Genius Boards

ACCREDITED BOARD REVIEWER

CASE STUDY

Transforming Governance and Leadership in a Regulated Subsidiary

BACKGROUND

The company is a recently established and regulated subsidiary operating under the umbrella of a non-regulated group parent company with several non-regulated subsidiaries and divisions. Despite the parent's excellent brand image and the new subsidiary's rapid growth, the subsidiary company faced significant challenges.

The parent company imposed cash flow restrictions and did not understand the UK financial services regulated environment or the subsidiary's entrepreneurial culture and leadership, which were not well-suited to a heavy-handed group parent.

Staffing was challenging, as were reporting lines into the parent as many key managerial roles were conflicted in working for the company and yet being part of the parent company in their main day job. The parent company's processes and procedures often stalled the need to hire new people in the subsidiary. In the parent, governance was mature and balanced within the subsidiary. However, the parent did not understand the FCA and PRA's regulatory compliance requirements and was still immature within the subsidiary due mainly to a lack of corporate support.

The board was led by a chairman who had deep industry knowledge and was independent of the parent company. The board also included only one other independent non-executive director (NED) with appropriate skills, though this was their first NED role. The CEO, experienced in the industry, had a cohesive team but faced challenges due to lack of support, lack of freedom to operate, governance overload, restricted budget for the strategy and complex staffing procedures.

GENIUS BOARDS

Since our inception in 2003, we have been dedicated to transforming average boards into high-performing boards across the UK and internationally.

Our comprehensive services include board performance reviews to assess and improve performance and effectiveness, bespoke in-house board training tailored to your unique requirements, governance services across various regions and sectors, and strategic risk management to help your board achieve risk maturity.

AT A GLANCE

Challenges

- Governance Failures
- Culture
- Overbearing Chairman
- Board as a Risk
- Operational Focus Over Strategy
- Conflicted Roles and Lack of Independence

Solutions

- Redefining the Chairman's Role
- Addressing Conflicts of Interest
- Leadership and Mentoring for the CEO
- Focus on Strategic Risk Management
- Enhancing Governance Practices
- Strengthening Board Composition

Outcomes

- Balanced Leadership
- Enhanced Board Composition and Governance
- Improved Strategic Focus
- Reduced Conflicts and Increased Independence
- Regulatory Compliance and Risk Management

THE CHALLENGE

An external board review initiated by the company secretary, ensuring that regulatory requirements were matched, uncovered several critical issues affecting the effectiveness of the board.

Governance Failures

The board's governance practices were immature, mainly due to resource sharing with the parent company. The board composition did not meet the independence and composition requirements outlined in the Financial Services Handbook and Code best practice.

Culture

There were significant cultural failures between the parent company and the regulated subsidiary. Cultural failures were evident in the board's performance, with executives not stepping up effectively and only one NED not being empowered to challenge. These factors led to functional and performance breakdowns, which created regulatory and sustainability risks.

Overbearing Chairman

The chairman frequently crossed the executive boundary, dominating discussions and often dismissing other viewpoints, including from the executives. This behaviour created evidence of distrust in management, hindered further by ineffective communication, and stifled strategic conversations. The voice of the independent NEDs was overshadowed.

Board as a Risk

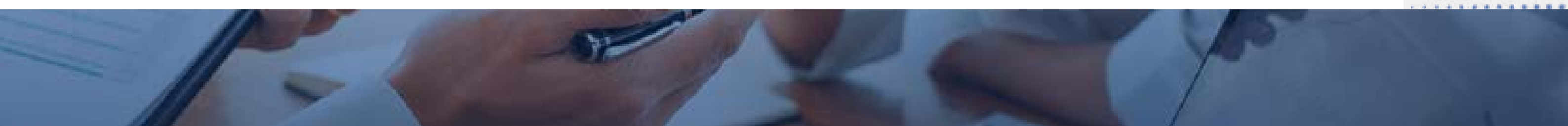
The risk that the board was creating a performance shortfall. The structure from the board to the parent did not have the required governance to protect either side of corporate or reputational risks. The reporting lines from the board to the parent were not effective. The information did not flow easily or logically, either way, creating risks of information, perception, and incorrect outcomes.

Operational Focus Over Strategy

The board tended to get bogged down in operational details, neglecting strategic planning. The lack of strategic debate left the business vulnerable and unable to focus on long-term goals.

Conflicted Roles and Lack of Independence

The presence of conflicted directors and the chairman's controlling behaviour undermined the board's effectiveness, leading to disempowered executives and a lack of respect for diverse views and challenges. The regulated subsidiary was at the mercy of one person within the parent's "whim".



