



REPORT

On Diversion

Governance professionals can help to avert future catastrophic problems

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Recent disclosures about prosecutions against numerous sub-postmasters accused, and in hundreds of cases convicted, of theft and fraud, have been nothing short of shocking. Various of those convictions have already been found to be unsafe as a result of revelations demonstrating that the financial discrepancies presented as evidence of dishonesty were actually the result of computer bugs. It is expected that many more, if not all, such prosecutions will be overturned.

As a fellow human being, I am appalled at the destruction that this huge miscarriage of justice has wrought on so many lives. But as a governance professional, I am left wondering how the board of the Post Office could have allowed such a situation to have developed and continued over so many years.

It is said that 'two heads are better than one'. This is, essentially, the reason that shareholders delegate authority to run their companies to a group of experienced individuals – the board of directors – rather than simply appointing a chief executive to manage the business.

The reasons why a group is, in general, better positioned to generate superior outcomes are self-explanatory. A diverse group of knowledgeable people can make decisions with the benefit of greater collective expertise and experience, the act

of debate can of itself help form ideas, and review and consideration of a matter by others who have not been directly involved, offers the benefits of a new perspective.

The expectation that non-executive directors, in particular, will bring fresh challenge to proposals is a long-established principle and a key protection for shareholders who value the independence which a non-executive contributor should be providing to board discussions. Of course, in order for NEDs to bring that independent challenging voice, they need opportunity to do so and adequate information to inform them. They rely on board reports, appropriate agendas, a willingness amongst management to be open and transparent and sufficient board time to properly debate matters. An absence of any of these factors should, in itself, be an alarming red flag for board members.

Corporate history is, however, littered with sorry examples of how even experienced and well-qualified boards can get it spectacularly wrong. The Walker Report, which reviewed how corporate governance failings in banks and other financial institutions had contributed to the 2008/09 financial crisis, had lots to say about how the impact of a lack of critique and challenge by non-executive directors had helped to foster the conditions from

which the crisis was born. The Walker Report highlighted the dangers of so-called 'group think' – the phenomenon by which alternative opinions are either not voiced or are ignored. Group think offers the deceptively appealing appearance of consensus and reinforces the phony ideal that agreement rather than challenge indicates effective decision-making. The assumption that decisions made without opposition are likely to be correct, creates a vicious circle of cosy assurance whereby boards are sub-consciously lulled into a false sense of security about their collective wisdom and invincibility.

This is not an easy problem to overcome. A board needs to be able to work together, as a team, to arrive at sensible decisions. It cannot be in a constant state of conflict and tension but yet meetings need to be a place where the discomfort of dissent and disagreement is encouraged and welcomed.

Governance professionals and company secretaries can be key to achieving such an ideal environment and atmosphere. Their remit uniquely offers multiple opportunities for reflection on boardroom objectives, behaviours and outcomes, from early and in-depth meeting preparation, through meeting attendance, detailed note-taking and key follow-up tasks. And yet their slight distance from the direct responsibility for board decisions means it is perhaps also simpler for them to remain impartial.

Governance professionals have significant influence over how boards are run through design of processes, direct access to the chair, the ability to help shape information shared with the board and a degree of control over when they receive it and the time allocated to discussions of different topics. Although admittedly not a comfortable thing to do, company secretaries need to be prepared to offer challenge and a contrary voice on board processes and effectiveness in order to drive continual improvement. Contributing to an echo chamber that reinforces a false 'group think' perception of effectiveness is serving neither their board colleagues nor other stakeholders well. Independence of thought, and the strength to sometimes express controversial opinions, are therefore essential qualities with which effective governance professionals can hopefully help avert future catastrophic problems such as those currently being seen with the historic Post Office prosecutions.

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