

## Inside an **EFFECTIVE BOARDROOM**

Linda Bardo Nicholls outlines a successful strategy for ensuring your board meetings are both productive and effective.

**OVER FIFTY CHAIRMEN** and directors of Australia Top 100 listed companies recently gathered in Melbourne to listen and debate the evolving role and responsibilities of the chairman at an exclusive event, hosted by the AICD, and featuring presentations from members of the AICD Corporate Governance Committee.

Presenters included AICD Corporate Governance Committee chairman, Mr John Ralph AC, Dr Helen Nugent AO, Ms Linda Nicholls, Mr Tony Berg AM, Mr Graham Bradley, Mr Colin Carter OAM and Mr John Story.

The following was presented by committee member, Linda Nicholls, and received such positive feedback from the audience we felt that it should be shared with all our members.

### Introduction

It's a process that makes a board more effective – what a chairman makes happen before, during, and after each board meeting:

- **Before each board meeting** an effective chairman meets with the managing director or CEO and the board secretary to confirm the agenda and review the papers.
- **During each board meeting** an effective chairman focuses time and attention on significant issues, fosters participation and engagement, and ensures the board reaches good decisions efficiently.
- **After each board meeting** an effective chairman reviews the meeting and the process looking for improvement opportunities – then starts to get ready for the next meeting.

*Linda Nicholls has an MBA from Harvard Business School and more than 30 years experience as a senior executive and company director in government-owned and private sector banking, insurance and funds management in Australia, New Zealand and the United States. She is a corporate advisor and a director of a number of leading Australian companies and organisations. Appointed chairman of Australia Post in September 1997, she is also a director of St George Bank, Sigma Pharmaceutical Group, and Healthscope where she is deputy chairman.*

### Before a board meeting

Preparation before a board meeting is about the content, order and pace of the agenda and the focus and relevance of the papers.

Each agenda will have items from an annual work plan for the board, items from previous meetings, and new items brought forward by management.

The agenda is sorted into:

- Items for decision;
- Items for discussion;
- Items for noting; and
- Items for information.

An effective chairman determines the order of items on the agenda with decision items first, discussion items second and items for noting last. Distinguish the operational matters from strategy and allow sufficient time for discussion of strategy.

If the item is for decision, the decisions to be taken must be spelled out in the recommendation at the start of the paper and in a form suitable for moving directly into the minutes.

If the item is for discussion, the issues must be clearly identified in the paper. What exactly do executives want the board to discuss? Which two or three points? The paper should begin with these questions so that everyone is clear about the discussion framework and purpose of the paper. This helps management gain real input from the board on significant issues.

If the item is for noting, the paper must make clear what exactly is to be noted – for example, that a project is on time and on budget or a new issue has arisen in a project. Items for noting are generally least important on an agenda.

If an item is for information it is tabled at the meeting or circulated separately. It is not part of the agenda and it does not have to be discussed.

A running sheet with a time set against each item helps the chairman ensure the appropriate time is devoted to issues. It ensures the meeting doesn't talk too much about bicycle racks and race through the nuclear reactor decision.

With a timed agenda, each director can appreciate the importance of the issue and help ensure the

### THREE TIPS FOR AN EFFECTIVE MEETING

1. Effectiveness can be improved with process before, during and after the meeting
2. Effective chairmen plan the work and work the plan
3. Experienced chairmen rely on continuous improvement and fine tuning to deliver great results. There's no failure – only feedback!

meeting finishes on time. The discipline of timing the agenda will also highlight where a board is attempting too many matters in the time available and should trigger a review of whether every matter is truly of board concern.

Once the agenda has been drafted, the chairman looks at the papers behind that agenda. The chairman should assess whether the paper supporting each agenda item is adequate and appropriate for the directors to reach the decision or have a meaningful discussion. This means getting the balance right between data and detail, and analysis and insight. That balance can be especially difficult on standing reports like financial performance where there is a tendency to data dump without any real analysis or insight.

An effective chairman is tough on the quality of papers. Papers that aren't right should be rewritten before the board meeting or the item should be withdrawn.

The chairman should also raise any issues, concerns, gaps, or areas for clarification in the board papers so that the executive concerned can be prepared to address those concerns on board meeting day. The managing director or board secretary should then talk with the executive concerned.

