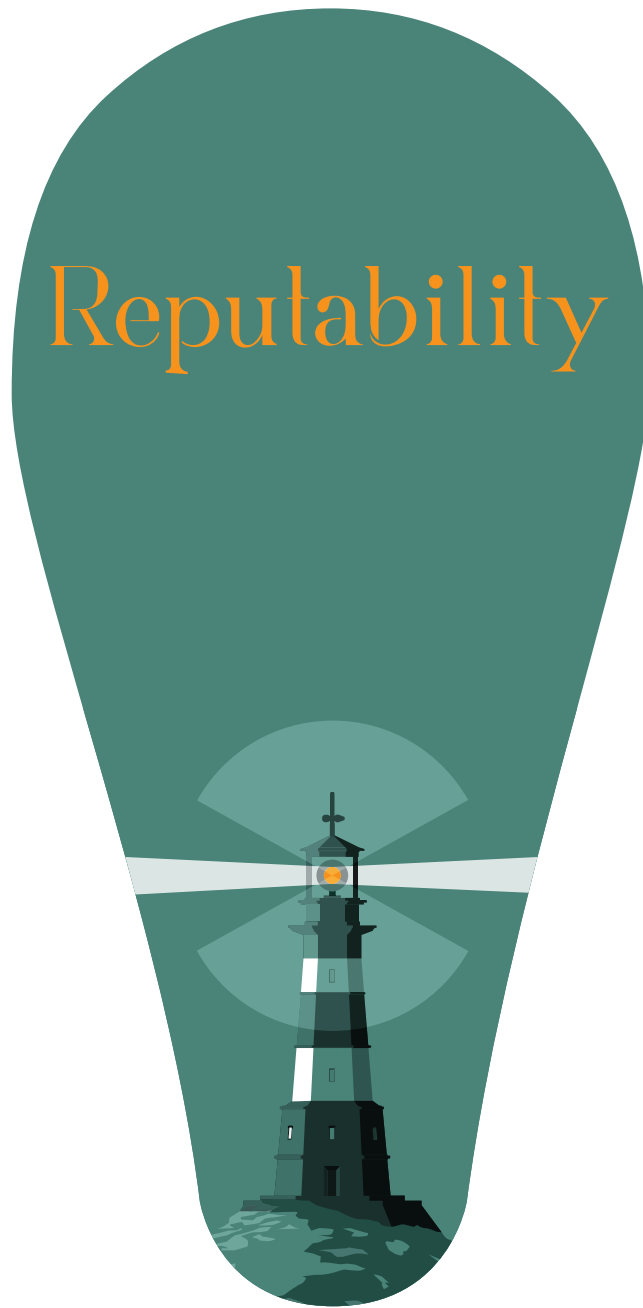


Reputability



Reputability LLP
Observations on
FRC Consultation on
the Corporate
Governance Code
and Guidance on
Board Effectiveness
26 February 2018



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**Observations by Reputability LLP
to the
Financial Reporting Council
on its
Consultation
on proposed revisions to the
UK Corporate Governance Code
and
Guidance on Board Effectiveness**

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Summary

1. Reputability is a leading expert in behavioural, organisational and reputational risk. Two of its partners, Anthony Fitzsimmons, the author of this note, and the late Professor Derek Atkins are the authors "Rethinking Reputational Risk: *How to Manage the Risks that can Ruin Your Business, Your Reputation and You*" (2017) and co-authors, with Professors Chris Parsons and Alan Punter, of "Roads to Ruin" (2011) the seminal Cass Business School report commissioned for Airmic by its CEO John Hurrell.
2. We welcome the FRC's laudable proposals, which respond to the majority of the most important lessons from the Banking Crisis and the research to which we refer below. There are however gaps, and we deal with these below.
3. Our primary recommendations are as follows. These and a number of consequential improvements are explained, with suggested wordings, and set out in the following pages. Figures in brackets are references to paragraph numbers in the following pages.
4. We welcome the clarified focus on the 'long term' success of the company in Code Principle A. **We recommend re-emphasising this by making it clear that the board agenda should have this as a primary focus.** (66)
5. For a board to deliver effective challenge and support, is essential that the NEDs have the skills, knowledge and experience to understand every important aspect of the company's activities. The lack of such skill, knowledge and experience lies behind many corporate failures. Character, particularly courage, also matters. **We recommend that a sentence should therefore be added to Principle I as follows:**

"The board and its committees should have a balance of skills, experience, independence and knowledge. NEDs should have the character, and collectively have the skills, knowledge and experience, to ensure effective challenge and support as to all

aspects of the company's operations. Board membership should be regularly refreshed.” (27, also 45)

6. We regularly find boards with NED teams who show no discernible skill, knowledge or experience in risk, the management of culture and incentives or the making of senior appointments whether of Chair, CEO, NED or senior executives. **We recommend that Code Provisions 17, 24, 32 and 35 are revised to make it the norm that NED teams have such expertise.** (29 to 32)
7. Research suggests that one of the reasons for the lack of diversity on boards, ranging far beyond gender diversity into ethnic and social diversity and career path background, is the closed, limited cohort from which head-hunters recruit. The exclusion of a large proportion of the otherwise-qualified population from those considered is a threat to the long term sustainability of individual companies as well being a social injustice and a threat to the effectiveness of UK Plc. **We recommend that boards should be required to use open advertisements of all board roles except when secrecy is essential and unavoidable.** (36 to 38)
8. The same research highlighted cogent reasons why those involved in board evaluations should be excluded from providing board-level recruitment services for a substantial period after the evaluation. This drew attention to analogous risks from board evaluators reviewing the performance of boards and board members for whose recruitment they were responsible. **We recommend changes to deal with these threats to the integrity of external board evaluations.** (73 to 76 and 79)
9. The long term success of a company depends critically on its ability to learn from mistakes before, as well as after, they cause harm. **We therefore recommend that the FRC encourages companies to implement policies that encourage, support and reward individuals, right up to board level, who raise concerns and report mistakes, including their own errors and system failures emanating from above them, as a matter of normal routine.** Those who self-report honest mistakes and identify weaknesses and failures, even from their own superiors, should expect praise, thanks

and a constructive approach, not opprobrium let alone sanctions. This, essentially a '*Just Culture*', is what makes commercial aviation so safe. (50, 51)

10. When corporate crises occur, boards are regularly and frequently shocked to discover what had been incubating, often for years, under their noses. We all have blind spots that can arise for a variety of reasons. There are things that subordinates will not tell their superiors for a variety of reasons including fear, social silences and social norms. Then there is our inability to see things we regard as part of our normality that outsiders see in a different light. A topical (if perhaps unusual) example concerns those who attended of the so-called 'Presidents Club', whose activities were recently exposed by the Financial Times. **We therefore recommend that the normality of blind spots is specifically drawn to the attention of boards, who should be encouraged to find and explore them.** (44, 53, 58, 63, 77 and 78)
11. We applaud the FRC's use of open-ended questions, following their deployment in their Guidance on Risk. **We have recommended a number of additional questions.**
12. We have set most of our suggestions into their context to make our comments easier to assimilate.
13. Anthony Fitzsimmons would like to acknowledge additional insights from Vanessa Sharp and John Hurrell.
14. We shall be happy to provide the FRC with additional explanations as required.

