

INTEGRITY GOVERNANCE

MAKING BOARDS MORE EFFECTIVE



Executive Challenge Academy

Corporate Governance

April 2018







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**I AM A REGGAE MUSIC LOVER,
ALWAYS SMILING,
TRANSFORMING CULTURE.**

A Customer Executive Manager.



**I AM A LONG BRUNCHER,
A HOLIDAY HIKER,
A DIVERSITY MENTOR.**

Executive Director for Payments & Cash Management.

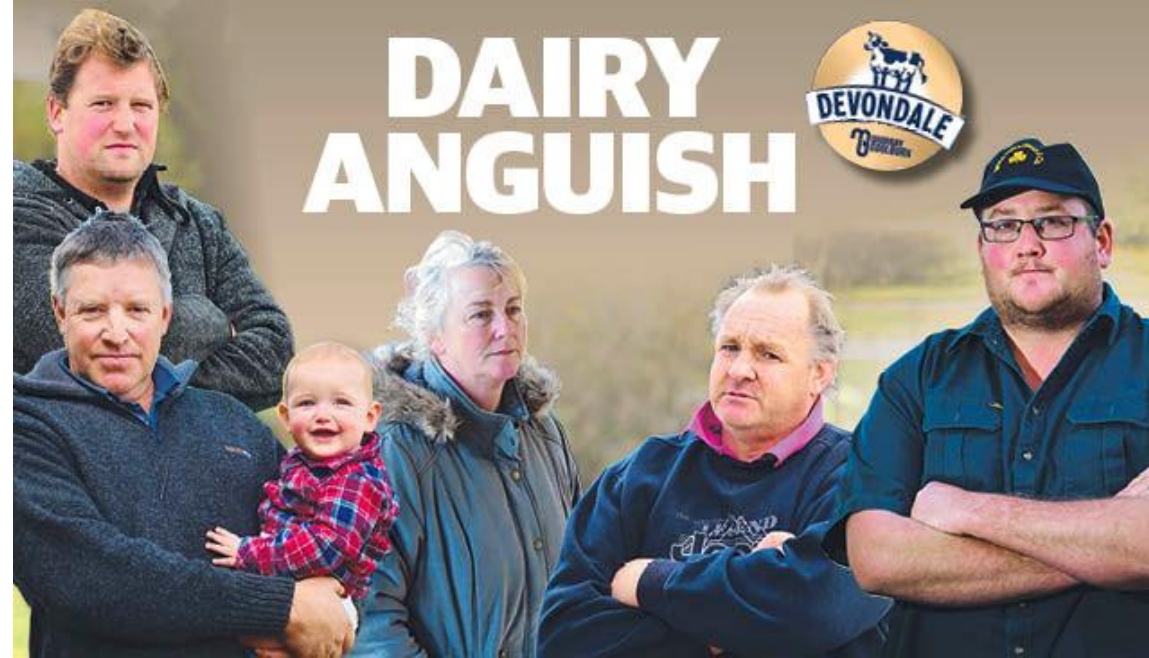


CBA whistleblower:

**“Profit first,
everything else
is second.”**

SPECIAL INVESTIGATION LAUNCH RE

Local scandals



Rebuilding society's trust in the corporation



Social media

- Policy
- Protocols
- Monitoring
- Integral to the marketing and communication strategy