A further suggestion – if an individual director has a particular interest or expertise in an issue, the executive could contact the director before the meeting to understand their issues and point of view.

#### During the meeting

Every director should have the board papers for at least a week before the meeting to allow ample time to read, digest and think. The board meeting should be the opportunity for directors to add value to the decision and discussion not think about the issues for the first time.

Effective boards have a process for the running of the board meeting. Step one is to start on time.

Most meetings begin with the minutes. In an effective board, minutes are circulated by email well in advance of the board meeting together

with a separate list of matters arising. Any changes, corrections or additions to the minutes have already been received by the secretary and incorporated.

Receiving and signing the minutes should then take about 30 seconds. Shorter form minutes also keep the time down – they record the decisions and pertinent issues, but avoid the old-fashioned discursive approach noting 'who said what'.

Matters arising follow and should also take less than a minute. The importance of having matters arising set out separately – noting the responsible executive and current status – is to avoid the time consuming temptation to walk through the minutes of the last meeting looking for the issues.

Minutes of board committees come next. The chair of each committee should make a three-minute oral report to the board on the big issues of their meeting and provide draft minutes to all board members. This approach makes committee chairs accountable and keeps the board informed. Attendance at committee meetings should be open to everyone on the board.

Once into the main business of the meeting, the chairman has a role in ensuring that every director contributes efficiently and effectively. One approach is to call on directors in turn to speak: "Fred, could you please start the discussion?" or "Betty, what would you like to add?"

This is not the appropriate time for a monologue from the chairman.

During discussion an effective chairman keeps to time, keeps focus on the key points, and curtails digressions. Setting out the issues for discussion in the agenda makes this discipline easier to keep.

If there is a presentation, the presenting executive should focus only on two or three points, and slides should be distributed beforehand. Executive presentations are a good way for a board to gauge executives' ability, but more is revealed through discussion than through prepared remarks. PowerPoint

#### CASE STUDY:

## How not to run a board meeting

The company usually meets from 8:30am to 12.30pm, but sometimes meetings run over to 1pm.

Two days before the meeting, the start time was changed to 9.30am. But half the board did not read the agenda carefully and showed up at the usual time – one hour early.

When the meeting finally started, the chairman didn't start at the beginning of the agenda – he started by discussing the 2006 meeting calendar at agenda item 18. About 45 minutes later, he was phoning his PA to check a date and the directors were getting restless.

The big item on the agenda was the annual accounts, which needed to be approved by the board and signed. The audit committee chairman wanted to get this done early, as he had to leave at 12.30pm. The chairman thought this would not be a problem, but he decided to put on an executive presentation, ahead of the accounts saying, "It would only take a few minutes".

Two hours later, the executive was still doggedly marching through his PowerPoint presentation. The overheads had not been part of the board pack, even though more than 300 pages of board papers had been sent out prior to the meeting. However, the papers were only sent two days prior, so the directors who got the time wrong may have had an excuse.

At 12.30pm, the audit committee chairman had to leave, even though the accounts had not been considered. Of course, the internal and external auditors had been waiting patiently outside the boardroom since 9am – with their meters running. The accounts were signed before 1pm.

At 2.30pm, long after the anticipated conclusion, the meeting closed because a quorum had been lost.

Unfortunately the agenda had not been completed. There were still decisions the board needed to take so the chair called for an unscheduled extra board meeting to be held during the following week.

Clearly this was not an effective board meeting.

## Practical tips for keeping strategy at the top of the agenda

**PROFESSOR DAVID R. BEATTY PROVIDES SOME TIMELY POINTERS ON HOW CHAIRMEN, DIRECTORS AND CEOs CAN MAXIMISE SHAREHOLDER RETURN AS A DIRECT RESULT OF THE TIME INVESTED ON STRATEGY.**