Background

1. Since the 2007/8 Banking and financial crisis, many have sought to identify the root causes of corporate failure. But even before the crisis, the college of European insurance supervisors, examining the entrails of a decade's worth of insurance failures, concluded:
*"Management problems appear to be the root cause of every failure or near failure, so more focus on underlying internal causes is needed"*ⁱ
2. In the aftermath of the financial crisis, the Parliamentary Commission on Banking Standards published many reports and financial regulators carried out many enquiries.
3. In parallel Airmit published '*Roads to Ruin*' (2011) a report it had commissioned from the Cass Business School. The late Professor Derek Atkins and I were two of the four authors, with Professors Chris Parsons and Alan Punter. Having dissected a score of disparate failures, it identifies eight important areas of 'underlying' risk that caused crises yet were, and largely remain, outside classical risk management. These are:
 - Groupthink
 - Board skill and NED control risks
 - Board risk blindness
 - Poor leadership on ethos and culture
 - Defective internal and external communication including to and from the board
 - Risks from complexity
 - Risks from inappropriate incentives –whether explicit or implicit and
 - Risk 'Glass Ceilings' that impeded the rise of unwelcome news upwards through hierarchies.
4. '*Roads to Ruin*' concludes that a number of developments are necessary to deal with these risks, including:
 - Rethinking the scope, purpose and practicalities of risk management, right up to and into the board in order to

capture risks not identified by current techniques and practices.

- Extending the training of risk professionals so they feel competent to identify and analyse behavioural and organisational risks, including those emerging from their leaders' activities
 - Ensuring that the authority and status of the risk team includes reporting all that they find on these subjects right up to and into the board.
5. 'Roads to Ruin' also concludes that since these risks ultimately emanate from boards, these risks will remain unmanaged unless boards, and especially Chairmen and NEDs, recognise the need to deal with them.
 6. Subsequent research by Reputability LLP, published as '*Deconstructing Failure*'ⁱⁱⁱ demonstrates the ubiquitous role of board-level failures in corporate failures. The risks identified in the sample (rounded to the nearest 5%) were:
 - Gaps in Non Executive Director skill sets and the inability or unwillingness of boards to control the CEO (discernible in 90% of cases)
 - Board risk blindness (85%)
 - Defective information flows to or from the board (60%)
 - Board leadership on ethos and culture (60%)
 - Risks from complexity (50%)
 - Risks from incentives (40%)
 - Risks from dominant or charismatic leaders (30%)
 7. Derek Atkins and Anthony Fitzsimmons went on to write "Rethinking Reputational Risk: *How to Manage the Risks that can Ruin Your Business, Your Reputation and You*" (2017). This analyses, in much more detail, the areas of behavioural, organisational and reputational risk that generate the unabated flow of corporate failures that leads our library to grow by dozens of case studies per year.
 8. One insight from '*Rethinking Reputational Risk*' is that the scale of damage that flows from the manifestation of a behavioural or

organisational risk tends, other things being equal, to be in proportion to the influence and power of those involved.

- Thus a low-level bully, perhaps a shop floor supervisor, can cause local misery and relatively limited consequences beyond, whereas a dominant CEO sets the tone for the whole organisation and its consequences will be equally widespread. Fred Goodwin provides a well-known example
 - We have encountered include a CEO whose vigorous, sincere attempts to lead his staff to adopt a good safety culture were undermined throughout the firm by the perception that (s)he did not consistently follow the rules her/himself.
 - Another example involves a CEO who spoke the right words on safety management but whose message seems to have been undermined by the (correct) perception that her/his bonus depended much more on profitability than on safety. Other things being equal the workforce seem to have preferred to do what they thought would 'please the boss', which they presumed was to have a bigger bonus. Safety was unwittingly sacrificed as costs were cut.
9. The point is that leaders set and run the company's systems. They do this deliberately as they make decisions; and they do this inadvertently in a variety of ways, including through the way that their behaviour is perceived by the workforce. This applies as much to corporate culture (part of the people system) and to IT systems as it does to physical systems, such as production lines and safety systems.
10. As regards staff, perceptions are important. Leaders may set out to implement their desired system but staff will respond not only to what they are told but also to what leaders do not say, to the perceived behaviour of leaders and to perceptions of leadership character and motivation. Thus:
- If a leader is perceived to be motivated, financially or otherwise, by one issue rather than another, this may influence staff who feel it is in their interests to "please the boss"

- Leaders who are felt to respond unpleasantly to unwelcome news will receive less of it – until it has emerged for all to see.
- A leader who blames subordinates for errors will find they hide errors

The FRC's Proposals

11. We welcome the FRC's laudable proposals, which respond to the majority of the most important lessons from the Banking Crisis and the research to which we referred in our introduction. There are however gaps, and we deal with these under the following headings.

The Code

Long term success

12. We welcome the FRC's renewed emphasis on "long term" success. Our research is littered with examples of leaders whose short term focus and disregard of long term risks and costs sowed the seeds of disaster, sometimes soon after the leader had retired. Egregious recent examples also include cases where leaders have distributed cash to shareholders leaving the company with insufficient money to sustain the business let alone make payments due to workforce pension schemes. We see many more potential cases in the pipeline involving these plus unsustainable debt levels taken on to maintain unsustainable levels of dividend distributions.

13. We believe, however, that incentives in the investment chain between company and ultimate retail investor and pensioner need much further work. Revising the Stewardship Code can only have a limited effect. We believe that the Financial Conduct Authority will need to be persuaded to address investment manager incentives focused on the short term that conflict with the far longer time horizons of retail investors and pensioners.

NED skill sets

14. One of the most important responsibilities of NEDs as a team is to provide effective challenge to executives. As a result of our research into failed boards, we believe that NEDs cannot do this unless the NED team, taken together, has the skill, knowledge and experience to understand every aspect of the business that is important to its long term success. Inevitably there will be gaps and these must be recognised and dealt with. Intelligence is no substitute. Without adequate skill, knowledge and experience there can only be rhetorical challenge based on ignorance and the application of so-called "common sense", a construct that regularly deceives. Such challenge is ineffective both because it lacks authority and because it can be met by an equally vacuous rhetorical assertion. This is not an effective board at work: though the board may delude itself that, since its members are intelligent, it must be effective.
15. Following the pattern of previous codes, Principle I states:
"The board and its committees should have a balance of skills, experience, independence and knowledge."
16. Human systems and IT systems underpin every company. Yet our research <http://www.reputabilityblog.com/2017/11/designing-better-boards.html> on NED declared skills and experience shows a shocking lack of NEDs who demonstrate knowledge, training or expertise in these areas. We reproduce the table below.