THE SOLUTION

To address these issues, a comprehensive strategy was implemented to transform the governance, leadership, culture and company risk profile.

Redefining the Chairman's Role

The chairman was engaged in a process to recognise the impact of his behaviour on the board's culture. He was supported in transitioning to a more non-directive leadership style, focusing on mentoring rather than controlling. This change was crucial in allowing more balanced and effective board discussions.

Addressing Conflicts of Interest

The board recognised the need to remove direct conflicts of interest, especially regarding shared resources and roles between the subsidiary and the parent company. This was implemented despite initial resistance from the parent company, driven by regulatory necessity.

Leadership and Mentoring for the CEO

The CEO was advised to replace the CFO with an industry-proficient individual to better support the company's strategic goals. Additionally, the CEO received mentoring to enhance leadership skills and better navigate the challenges of leading a regulated entity within a larger corporate structure.

Focus on Strategic Risk Management

A renewed focus on risk management was introduced with the establishment of a dedicated Risk Committee. This committee was tasked with ensuring that corporate and reputational risks were appropriately managed and that strategic decisions were made with a full understanding of potential risks.

Enhancing Governance Practices

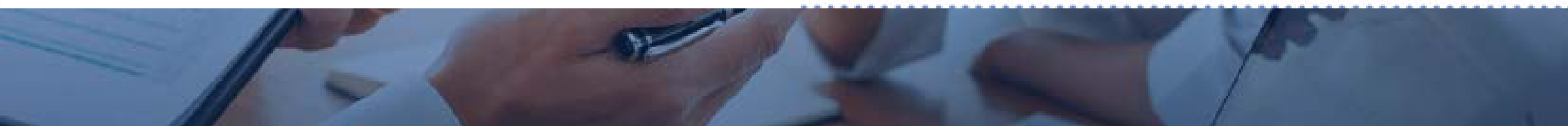
The governance structure was overhauled to comply with regulatory requirements. This included strengthening the regulatory risk and compliance function and creating a board Risk Committee, which was critical for aligning the company's practices with regulatory requirements.

The reporting lines for the company secretary were also changed, so they reported directly to the chairman and CEO of the regulated entity, removing any conflicting responsibilities between the subsidiary company secretary and their previous senior within the parent company.

Further change involved removing the intermediary reporting line within the finance projects function within the parent company management so that the CEO and finance functions reported to their parent company equivalents.

Strengthening Board Composition

The board composition was reassessed, leading to recommendations for increasing the number of independent NEDs with the right skills and experience, broadening the industry base and source of knowledge. This change aimed to ensure that the board could effectively challenge management, adding value to the process and contributing to strategic discussions from a more diverse group.



THE OUTCOME

The recommended interventions led to significant improvements in governance, performance and leadership and supported the next stage of "change" the business needed to adopt.

Balanced Leadership

The chairman's shift to a non-directive, supportive role allowed for more balanced board discussions and empowered the NEDs to contribute more effectively. This change also improved the overall board culture, fostering a more collaborative environment.

Enhanced Board Composition and Governance

The addition of experienced independent NEDs and the strengthening of governance practices brought the board into compliance with regulatory requirements. The board was better equipped to provide oversight, challenge management, and focus on strategic issues.

Improved Strategic Focus

With the operational focus of the board reduced, the board was able to engage in more meaningful strategic discussions. The establishment of the board Risk Committee ensured that strategic risks were systematically addressed, enhancing the company's long-term planning and resilience.

Reduced Conflicts and Increased Independence

The removal of direct conflicts of interest and the realignment of reporting structures allowed the board to operate more independently from the parent company. This independence was critical in ensuring that decisions were made in the best interest of the regulated entity.

Regulatory Compliance and Risk Management

The enhancements to governance and risk management satisfied regulatory expectations, reduced the risk of non-compliance, and positioned the company for sustainable growth within its regulated environment. In effect, a Section 166 was averted.

CONCLUSION

The Company's experience highlights the importance of balanced leadership, independent governance, and strategic focus in ensuring the effectiveness of a board, particularly in a regulated environment.

By addressing the issues revealed in the external board review, the company was able to transform its governance practices, empower its board members, and align its operations with regulatory requirements.

> *This exercise has highlighted in a different and understandable way, how to balance the Board and the Executive roles for effective leadership.*
>
> *You helped us understand the governance importance of a correct company structure and the influence of people on effective outcomes.*

GET IN TOUCH

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