1. Develop a strategic orientation. Build a one to two day offsite strategy session into the annual board meeting calendar. Get the directors into a rigorous orientation programme and continuously learn about business.
2. Start every board meeting with a CEO update:
  - “What’s different in the environment since we last met?”
  - “How our strategy might be adjusted in response – if at all”
  - “Things I am looking out for”
 Chair encourages discussion that is strategic, but enquiring and free-ranging.
3. Maintain an inventory of ‘strategic issues’ and allocate the number two agenda item to one of these issues when possible/necessary. This should be part of a 12 to 18 month rolling agenda.
4. Push as hard as you can to get routine matters to the bottom of the agenda or dealt with in a ‘consent agenda’ to free up time for strategic business issues.
5. Ensure papers coming to the board are clear, memorable and compelling:
  - Bring us into the story
  - Tell us the issue you are grappling with
  - Give us the answer you are proposing
  - Defend the answer with three major supports
 Empower the board chair or committee chair to edit the papers two weeks before they go to the directors.
6. Have the CEO, on major items, prepare a one-page covering memo that outlines his/her proposal and the three main reasons why this makes sense plus the things that caused most concern to him/her in arriving at this recommendation. This helps focus director attention within the reading materials and ‘legitimises’ debate and discussion without threatening the CEO’s authority to come to such determinations.
7. Ensure ‘in camera’ meetings are not only a normal part of every board and committee meeting, but during meetings as required – especially if a major decision is being made.
8. Broaden your perspective on the company and the executives managing by getting out of the den and the boardroom where you likely spend 80 per cent of your director time:
  - IBM, GE and Intel require directors to visit plants, sales offices, customers and suppliers
  - TD’s chair visits the CEO’s direct reports and the senior executives are encouraged to use board members as ‘experts’ and ‘sounding boards’.
9. Get on with your evaluations: now required in the United Kingdom and by the NYSE at all three levels – board, committee and individual.
10. “Out of the crooked timber of humanity no straight thing was ever built” – Immanuel Kant.
 

This requires you to hire smart or manage tough. Choose the ‘hire smart’ route and work your board succession plan as diligently as ever you can. Look for behaviours and character as much as past achievement.

*Professor David R. Beatty O.B.E. is the managing director of The Canadian Coalition for Good Governance. He presented ‘Practical tips for keeping strategy at the top of the agenda’ at Henley Management College’s 8th International Conference on Corporate Governance and Board Leadership in the United Kingdom. He can be contacted via email: [beatty@rogers.com](mailto:beatty@rogers.com)*

### THE QUALITY OF INFORMATION IS IMPORTANT

Poor papers are a major cause of boards making poor decisions or having difficulty getting to a decision.

walkthroughs are overused, boring and often a waste of valuable board time.

The effective chairman does not censor or stifle board discussion, but finds the right time and place for each issue and structures the discussion so that there is resolution and a path forward.

The chairman should bring each item to a close with a decision or recommendation and ensure the secretary is clear about the minutes.

If the last agenda item is ‘other business’, it is reasonable for the chairman to expect that items will not be raised without notice and that any issues will have been brought to the attention of the chair before the meeting.

Effective boards often have private sessions for non-executive directors, either on a regular basis or before or after every meeting. It is good manners and good process for the chairman to let directors know in advance what issues will be discussed in the private session even if there are no papers. Equally, if directors have issues to raise, these should be advised to the chairman in advance.

Spending board time on dates and diaries is not effective. The annual calendar should be set in June or July for the calendar year ahead and date conflicts resolved by the board secretary by email between meetings. The board calendar should include committee meetings that occur separately from board meetings to ensure all directors are aware of committee meeting times and are available to attend.

#### After the meeting

The chairman should make sure the minutes circulate quickly, usually within a week of the meeting, so directors can respond promptly with their comments.

A short postmortem with the board secretary about any administrative issues is appropriate as is a brief discussion with the managing director about the performance of individual executives and the progress of particular matters before the board.

The chairman should also take the opportunity to compliment individual directors who made particularly relevant contributions and counsel those who are too quiet or wasting the board's time.

Directors may also provide private feedback to the chairman about meeting effectiveness. Immediate private feedback is usually more effective than a more public critique of the board meetings.

It may all seem like a lot of work for a chairman. But, actually it's less work and less stress than an ineffective meeting. ❶

## Winners are grinners...

The AICD is pleased to announce the names of the scholarship winners for the December 2005 *International Company Directors Course* in Sydney.

They are:

- Anita Byrnes, managing director, Decision Japan Co Ltd, Japan
- Paul Dyson, chief executive, Ultra Motors Company Limited, Liverpool, England and New Zealand
- Ross Illingworth, senior vice president – Investments, Citigroup Wealth Advisors, Australia
- Anthony Pegum, director, Braemar Seascope Pty Ltd, Western Australia
- Syd Yates, president PNGID, and CEO and executive director, Kina Securities Limited, Papua New Guinea