UK Boards	Large UK Companies	Financial Regulators	Non-financial Regulators	Population Baseline
Females %	31%	27%	32%	51%
BAME %	3%	0%	16%	14%
CEO or MD experience?	46%	48%	26%	
C-Suite experience	94%	61%	48%	
Relevant trade?	52%	27%	26%	
HR experience	2%	0%	3%	
Psychology, behavioural economics and social sciences	1%	3%	10%	
IT and Data experience?	9%	0%	3%	
Management Consultancy, strategy	11%	6%	3%	
Journalist, Academic or Lawyer	7%	9%	35%	

17. The table shows about 2% of our FTSE100 NED sample had declared HR experience and 1% had declared education in psychology, behavioural economics or social sciences. This means that few companies are able to include in their remuneration or nomination committees anyone with recent and relevant experience in these fields.

18. The consequences are graphically illustrated by recent research from a lucid research paper from the London School of Economics, "Head-hunter methods for CEO selection"ⁱⁱⁱ by Max Steuer, Professor Peter Abell and Professor Henry Wynn. This is an exceptional paper which we strongly commend to the FRC and to all who use head-hunters. It is based on hour-long open-ended interviews of a leading individual from each of 12 of the UK's leading head-hunters. It is a treasure trove of insights into how head hunters select CEOs and

how they view and handle nomination committees. Except where otherwise indicated, the italicised quotations in the following seven paragraphs are taken from this publication.

19. Selecting a new CEO is arguably the most important decision of any board. Yet it appears that head-hunters routinely disregard Nomination Committee efforts at defining the CEO role and person specification because they are "*little help in discriminating between candidates*". Given the rarity of board biographies showing any NEDs with HR experience let alone study of subjects such as psychology, sociology or organisational behaviour, this is likely to be a symptom of a skill gap in this area.

20. The LSE team conclude that boards use head-hunters because NEDs: "*wish to demonstrate to shareholders and the business community generally that they have executed their responsibility wisely and prudently. Employing a well-known search firm helps in giving this assurance to all interested parties*".

One might add that it also masks NEDs' lack of the skills needed to make this critical decision and the personal reputational risks associated with a poor appointment.

21. In their book "The Reputation Game"^{iv} the well-connected authors David Waller and Rupert Younger observe:

"Chairpersons, CEOs and non-executive directors of the UK's big listed companies form another closed network: they come from a small pool of talent and they all know each other's strengths, weaknesses and foibles, to the extent that they obsess about their reputations with each other. "I really worry that top executives care more about their reputations than the reality, in some cases" reflects one head-hunter."

22. The LSE team continues that in searching, head hunters:

"look for individuals who have impressed them, looking for people with the 'right' career path, reference and fitting in", giving "little attention to performance either prior to appointment or after taking up the post", let alone investigating the role of luck in their apparent success.

Having arrived in a shortlist,

“they narrow down and typically present the board with perhaps just two individuals to consider. The head-hunter feels that both candidates would make good CEOs. The final choice is down to the board. This process makes it much easier for the board. They have relied on a well-known and respected head-hunter. This is a firm that many large and important companies have employed. And now the board has to choose between a very small number of candidates with some assurance that both, or all of them, are likely to be successful appointments.”

23. One head-hunter tellingly revealed to the LSE team how (s)he uses what psychologists call choice architecture to manipulate boards into taking a vitally important decision for which the more self-aware will understandably feel ill equipped:

“if you go to buy a horse from an Irish farmer, he won't show you one horse, because you won't buy it, and he won't show you three, because you won't be able to make up your mind. But he'll show you two, and you'll buy one.”

24. Head hunters may take little interest in CEO performance after appointment but appointees are not ignored. It emerges that head-hunters develop their relationships with chairs, NEDs and CEOs as sources of potential future business. As one head hunter put it of a newly appointed CEO:

“I mean you know, obviously we will, when we place somebody, hopefully then they become clients or, you know, you stay in touch with them.”

25. Turning to IT skills, the table shows 9% of NEDs with IT experience and at first sight this looks reasonable. But a third of those in our sample were in just four companies in the IT, media and telecoms sector - essential trade skills. Of the balance, over 70% of the companies in our cohort had no NED with declared expertise in this field. This gap needs to be filled.

26. Risk pervades every company but we believe that there is a lack of NEDs with specific risk competence on many boards. Given that risk is as fundamental to the long term success of every company as

finance, we believe that audit committees or, where there is one the risk committee, should include at least one NED with recent substantial risk experience.

27. We therefore recommend that a sentence is added to

Principle I as follows:

"I: The board and its committees should have a balance of skills, experience, independence and knowledge. NEDs should have the character, and collectively have the skills knowledge and experience, to ensure effective challenge and support as to all aspects of the company's operations. Board membership should be regularly refreshed."

28. As a consequence, Principle K should be revised to read:

"K: Regular evaluation of the board should consider whether the NEDs have the character, and collectively have the skills knowledge and experience, to ensure effective challenge and support as to all aspects of the company's operations; the board's ~~the balance of skills, experience, independence and knowledge,~~ its diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively."

29. As regards the Nomination Committee, Provision 17 should be amended to add a sentence so that it reads:

"17. The board should establish a nomination committee that should lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors, with a minimum membership of three. The chair of the board should not chair the committee when it is dealing with the appointment of their successor. At least one member should have recent and relevant experience of making senior, preferably board-level appointments.

30.As regards the Audit Committee, the third sentence of Provision 24 should be amended to read:

“24: The board should establish an audit committee of independent non-executive directors, with a minimum membership of three. The chair of the board should not be a member. The board should satisfy itself that at least one member has recent and relevant financial experience and at least one has recent and relevant risk experience. The committee as a whole shall have competence relevant to the sector in which the company operates.

31.As regards the Remuneration Committee, a sentence should be added to the end of Provision 32 so that it reads:

“32: The board should establish a remuneration committee of independent non-executive directors with a minimum membership of three. The chair of the board should not chair the committee and can only be a member if independent. Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months. At least one member should have recent and relevant experience of managing recruitment, remuneration, culture and incentives”

32.A sentence should be added at the end of Provision 35 so that it reads as follows:

“35. Where remuneration consultants are appointed, this should be the responsibility of the remuneration committee. The consultants should be identified in the annual report alongside a statement as to whether they have any other connection with the company or individual directors. Independent judgement should be exercised when evaluating the advice of external third parties and receiving views internally. The committee should ensure that it has the skill, knowledge and experience effectively to evaluate the advice of external third parties and other views.

