heavily on Board Packs as the basis for the challenging questions they are there to ask. The Board Pack acts as the pre-read, a discussion document and the stimulus for debate at board meetings and it is, therefore, instrumental in focusing boards.

What is wrong with Board Packs today?

Over the past year, we have consulted over 25% of the FTSE 100 on this issue and our experience is that Board Packs tend to be heavily weighted towards backward-looking, financial data, with much less attention paid to forward-looking, strategic issues. The reporting of financial data is undoubtedly central to the supervisory role of boards, but it is, nevertheless, overrepresented. Boards also have an important stewardship role to play, which should involve the consideration of more forward-looking strategic information. Not only is information of this sort relatively light in most Board Packs, in the most extreme cases it is completely absent.

A forward-looking Board Pack that promotes a long-term focus contains more than retrospective financial data. The internal drivers of financial performance, such as customer satisfaction, personnel attrition, productivity, product pipeline, and other operational indicators, will often provide greater insight into the future prospects of a business than the previous period"s financial results. Of equal importance is the external operating environment, namely developments in the customer base, supplier/distributor dynamics, the competitor landscape and the regulatory environment, all of which provide an indication of what may be on the horizon.

How can this situation be improved?

Corporate governance issues have started to gain the prominence they deserve in recent years, but most of the discussion so far has centred on the competence and the diversity of the people who are appointed to UK boards, and whether they have the required skills and attitude needed to challenge executive decisions appropriately. Whilst this is welcome, relatively little attention has been paid to the support and materials these board members receive to empower them to make these challenges.

The JRBH Board Practice sees a role for this consultation in emphasizing the importance of this element of the corporate governance debate. Taken together, the legislation and guidelines of the last few years already suggest the result that we are advocating – directors have a legal duty to promote the long term health of their company (Ref. 1) and are supposed to receive information that enables them to discharge their duties (Ref. 2) – but these two points are rarely articulated alongside each other.

We would advocate that this consultation link the existing provisions in this area with guidance that explicitly states that it is crucial that boards receive high-quality, forward-looking information in order for them to maintain a focus on the long-term.

Ref. 1: The Companies Act 2006

The Companies Act 2006 introduced a statutory statement of directors" general duties.

The duty to promote the success of the company in Section 172 of the 2006 Act provides that a director:

- must act in the way he or she considers, in good faith, will promote the success of the company for the benefit of its shareholders as a whole; and
- in doing so, have regard to the **long-term consequences** of their decisions and the wider expectations of responsible business behaviour, such as the interests of the company"s employees and the impact of the company"s operations on the community and the environment. *[Emphasis added]*

Ref. 2: The UK Corporate Governance Code

One of the „main principles" espoused in the „effectiveness" section of the recently revised UK Corporate Governance Code is that:

"*The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties*."