Sports Governance



The board's role in culture



Board diversity

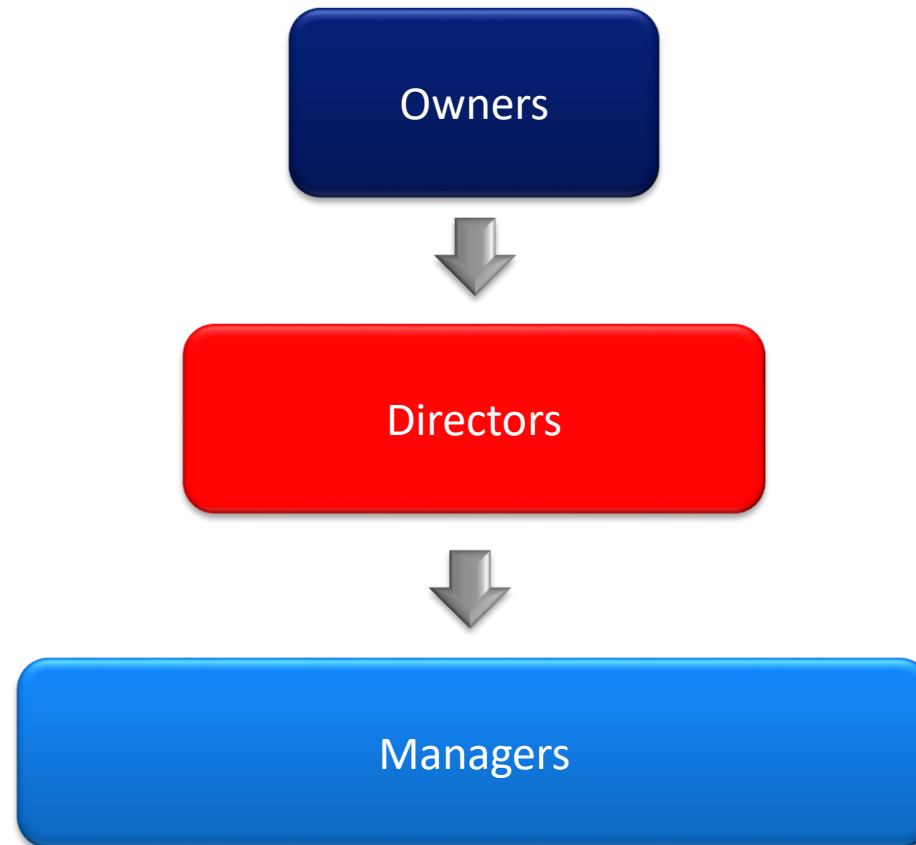




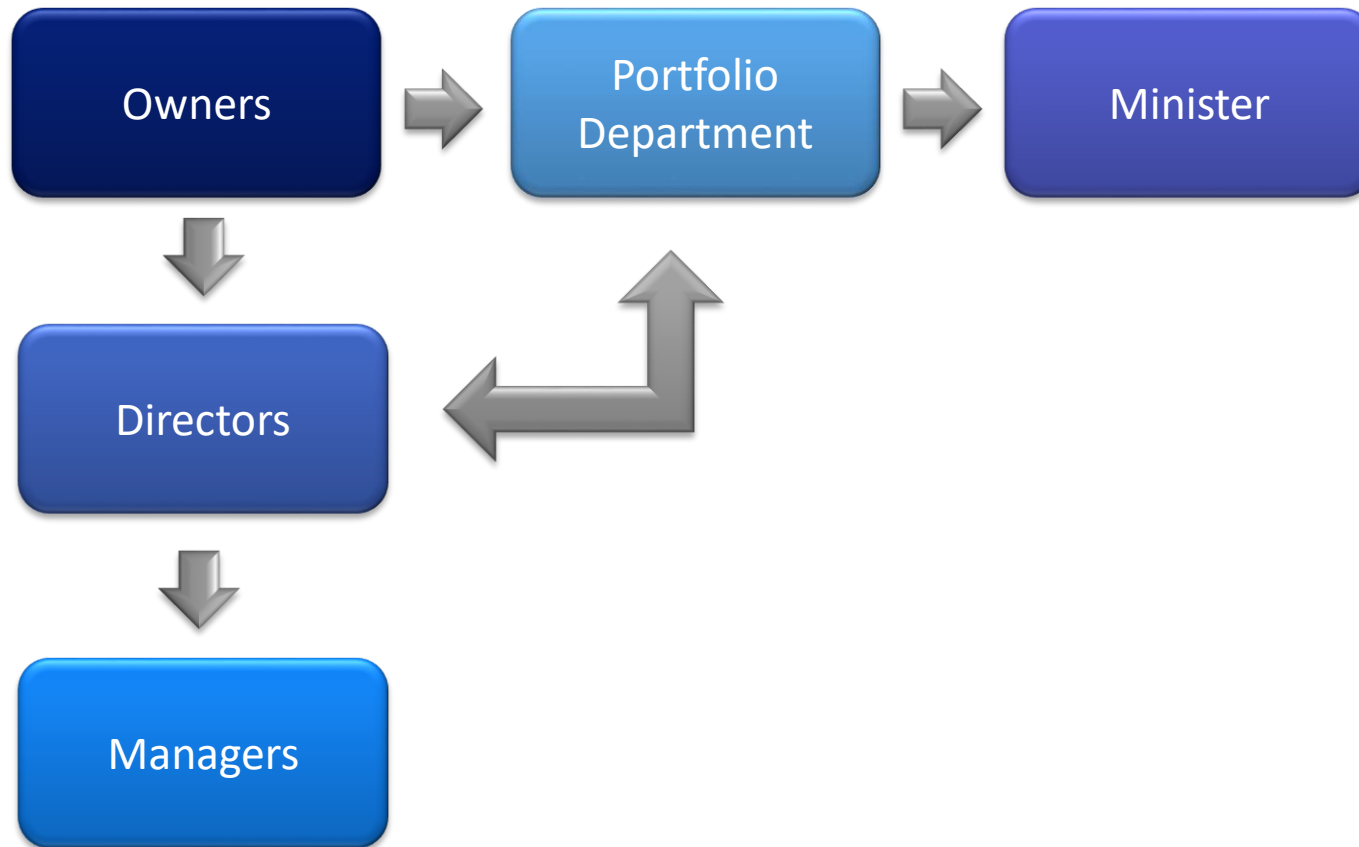
Directors Duties & Responsibilities

What is the role of the board?

The Agency Model



The Agency Model in the public sector



Tricker Model

Framework for analysing board activities



Source: Robert I. Tricker, *International Corporate Governance: Text Readings and Cases*, New York: Prentice Hall, 1994, p.149

Director's duties