Gender, Ethnic and Social Exclusion from Boards

33. There is ample evidence of gender and ethnic exclusion from board, including our research at <http://www.reputabilityblog.com/2017/11/designing-better-boards.html>. There is also evidence that recruitment specialists are a part of the problem. In "Rethinking Reputational Risk (page 119) we wrote:

"Recent research on how head-hunters help recruit of chief executives^v gives little hope from that quarter even on well-paid roles such as C-suite recruitment. What hope then on a loss-leader NED recruitment assignment where a key objective will be to avoid upsetting the chair from whom the really lucrative project, a new CEO, is yet to come?

We once asked a leading recruitment agency how they go about selecting candidates for non-executive directorships. We were told, 'We always choose people who have been NEDs before in case we get sued'.

We asked another why people with good forensic skills – such as lawyers, journalists and academics – were rare on boards. We were told that chairs don't like such people on their boards because they are prone to ask questions that are difficult to answer, so the agencies don't suggest such people unless specifically asked."

34. "Head-hunter methods for CEO selection" devotes a section to the need for a new CEO to "fit in" board, concluding:

"The issue of 'fitting in' would appear to have powerful implications for the gender composition of boards and the appointment of women as CEOs."

The same inevitably applies to ethnic and social composition; and there is a powerful reason in head-hunters' minds for NED appointees to "fit in": given their long term cultivation of Chairs in order to win the task of finding a new CEO, no head hunter is likely to put that opportunity at risk by choosing a NED who does not "fit".

35. We repeat here the observation from 'The Reputation Game':

"Chairpersons, CEOs and non-executive directors of the UK's big listed companies form another closed network: they come from a small pool of talent..."

36. We therefore recommend that open advertisement of board appointments is made mandatory except where it is essential that the vacancy is kept secret, with an explanation to be given by the Nomination Committee after the event in every case where open advertisement was not used. Nomination committees should also be required to report on the steps taken to ensure that unusual candidates were not filtered out before they reached the Nomination Committee.

37. The first sentence in Provision 20 should therefore be amended to read:

"20. To avoid restricting the field and to help find suitable candidates from as wide a pool as possible, including those who are not known to the recruitment specialist employed, open advertising should be the primary means of recruitment unless it is essential to keep the vacancy concerned confidential. Nomination Committees should ensure that screening by recruitment consultants does not prevent them from becoming aware of unusually qualified or experienced applicants who might be suitable. Where open advertising is not used, the Nomination Committee should explain why not. If an external search consultancy is engaged it should be identified in the annual report alongside a statement as to whether it has any other connection with the company or with individual directors including in their prior careers."

38. To support this, Provision 23 should be amended as follows:

"23. The annual report should describe the work of the nomination committee and should include:

- a description of how the board evaluation has been conducted, detailing the outcomes, actions taken and how it has influenced board composition and its ability effectively to challenge and support as to all aspects of the company's operations;

- the process used in relation to appointments, its approach to succession planning and how both support building a diverse pipeline with reference to Principle J;
- what other actions it has taken to oversee the development of a diverse pipeline for future succession to board and senior management appointments;
- an explanation of how diversity supports the company in meeting its strategic objectives; and
- the gender, ethnic and social origins balance of those in the senior management and their direct reports.”

Remuneration

39. It seems clear from our research that staff are influenced by their perception of what their leaders are really like and what they really want, something they deduce from available information looked at through their own (i.e. subjective) lens.

40. Things would be simple if people only absorbed their leaders’ words. However when words are contradicted by workforce perceptions of leadership behaviour and motivation, these are likely to play an important role. We have mentioned above CEOs whose actions did not match words used. Another example of such a dissonance is the CEO who states one priority whilst subordinates know that her or his bonus depends on something else. We have mentioned the example of a CEO who stressed the importance of safety but whose remuneration package included a bonus system where safety played a far smaller role than profitability. Staff appear subliminally to have taken the message that profitability was the CEO’s real interest.

41. **We therefore recommend that Provision 40 should gain an additional sentence** after the bullet points, so that it reads as follows:

“40. Executive remuneration should support long-term company performance and value generation. When determining executive director remuneration policy and practices, the remuneration committee should address the following:

- clarity – remuneration arrangements should be transparent and facilitate effective engagement;
- simplicity – remuneration structures should avoid complexity; their rationale and operation should be easy to understand;
- predictability – the range of possible values of rewards to individual directors should be identified and explained at the time of approving the policy;
- proportionality and reward for individual performance – there should be a demonstrable link between individual awards and the long-term performance of the company. Outcomes should not reward poor performance and total rewards available should not be excessive; and
- alignment to culture – incentives should drive behaviours consistent with company purpose, strategy and values.”

The Committee should report on the extent to which, and how, workforce's perception of the remuneration policy and practices affects how the workforce perceives leadership character and incentives and with what consequences as regards workforce attitudes, culture and behaviour.”

42. Similarly Provision 41 should be amended so that the fifth bullet reads:

“41. There should be a description of the work of the remuneration committee in the annual report which should include:

- an explanation of the strategic rationale for executive directors’ remuneration policies, structures and performance metrics;
- reasons why the remuneration is appropriate using internal and external measures;
- whether the remuneration policy operated as intended in terms of company performance and quantum, and, if not, what changes are necessary;

- what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes;
- an explanation of the company's approach to investing in, developing and rewarding the workforce, and what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company policy and how it is expected to affect the intended values and culture throughout the company; and
- to what extent remuneration outcomes have been affected by board discretion."

Guidance on Board Effectiveness

43. We applaud the FRC's approach of using open-ended questions to make boards, and their evaluators, think more deeply about effectiveness. We think this is an effective approach. But it is crucial that the most important questions are explicitly asked, especially those that boards are unlikely to ask themselves because of their potential to provoke dissonance with how they see themselves and their own powers of observation. Many of the additional questions we recommend fall into this category.

44. One of the top lessons from our research is the extent to which boards have unrecognised blind spots from which disasters emerge. **We therefore recommend that an additional question is added at the end of the box following Paragraph 13** of the Guidance as follows:

“Questions for boards

- Have we clearly set the company's purpose, strategy and values, identified the significant risks and provided enough direction for management?
- How do we obtain assurance that management is identifying and addressing future challenges and opportunities, for example as a result of technological change or changing stakeholder expectations?
- How do we ensure that the board makes well-informed and high-quality decisions based on a clear line of sight into the business?
- Have we considered its implementation, feasibility and impact on stakeholders as well as its impact on financial performance?
- What percentage of board time is spent on financial and behavioural performance management and is the balance right?
- How do we make sure the voice of the workforce, customers and wider

- stakeholders is heard at board-level and what impact has this had on our decisions?
- How do we obtain assurance that the culture we are leading is open, accountable and aligned to purpose, strategy and values?
- How do we discover what our blind spots are and what lies in them?"

