Lessons from Patisserie Valerie

Recent events at Patisserie Valerie bring into sharp focus the importance of ensuring that governance structures do not create the conditions for boards to cocoon themselves from overseeing management and corporate strategy for the benefit of all shareholders. The fact that the events that just transpired occurred at a company that is led by one of the pre-eminent businessmen in the UK today should be taken as a cautionary tale for all.

Hindsight is a cruel test of board decision making. We have no doubt that the Patisserie Valerie board was at all times making decisions that it believed were in the best interests of the company and its shareholders. Further, its status as a smaller, AIM listed company provided it with a certain degree of both structural and "comply and explain" flexibility not on offer to larger FTSE quoted companies.

We also have no doubt that the Chairman – like many of his peers leading the boards of respected businesses – and his fellow directors viewed the company's committee structure as well as his outside commitments as appropriate. While we cannot know for sure as outsiders, it's likely, too, that there was little pressure from shareholders to push the board to change committee composition, request that the Chairman reduce the number of external directorships or challenge the alignment of his broader portfolio shareholdings with public ownership interests.

This being a post-mortem exercise, we now have the luxury of applying hindsight to assert that proactive, meaningful engagement between the Patisserie Valerie Board and its public shareholders could have mitigated some – although not all – of the issues that led to the company's Extraordinary General Meeting and "rescue". This kind of engagement is easier said than done, however.

For non-executive directors to sustain a relationship of mutual trust with shareholders on critical governance matters that impact value, they need to understand the rules of engagement and how they vary from normal course executive team engagement around results, M&A, etc. It's not only who you engage with, but how you engage with them and on what topics that is key, and it's not as intuitive as may seem on its face.

Traveling blindly, or in ignorance (not to be confused with 'ignoring' investors, which is a wilful act), is no longer acceptable to investors and other market participants. Although not all engagement will feel immediately worthwhile or satisfying, going about it in an informed way is key to long-term success.

The subtleties of asking the right questions, listening to investors' answers (rather than knowing them all already) and taking a balanced view, no matter how good or strong you feel today, is what places leading non-executive directors at the cutting edge of shareholder engagement. This, in turn, improves board decision making when times are good so that the integrity of governance is not called into question when fortunes change.

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