- Same principles for not-for-profit, government, public and proprietary limited companies
- Courts make no allowance for unpaid Directors, philanthropic objectives, etc.

Two primary Directors duties

1. Act in **good faith**

- To act in good faith in the best interests of the company for a proper purpose
- To avoid conflicts of interest
- Not to misuse information or position

2. With **care** and **diligence**

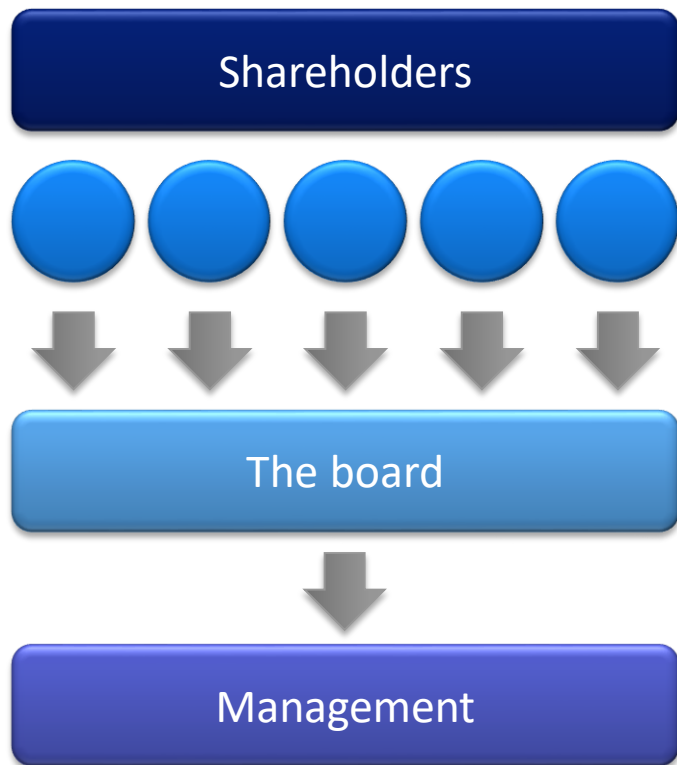
- Directors have a duty to act with reasonable care and diligence