45. The risk aspects of dominant personalities or groups has been recognised in the first bullet under paragraph 15, but charismatic personalities can have similar effects because people are more likely to believe they are likely to be right and therefore be less willing to challenge. The second bullet needs change to reflect our suggested revision to Code Principle I (paragraph 27 above). And an additional point is needed to deal with the frequent cause of crises, that boards are unaware of important things that are going wrong beneath their level. **We therefore recommend revising Paragraph 15** to read:

"15. Boards should be aware of factors which can limit effective decision making, such as:

- a dominant or charismatic personality or a dominant group of directors on the board, which can inhibit contribution from other directors;
- insufficient diversity and breadth of perspective on the board, which can contribute to 'group think' or leave NEDs lacking the skill, knowledge and experience needed to be able to make well-informed challenges as regards all important aspects of the business
- inappropriate approach to risk, either excess focus on risk mitigation or insufficient attention to risk, and treating risk as a compliance issue rather than as part of the decision-making process – especially cases where the level of risk involved in a project could endanger the stability and sustainability of the business itself;
- failure to listen and to act upon concerns that are raised;
- Culture, incentives or other factors (such as workforce perceptions of leadership motivation and behaviour or of

likely leadership reactions to unwelcome news) may lead to a failure to report important negative or adverse information to the board, leaving the board in the dark;

- failure to recognise the consequences of running the business on the basis of self-interest and other poor ethical standards;
- a lack of openness by management, a reluctance to involve non-executive directors, or a tendency to bring matters to the board for sign-off rather than debate;
- complacent or intransigent attitudes;
- a weak organisational culture; or
- inadequate information or analysis.

46. Heuristics and biases should be highlighted as factors that subliminally steer us all away from purely rational decision-making whilst retaining the illusion that we are being rational. **We therefore recommend revising Paragraph 16** to read:

“16. Most complex decisions depend on judgement, but the decisions of well-intentioned and experienced leaders can, in certain circumstances, be distorted. Factors known to distort judgement are conflicts of interest, emotional attachments, heuristics and biases and inappropriate reliance on previous experience and previous decisions.”

To the extent that board members do not understand heuristics and biases this should be a trigger to their filling that knowledge gap.

47. The suggestion of Devil’s Advocates is excellent but we believe that every chairman should be aware of the pre-mortem, arguably a more effective tool. **We therefore recommend revising Paragraph 20 first bullet** to read:

“20. For significant decisions, a board may wish to consider extra steps, for example:

....

- where appropriate, putting in place additional safeguards to reduce the risk of distorted judgements by, for example, commissioning an independent report, seeking advice from an expert, introducing a devil’s advocate to

provide challenge, holding a pre-mortem to identify potential failure modes, establishing a specific sub-committee, and convening additional meetings

• ...”

48. Our research shows that the failure of important ‘unwelcome’ information to reach the board is a recurrent cause of serious corporate failures, as is the failure of boards to learn from errors that, as a result of luck, do not have bad consequences. If long term success is to be achieved, companies need to unblock the flow of such information, systematically capture these incidents and learn from them, especially as regards systemic weaknesses. A successful version of this is the “*Just Culture*” approach that has made commercial aviation so safe. **This leads us to recommend revisions to paragraphs 32 to 34.**

49. **As regards Paragraph 32 we recommend this be revised to read:**

“32. Having policies in place that encourage, support and reward individuals to who raise concerns and report mistakes, including their own, as a matter of normal routine is a core part of a supportive ethical business culture. A safety valve can be provided by ~~W~~whistleblowing policies that offer effective protection from retaliation, as well as policies that support bribery and corruption legislation are essential components of this. Such policies are important, for example when attempts to resolve things internally have not worked.”

50. **As regards Paragraph 33 we recommend this be revised to read:**

“33. It is equally important to create an environment that encourages individuals to raise concerns, self-report their own errors or ask questions about a wide range of issues, including creating a feeling of psychological safety. Speak up arrangements help build trust, and can act as an early warning system and help to manage risk. Some companies even extend such arrangements beyond the workforce to external parties, like customers and suppliers. It is also important that the company makes it easy and routine for root cause lessons to be

learned from errors whether or not they have dramatic consequences, with lessons being disseminated widely.”

51. **As regards Paragraph 34 we recommend this be revised to read:**

“34. Engagement through a range of formal and informal channels helps the workforce to share ideas and concerns with senior management and the board, provides leaders with useful feedback about business practices from those delivering them and can help empower colleagues. Companies need to create an environment in which the workforce feel it is safe to voice their views. Common fears include being negatively labelled for speaking up, which might result in being side-lined for promotion, pay increases and bonuses. To be successful, leaders must actively listen, encourage and publicly praise and reward members of the workforce to who speak up and ensure there are no negative repercussions as a result of doing so.”

52. The list of examples given in Paragraph 35 to strengthen the employee voice reflect a range of current practices but none of these are likely to flush out the kind of issues that regularly remain hidden until they cause catastrophic damage. **We therefore recommend adding two items to the list of examples** so that it reads:

“[Paragraph 35 box]

Some examples of workforce engagement activities

- Director breakfasts
- Listening groups
- Focus or consultative groups
- Groups of elected workforce representatives
- Social media updates
- Employee AGMs
- Town halls and open door days
- Surveys
- Digital sharing platforms
- Asking open ended questions one-to-one
- Using trusted external intermediaries to guarantee anonymity”

53. Paragraph 36 suggests a number of questions for boards to ask to supplement conventional surveys. These do not ask about board blind spots and these should be addressed. **We recommend adding the following two fundamental questions.**

“[Paragraph 36 box] Questions for boards

- Is there a forum for employees to share ideas and concerns?
- How do we demonstrate we listen to the ideas and concerns from employees?
- Does management provide feedback to colleagues on how complaints and concerns have been dealt with?
- How comfortable do the workforce say they are with challenging and reporting issues of concern and is there any evidence that they are doing this?
- How do we explore culture in employee surveys?
- Do employees report that leaders and managers live the company’s values?
- How can we discover what information is denied to us on important subject, for example because of fear or social behaviours?
- How can we come to see our local and group level normalities so that we can challenge them?”