Director's duties

Corporations Act imposes a number of specific duties:

- Insolvent trading —a key regulatory priority of ASIC
- Financial reporting
- Continuous disclosure
- Related party transactions

The jobs of the board are based on 3 lines of sight



- Hire CEO
- **Past: Hindsight**
 - Ensure accounts accurate
 - Report to shareholders
- **Present: Oversight**
 - Oversight company
 - Set compensation regimes
 - Approvals inside 'boundary markers'
- **Future: Foresight**
 - Involved with strategy & risk
 - Involved with talent pool

Protection for Directors

- Best protection is
 - To act in good faith;
 - To apply yourself with care and diligence for a proper purpose;
 - Avoid conflict of interest;
 - To avoid abuse of position; and
 - Maintain confidentiality of information.

Governance

- Expectations are evolving
- Changes in demands from funders and the community:
 - increasingly high level of competence and propriety; and
 - increased professionalism.
- Increased need to keep up with legal developments related to Directors' duties

Developing legal areas for Directors

- Legal requirements
 - General
 - Industry specific
- Emerging areas
 - Workplace Health and Safety
 - Environment
 - Tax
 - Culture
- The Australian Charities and Not-for-Profits Commission (ACNC)

Boards and strategy

- Focus at a macro level
- Distinguish between:
 - Strategic thinking; and
 - Strategic planning
- Ensure that the organisation is ready, willing and able
- Monitor performance
- Make strategy a continuous, proactive process
- Link risk to return to strategy

Boards and risk

- Establish the risk appetite for your board
- Risk:
 - Identify
 - Understand
 - Mitigate
 - Manage
 - Monitor and review
- Monitor performance delivered for risk taken

Boards and risk

- Establish clear lines of authority and accountability
- Develop proper incentive structures and a code of ethics
- See risk as opportunity not just threat
- Ensure risks are understood and managed
- Ensure good reporting
- Know what risks are managed
- Anticipate problems
- Remember zero risks = zero return