54. The tables after Paragraphs 40 and 42 are an excellent innovation but should be improved by adding the following.

55. As regards Paragraph 40:

“[Paragraph 40 Box]

Figure Two – Tell-tale signs of a culture problem

- Silo thinking
- Dominant chief executive
- Leadership arrogance
- Pressure to meet the numbers/overambitious targets
- Lack of access to information
- Low levels of engagement between leadership and employees
- Lack of openness to challenge

- Poor succession planning
- Misaligned incentives and flawed executive remuneration practices
- Tolerance of regulatory or code of ethics breaches, e.g. by star employees
- A lack of diversity
- Hierarchical attitudes
- Individual NEDs do not challenge when they should
- More than 30% of the board drawn from a particular type of professional or career background
- Board is socially homogenous
- The board does systematically not evaluate the role of luck in success
- A reluctance to treat honest board-level mistakes as normal events to be identified and rectified quickly, dissected openly and lessons learnt
- Remuneration arrangements that might lead staff to perceive their leaders are motivated primarily by money or greed

56. As regards Paragraph 42, we recommend the first table is **improved** by adding the following questions for Boards to ask themselves:

“[Paragraph 42 Box] Questions for boards

- Have we established values and made a public commitment to them?
- Have we translated the values into a set of behavioural expectations and has management communicated this widely and clearly across the company?
- How are we demonstrating ethical leadership, displaying and promoting throughout the company, behaviours we expect from others?
- How do we articulate and communicate what we consider to be acceptable business practices?
- Do our actions demonstrate to our workforce that they can believe what we tell them as regards culture and

values? Or do our actions as they see them lead our workforce to believe a different message?

- Does our workforce believe that they will be rewarded for abiding by our stated values or that results will trump values?
- Are we doing enough to test key decisions for alignment with values? Can we give examples of how key decisions reflect the values and explain how this was considered?
- How effectively do we monitor negative trends or misalignment between values and our and our workforce's behaviours?
- What steps have we taken to address any negative trends or misalignment between values and behaviours?

57. As regards Paragraph 42, we recommend that the second table is improved by adding the following question for Boards to ask management

“[Paragraph 42 second box] Questions for boards to ask management

- Has management identified appropriate KPIs that are properly aligned to desired outcomes and behaviours?
- To what extent do our recruitment processes test the extent that new recruits naturally align to our values?
- How have the values and behavioural expectations been reinforced in our recruitment, induction, performance management, incentives and reward policies, processes and practices?
- How are we testing this with new recruits and the existing workforce?
- What behaviours are being driven when setting strategy and financial targets?
- Is company tax policy consistent with stated values?
- What steps has management taken to ensure that suppliers meet our ethos and expected standards of behaviour?

58.As regards Paragraph 43, the intention is excellent but the concept of “taking the temperature” encourages inadequate practice. The challenge is to ascertain what is really going on in the business when superiors or group outsiders to the group are not looking. **We therefore recommend rephrasing paragraph 43** as follows.

“43. Boards should seek assurance about the health of the culture ~~by taking the temperature~~ in the organisation on a regular basis. This means gathering evidence by monitoring chosen indicators and assessing information from a range of company-specific sources to gain insights into the overall culture, capture information about individual sub-cultures and identify outliers. Where the board has concerns or finds misalignment it should make sure corrective action is taken. Boards should be aware that it is difficult to capture reliable and comprehensive information on culture because of phenomena such as social silences and because of the presence of unrecognised blind spots, particularly as to local normality. Boards should consider how to probe such areas. Special techniques may be necessary to provide the workforce with psychological safety, guaranteed anonymity and the ability to examine cultural blind spots and local normality, such as using trusted outsiders.”

59.As regards Paragraph 44, whilst technology should of course be used where appropriate, it is the interpretation and presentation of data that reveals insights, and it is important that such functions are carried out by people who can be trusted to bring any uncomfortable truths to power in a manner that ‘power’ can assimilate. The paragraph should also recognise that at present, few HR professionals have training in risk and few risk professionals have training in human and organisational behaviour. **We therefore recommend adding to the end of Paragraph 44** so that it reads:

“44. The board should engage different parts of the business, for example HR, internal audit, risk and compliance, in its assessment of culture and encourage an integrated approach. It

should make use of technology to access and analyse information in order to develop a more sophisticated view of culture-associated risk and develop its understanding of how culture and behaviours impact performance. Boards should bear in mind that Risk and HR teams and boards may need tailored education to gain sufficient skills to identify and handle risks from culture and behaviour.”

60.Paragraph 45 contains a valuable list of sources of cultural insights.

We recommend adding three items to the list:

“[Box paragraph 45] Some sources of culture insights

- Turnover and absenteeism rates
- Training data
- Recruitment, reward and promotion decisions
- Grievance and ‘speak up’ data
- Poor compliance, e.g. health and safety incidents
- Regulatory and ethics breaches
- Promptness of payments to suppliers
- Attitudes to regulators, internal audit and employees
- Exit interviews
- The ease with which board members admit to mistakes or ignorance
- The role of blame and punishment, including the extent to which dissection and learning from honest errors is routine throughout firm”

61. Paragraph 46 provides useful lists of sources of insight but these should be extended. We recommend the following.

62.As regards the list “What are we monitoring?” we recommend:

“[Paragraph 46 first Box] “What are we monitoring?”

- What indicators of culture are we monitoring and have we established appropriate benchmarks against which to assess culture?
- How effectively are we using technology to measure behavioural/cultural indicators?

- What other sources are we using to gain insights into culture and how things are done?
- To what extent do we capture errors at all levels so they can be analysed to root causes and lessons learned?
- Is management using root cause analysis when things go wrong? (Examining not just what went wrong but persistently asking why and pursuing answers however high they lead.) For example, were incentives/rewards, social or power dynamics a contributing factor?
- Is the company holding exit interviews with leavers and are we considering how the feedback reflects on the company's culture?
- How do we learn how outsiders would see what we insiders regard as normality?"

63. As regards the list "What evidence are we looking for?", we recommend adding four points and revising one:

"[Paragraph 46 box] What evidence are we looking for?

- What evidence is there that the way the company conducts business in practice is consistent with what it claims to stand for?
- Are we seeing evidence of sub-cultures or pockets of autonomy in the business that could undermine the overall culture?
- Do employees feel that customers and suppliers are treated fairly and that the company cares about its impact on the environment and community?
- What evidence do we have that the chief executive is willing to listen, take criticism and let others make decisions?
- How does the 'tone in the middle' resonate with the workforce?
- How do we discover what proportion of errors at all levels are captured for analysis to root causes so that lessons can be learned widely?

- How do we discover what proportion of errors at all levels are captured for analysis to root causes so that lessons can be learned widely?
- How does the company deal with breaches of company rules or codes of conduct? With what consequences for internal information flows?
- What action do we take against senior people or star performers who do not uphold the company's values?
- What do examples of communications from leadership and middle management tell us about the commitment to values, openness and accountability?
- How do we access workforce perspectives that the workforce won't discuss with insiders who represent authority?
- How effectively do we discover and see into our blind spots?
- How do we discover how our workforce perceives senior leaders' character, personal motivation and behaviour and how that perception affects workforce behaviour?

64. **As regards Paragraph 47, we recommend** revising this to read:

"47. All directors should uphold the highest standards of integrity and probity and support the chair in instilling the appropriate culture, values and behaviours in the boardroom and beyond by living their declared values in everything they do."