A balanced approach



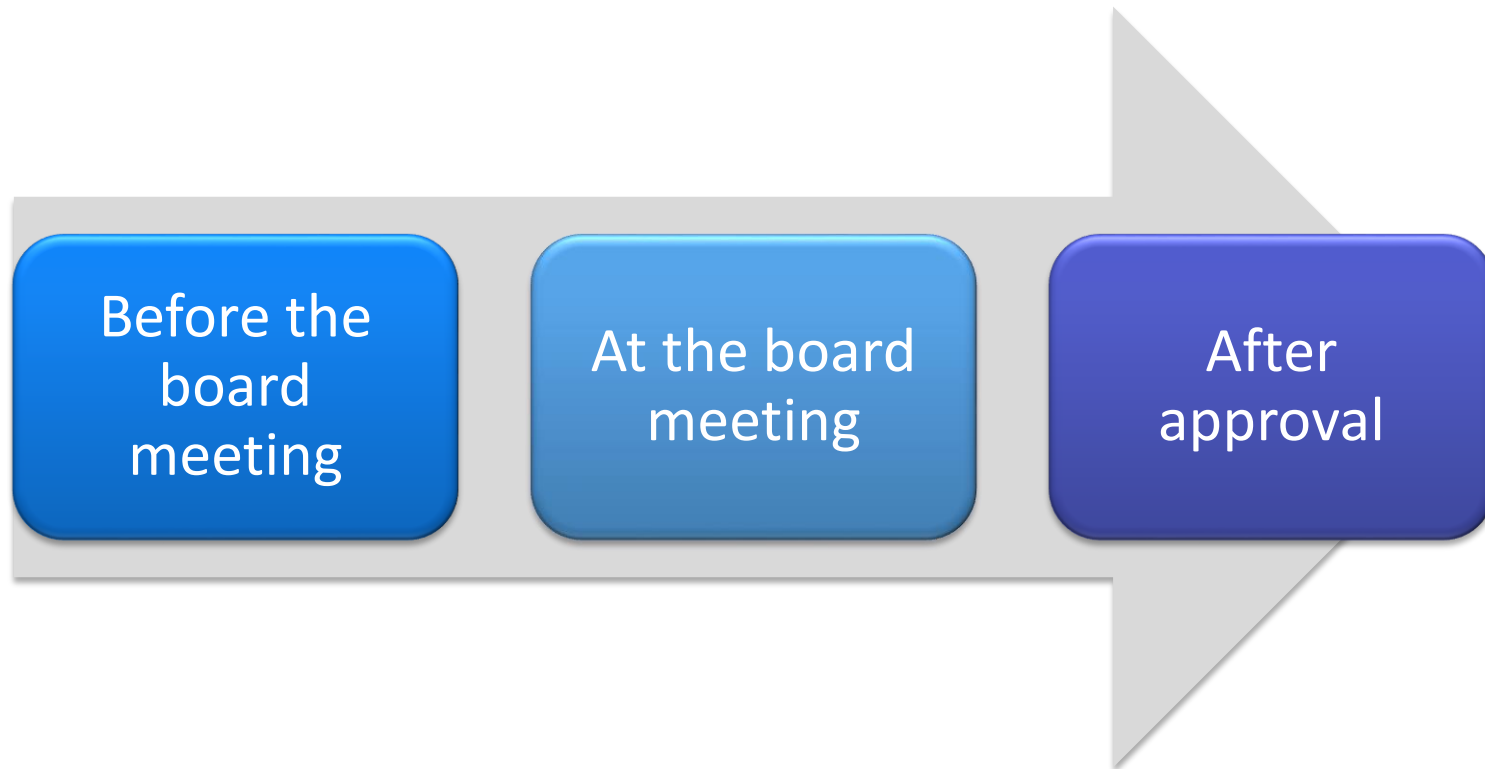
Risk: The role of the Board



Directors and decision making

- Legacy of board is often assessed by the quality of their decisions
- The board is the ultimate decision maker in corporate governance
- Each board member is individually accountable for the board's decisions
- Chairman:
 - Manages the process
 - Not alone in being responsible for the quality of debate

Stages in decision making



Directors and decision making

Decision making tools

- Ethical and value based influences
- Individual factors
- Role of “gut feel”
- Group factors
- Questioning techniques
- What are the assumptions that we are making?
- The need to be self aware

Complications inherent in individual decision making

- Common heuristics or biases
 - Anchoring
 - Escalating commitment (sunk costs)
 - Perpetuating the status quo
 - Overconfidence
 - Optimism
 - Seeking confirming evidence
 - Framing of the issue
 - False consensus

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Advantages of collective decision making

- Provides a check and balance against the biases
- Brings diverse perspectives to the process
 - more information might be available
 - greater alternatives generated
- Decision making effectiveness depends on group emotional intelligence
- Role of the chairman especially important

Making good decisions



Potential problems with groups, such as a board

- Group dynamics
 - can have a profound effect upon individual behaviour, thinking and ultimately on the quality of decision making that occurs
 - interdependencies within the group
- Politics and power plays within the group
- Conscious and subconscious reactions and alignments, and
- Individual 'valencies' — subconscious predispositions to certain 'roles' or behaviours when in a group

Ethical Decision Making



Testing our choices

- How would we feel in their shoes?
- What is fair and reasonable?
- What is the “adult” thing to do?
- What will build trust and respect?
- What will stand the test of time?
- Do we have the courage to do the right thing?
- What can we learn from this dilemma?

Decision making tools

- “Time out”
- How do we feel?
- Who is involved?
- What are the facts?
- What are our intentions?
- What are our options?
- Have we thought about it creatively?