65. As regards Paragraph 49, group meetings of NEDs are likely to lead to social silences that inhibit individuals from saying things they will not say with other NEDs present. **We therefore recommend revising Paragraph 49** as follows:

"49. The chair is pivotal in creating the conditions for overall board and individual director effectiveness and should make certain that the board has effective decision-making processes and applies sufficient challenge to major proposals. The chair should make certain that all directors are aware of their wider responsibilities when joining the board. The chair should hold

meetings with the non-executive directors without the executives present to facilitate a full and frank airing of views. These should include regular one-to-one meetings.

66. As regards paragraph 50, we have two points. First, it should reflect the Code focus, at Principle A, on long term success. Second, one of a Chair's most important roles is to ensure that the NEDs as a group have the right skill sets and to ensure that the boardroom is a safe place for honest and open debate, including discussion of boardroom mistakes. **We therefore recommend revising the first bullet point of Paragraph 50 and adding three new bullet points** as follows:

"50. The Chair's role includes:

- setting a board agenda which is primarily focused on strategy, performance, value creation, and accountability, and the long-term success of the company and ensuring that issues relevant to these areas are reserved for board decision;
- ensuring that the board has the diversity of skills, knowledge, experience and world view needed to be capable of functioning effectively.
- ensuring the NED team has the skills, knowledge and experience required to provide effective and support challenge, in fundamental areas such as IT, management, culture, people/HR and risk as much as in finance, strategy and the company's trade.
- ensuring a board culture that supports open honest debate, rigorous challenge and a safe environment in which to dissect board-level errors to their root causes
- ..."

67. Whilst in transition between the PRA and the FCA, Andrew Bailey made an important speech^{vi} in which he said:

"Healthy scepticism channelled into intelligent and forceful questioning of the self-confident can be a good thing."

We agree and recommend that Paragraph 64 should be strengthened to reflect this, to read as follows.

"64. Executive directors have a greater knowledge of the company and its capabilities. They should appreciate that constructive challenge from non-executive directors is an essential aspect of good governance, and should encourage their non-executive colleagues to test their proposals in the light of the non-executives' wider experience outside the company. The chair and the chief executive should ensure that NEDs are provided with adequate information in a timely manner, ~~this process is properly followed that~~ challenge is effective and that challenges are both welcomed and addressed constructively and courteously."

68. NEDs should be encouraged to get to know their company. But they should be aware that they will be lucky to overcome all the social and psychological factors that regularly leave leaders in the dark as to what is really going on below them. **We recommend that two sentences are therefore added at the end of paragraph 65** to ensure that the FRC does not inadvertently promote the delusion.

- "65. Non-executive directors should, on appointment, devote time to a comprehensive, formal and tailored induction which should extend beyond the boardroom. Initiatives such as partnering a non-executive director with an executive board member may speed up the process of him or her acquiring an understanding of the main areas of business activity, especially areas involving significant risk. They should expect to visit operations and talk with senior and middle managers in these areas and should talk with non-managerial members of the workforce. The non-executive director should use these conversations to get a feel for the culture of the organisation and the way things are done in practice and to gain insight into the experience and concerns of frontline workers. NEDs should not however assume that the picture they gain through such conversations will necessarily be entirely accurate or complete. They should be aware of the

possible consequences of social silences, loyalties, psychological insecurity and other factors. They should also beware of gaining a false sense of assurance which may be reinforced by normal human behaviours such as the availability heuristic and the self-serving and optimistic biases, which can lead to unjustified complacency"

69. We regularly come across Chairs who share the services of the CEO's support staff. This is highly unsatisfactory since it allows a CEO who is so inclined to monitor the Chair's communications. This practice should be strongly discouraged and **we recommend adding a sentence at the end of paragraph 72** to achieve this:

"72. The company secretary should report to the chair on all board governance matters. This does not preclude the company secretary also reporting to the chief executive in relation to their other executive management responsibilities. The remuneration of the company secretary should be determined by the remuneration committee. The Chair's administrative support should be independent of that of the Executive Team."

70. Whilst well-intentioned, the idea promoted in Paragraph 75 of a "cohesive" board is dangerous as it can easily encourage Groupthink and similar ills. **We recommend the last sentence of paragraph 76 should be amended** to read:

"75. The nomination committee should be responsible for board recruitment. The process should be continuous and proactive, and should take into account the company's agreed strategic priorities. The aim should be to secure a boardroom which achieves fresh input and thinking, and the right balance between challenge and teamwork, while maintaining ~~a cohesive~~ an effective board."

71. As regards the Nominations Committee, we recommend changes to reflect the need for a body of NEDs who, collectively, have the skills, knowledge and experience to challenge effectively on every significant aspect of the company's operations; and the importance of character. **We therefore recommend revising Paragraph 76** to read:

"76. The nomination committee should be clear about the character traits sought and values and behaviours expected when recruiting new directors and senior management and build a proper assessment of ~~this~~ these into the recruitment process. It should evaluate the ~~balance of skills~~, experience, character and knowledge required for the NED team to be able to challenge effectively and the diversity on the board and, in the light of this evaluation, prepare a description of the role, ~~and capabilities and character traits~~ required for a particular appointment. This should include an assessment of the time commitment expected, recognising the need for availability in the event of crises The aim should be to ensure that the NED team taken as a whole has the skills, knowledge, experience and diversity of world view to understand every aspect of the company's operations including areas such as risk, HR and IT."

72. The FRC recognises the importance of diversity in many of its aspects. Our research suggests that diversity of professional background is absent in most FTSE boards which are heavily overweight as regards both people with C-suite experience and as regards accountants. We suspect that their social backgrounds draw from narrow stratum at the top of society, excluding a large proportion of people with different career paths (which will include many women and people with 'different' ethnic and social backgrounds) who are amply capable of taking such senior roles and will add different world views. As explained at paragraphs 34 and 35 above, these people are excluded because recruitment through head-hunters, who appear to give great weight to "fit" and whose contact list may also be societally skewed. Valuable as the experience of the current cohort of professionals is, its skewed nature is likely to make diversity of world view impossible to achieve, putting at risk the board's ability to understand what people without their own backgrounds, who form the vast majority of the stakeholders, think and feel. **We therefore recommend that a sentence is added to Paragraph 80 as follows:**

“80. There is considerable evidence that diversity in the boardroom has a positive effect on the quality of decision-making and company performance. Nomination committees should take positive steps to increase levels of diversity both at board-level and in the executive pipeline. Building the executive pipeline is vital to progress and to increase levels of diversity amongst those in senior positions. Diversity includes social diversity and diversity of experience including career paths. It is essential to advertise positions in order to attract candidates who would be unavailable through board-level recruitment agencies.