Board effectiveness

Board effectiveness depends upon:

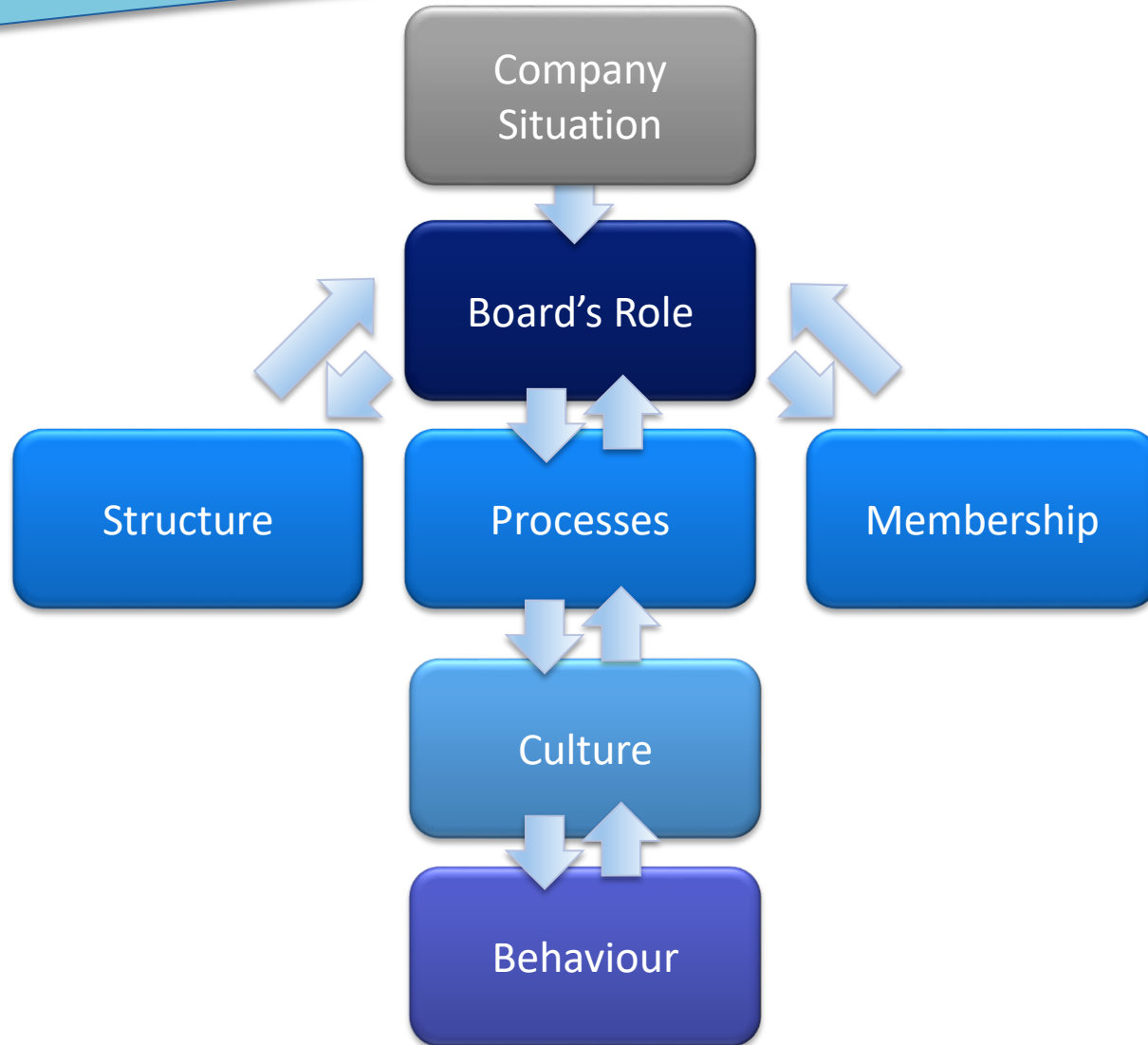
- Role **clarity**
- Board **composition**
- Board **processes**
- Board **relationships**
- Board **culture & behaviour**

Board effectiveness

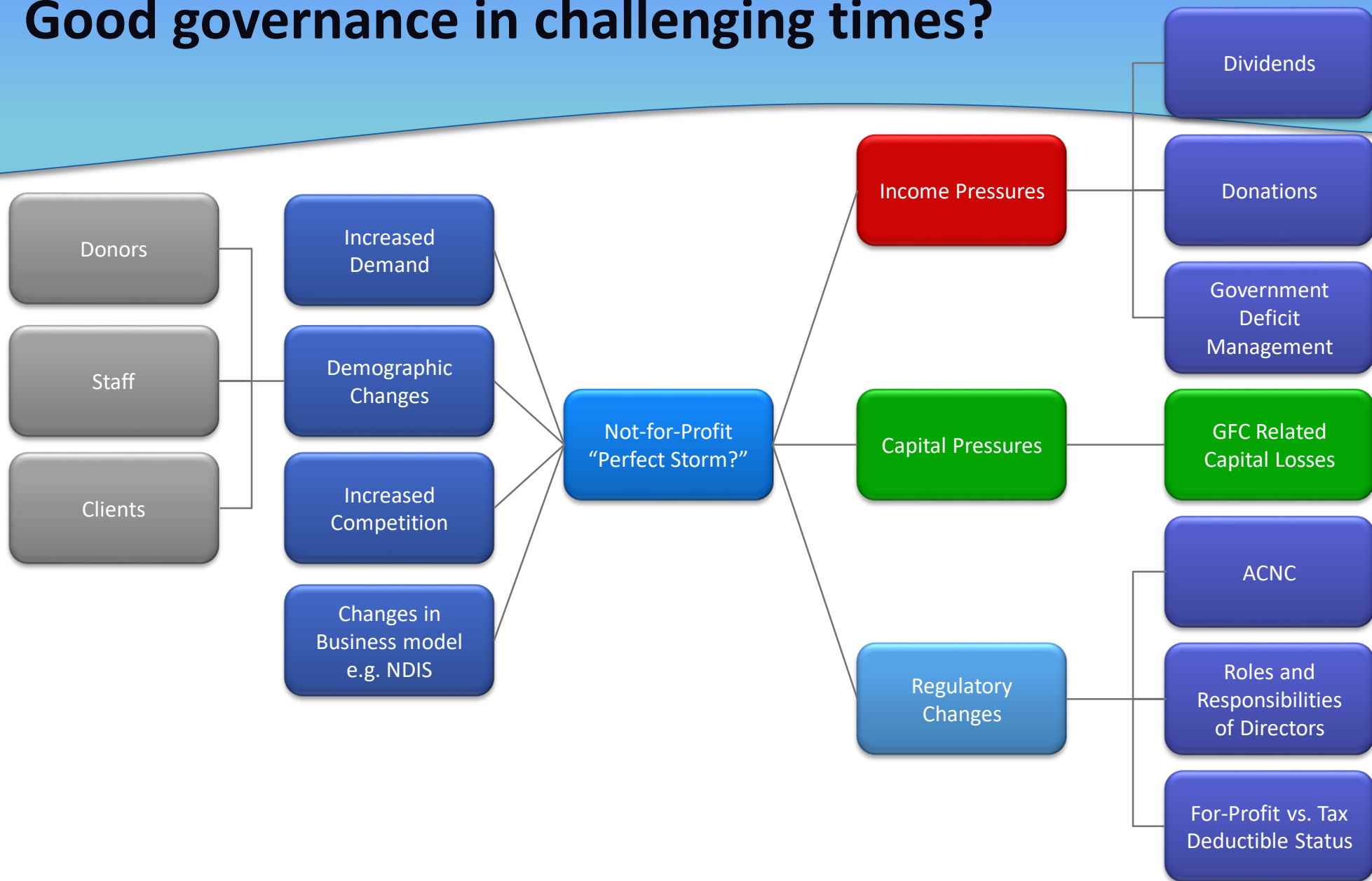
Board effectiveness depends upon:

1. The board:
 - Understanding;
 - Agreeing to; and
 - Implementing ... its role in the governance system
2. The board developing effective strategies to deliver its role
3. Ongoing board and Director performance assessment and review

The board as a 'system'



Good governance in challenging times?