Board Evaluation

73. Board effectiveness evaluation is important. Given humanity’s capacity for self-delusion through sub-conscious behaviours such as the self-serving and optimistic biases and overconfidence, there can be no doubt that external evaluations, well done, are capable of revealing far more than internal evaluations. But even an external evaluation will be ineffective unless its findings are delivered by someone who not only understands how boards go wrong but can also be trusted to deliver dissonant, unwanted or unwelcome news to the board in a way that the board is able to assimilate.
74. As explained above, head-hunters and other recruitment consultants who seek CEO, Chairman and other appointment commissions present an acute problem. Some will have been responsible for recruiting board members to their current or previous posts. This risks leaving them unwilling and unable to critique the consequences of appointments in which they were professionally involved.
75. Some will have ambitions to be engaged with the future lucrative appointment of a senior executive. To retain the opportunity, they will perceive the desirability of maintaining good relations with the Chair and those who are current or future chairs elsewhere. This generates what may be an irresistible temptation hold back on unwanted news in order not to sacrifice these relationships. With

that comes an unavoidable risk that an evaluation by such a person will be ineffective.

76. Since board effectiveness is crucial to long term success of the company, **we therefore recommend** that no person or firm who/that was involved in the selection of any board member should be allowed to carry out an evaluation of the board: and that no person or firm who/that has carried out a board evaluation should be used for board-level recruitment for four years after the evaluation was made.

77. **Revise Paragraph 90**, revise it to read:

“90. Boards continually need to monitor and improve their performance. This can be achieved through board evaluation, which provides a powerful and valuable feedback mechanism for improving board effectiveness, maximising strengths and highlighting areas for further development. The evaluation process should aim to be objective and rigorous. A challenge is to see into our blind spots and see our normality as others can see it. We cannot reliably do this without external help.”

78. **Revise Paragraph 94** to read:

“94. The Code recommends that premium-listed companies have externally-facilitated board evaluations at least every three years. External facilitation ~~can add~~ adds value by introducing a fresh perspective and new ways of thinking, helping us to see into our blind spots and critiquing our normalities. It may also be useful in particular circumstances, such as when there is a new chair, if there is a known problem around the board table requiring tactful handling; or there is an external perception that the board is, or has been, ineffective. The chair should consider with the external facilitator whether it would be appropriate to obtain feedback from the workforce and other stakeholders on the performance of the board and individual directors.”

79. **After Paragraph 94 insert a new paragraph:**

“94A. No person or firm that was involved in the selection or appointment of any board member should carry out an evaluation of the board. No person or firm that has carried out

a board evaluation should be engaged for board-level recruitment for four years after the evaluation was completed."

80.As regards Paragraph 95, first bullet point, which currently reads "the mix of skills, experience, knowledge and diversity on the board, in the context of the challenges and opportunities facing the company" for reasons given earlier, **we recommend** this is replaced with two new points to reflect the importance of a NED team that is effective in challenging and supporting executives on all aspects of the company's operations.

81.Given its crucial importance to long term success, **we recommend that learning from mistakes at board level is given prominence.** We therefore recommend including a new second bullet point. The following reflects both these recommendations.

"95. Whether facilitated externally or internally, evaluations should explore how effective the board is as a unit, as well as the quality of the contributions made by individual directors. Some areas which may be considered, although they are neither prescriptive nor exhaustive, include:

- ~~the mix of skills, experience, knowledge and diversity on the board, in the context of the challenges and opportunities facing the company;~~
- Whether the NED team, taken as a whole, has the skill, knowledge, experience and diversity of world view to understand every aspect of the company's operations including areas such as risk, HR and IT;
- Whether NEDs have the character and skills to be able to provide effective challenge and support;
- Board culture, including as to the board's ability to learn from its own errors and from errors in the environment in which the board works
- ..."

Remuneration Committee

82. Leadership remuneration is an emotive subject within board and beyond. Workforce perceptions of leaders' remuneration can affect workforce behaviour.

83. **As regards Paragraph 103, we recommend** this is extended as follows:

"This means overseeing not only pay, conditions and incentives but also other policies that have an impact on the experience of the workforce and drive behaviours. This includes policies around recruitment and retention, promotion and progression, performance management, training and development, reskilling and flexible working as well as understanding how leaders' behaviour, motivation and remuneration arrangements are perceived by and influence the workforce."

84. As regards the Questions for Boards in Paragraph 106, we recommend adding a question about the use of exit interviews:

"[Paragraph 106 box] Possible questions for boards

- How well are our values and expected behaviours embedded in all our HR processes from recruitment to exit interviews?
- How effectively do we learn from exit interviews?
- How does the company structure remuneration and other forms of reward to produce appropriate incentives?
- Have we established clear principles for pay across the organisation against which we can justify and benchmark pay policies and outcomes?
- Can we articulate our approach to investing in and rewarding our workforce? Have we taken workforce views and priorities into account in developing our approach?
- Does the balance between financial and non-financial incentives support the desired culture?
- Are behavioural objectives included in leadership and employee goals and are behaviours formally assessed as part of performance review activity?
- Have we considered whether executive pay incentives or those of other employees could undermine culture?

- What are we doing to address gender pay gaps?”

85. Turning to Paragraph 113 and the suggested Questions for Remuneration Committees, we recommend revising one question and adding two questions:

“Questions for remuneration committees

- Do we have the skill, knowledge and experience to steer behaviour and culture in the firm?
- How do we test whether our approach to culture and incentives across the firm is working as we intend?
- How is executive remuneration aligned with wider company pay policy?
- How are corporate reputational risk and behavioural and organisational risks considered in the setting of incentive pay?
- In what circumstances would we expect to exercise discretion over remuneration outcomes?
- What is the maximum award we think is reasonable for our executive directors and what will we do in the event the application of the formula produces an outcome in excess of that award?
- How does executive remuneration link to our strategy and KPIs?
- How effective are the financial and non-financial performance measures at supporting values and culture?
- Are incentives across the organisation aligned to our culture and encouraging the desired behaviours?
- Have we considered negative behaviour which the choice of any particular metric may encourage and what steps have we taken to manage such risks?
- Do employees feel that they are treated well and fairly in the workplace and that they are supported in developing themselves and fulfilling their potential?

- What have we done to explain executive pay arrangements in comparison with those of the workforce?”

Endnotes

- ⁱ OP20 (2002) <http://www.fsa.gov.uk/pubs/occpapers/OP20.pdf>
- ⁱⁱ 'Deconstructing Failure – *Insights for Boards* (2015) Available from <https://www.reputability.co.uk/files/press/Deconstructing-failure.pdf>
- ⁱⁱⁱ Steuer, M. et al (2016) 'Head-hunter methods for CEO selection' <http://www.braybrooke.co.uk/tabid/99/Default.aspx?articleId=1283>
- ^{iv} 'The Reputation Game' by David Waller and Rupert Younger, One World 2017 at page 63
- ^v Steuer, M. et al (2016)
- ^{vi} Speech to City Week 2016 Conference 9 May 2016 <http://www.bankofengland.co.uk/publications/Documents/speeches/2016/speech901.pdf?mod=djemFinancialRegulationPro&tpl=fr>