Board composition

Factors to consider:

- Size of the board
- Balance:
 - Demographics
 - Skills
 - Personalities
 - Executive/non-Executive
 - Independent vs. non independent

Board processes

- Meetings
- Agendas
- Papers
- Board presentations
- Minutes
- Board calendar

Board processes - Committees

- Committees
- Terms of reference
- Performance orientation
- Clarity:
 - What is the committee being asked to do ?
 - What resources does the committee have?
 - When is the committee required to report ?
 - When, how and by whom will the performance of the committee be assessed ?

Board processes - Director specific

- Gap analysis
- Role specification
- Recruitment
- Due diligence
- Appointment
- Induction
- Performance evaluation
- Succession planning

CEO

Key issues

- Specification
- Selection
- Development
- Evaluation
- Succession

Non-financial indicators

Examples

- Client outcomes
- Membership profile and numbers
- Occupancy or attendance or employment rates
- Market share
- Customer satisfaction
- Brand recognition

What is *relevant* to your organisation?

How will these *change* in the next three years?

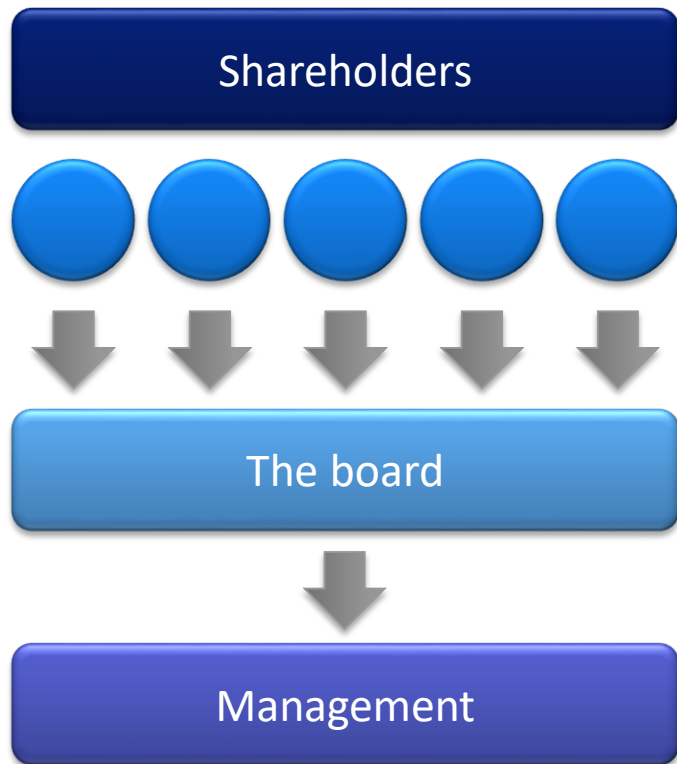
Performance indicators — things to remember

- Measurement drives behaviour
- Relevance rather than quantity — link to key performance drivers
- Financial and non-financial measures
- Agree on them with management
- Ensure KPI's align with the strategic plan and risks being taken to deliver results
- Review annually

Current topics

- Diversity
- Governance of major projects
- IT Governance
- Cyber security
- innovation
- Culture
- Ministerial and Department engagement
- Social media The future of Directorship
- “Apparent” governance and the governance “overhead”
- The information gap

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Integrity Governance

Making boards more effective

Board, Director and Committee Reviews

Facilitation and Training

Strategic Planning

Dispute Resolution

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Dealing with confidential board and ownership matters with
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