

OECD

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Board Functioning and Evaluation

Introduction

- Topic interrelated – board functioning cannot be viewed in isolation
 - Composition
 - Structure (unitary or two-tier)
- How do you know whether a board is functioning well?
- Need to measure performance against certain criteria
 - Role
 - Strategy and objectives
- For an SOE, should the criteria be different?

Introduction

- State is a unique shareholder
 - May have conflicting objectives
 - State has different roles with regard to
 - Policy
 - Regulation
 - Performance of SOEs (Shareholder role)
- This presents a challenge for effective performance

Role of Boards

Role of Boards

- What is the fundamental governance challenge of the 21st century?
 - “Mainstreaming “
 - Directorial dilemmas (B Garrett)
- Qualitative and not quantitative governance
- Good governance is essentially about effective and responsible leadership – acting in the interests of the company
- Responsible leaders
 - Build sustainable businesses
 - Reflect on the role of business in society
 - Do business ethically
 - Do not compromise the environment
 - Embrace a shared future with stakeholders

“Institute of Directors of Southern Africa: King Report on Governance for South Africa 2009” p20

Functioning of boards

Characteristics of Boards

- The Rubber Stamp
- The Dreamers
- The Talking Shop
- The Adrenalin Groupies
- The Number Crunchers
- The Semi-Detached

*Corporate Governance – A Practical
Guide © 2004, London Stock Exchange
plc and RSM Robson Rhodes LLP”*

Low Involvement

High Involvement



The Passive Board

- At discretion of the CEO
- Limited activity & participation
- Limited accountability
- Ratifies mgmt. preferences

The Certifying Board

- Certifies to SHs that CEO meets expectations
- Takes corrective action only as *ultima ratio*
- Understands role of ind. directors
- Informed about CEO's performance
- Establishes a succession plan

The Engaged Board

- Provides insight, advice & support to mgmt.
- Understands its responsibility to oversee mgmt.
- Guides & judges the CEO
- Has right skills mix to add value
- Define roles and responsibility of board vs. mgmt.

The Intervening Board

- Intensely involved in decision-making around key issues
- Frequent & intense meetings, often on short notice

The Operating Board

- Makes key decisions that mgmt. then implements
- Fills gaps in mgmt. experience

Source: HBR, David A. Nadler, *Building Better Boards*



An Effective Board

- **The Effective Board**
 - **Clear strategy aligned to capabilities**
 - **Vigorous implementation of strategy**
 - **Key performance drivers monitored**
 - **Effective risk management**
 - **Sharp focus on views of City and other key stakeholders**
 - **Regular evaluation of board performance**

*Corporate Governance – A Practical Guide ©
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Functioning of Boards

- How should a board function to fulfil its role effectively?
- Key success factor is leadership
- Includes :
 - Role clarity
 - Vision and Values
 - Effective strategy development
 - Independence and credible processes
 - Effective chairperson
 - Effective board committees

An Effective Board

Role Clarity:

- Role of the board, management and shareholder must be clear
- Shareholder and board
 - role in strategy and setting objectives – crucial in SOEs
- Board and management
 - Values, vision
 - Role of the board is a reflective one - nose in fingers out

An Effective Board – Roles

Leadership

People
Spontaneity, serendipity
Release, empowerment
Effectiveness
Programmer
Investment
Principles
Transformation
Principle-centered power
Discernment
Doing the right things
Direction
Top line
Purposes
Principles
On the systems
“Is the ladder against the right wall?”

Management

➤ Things
➤ Structure
➤ Control
➤ Efficiency
➤ Program
➤ Expense
➤ Techniques
➤ Transaction
➤ Utility
➤ Measurement
➤ Doing things right
➤ Speed
➤ Bottom line
➤ Methods
➤ Practices
➤ In the systems
➤ Climbing the ladder fast

Source: Covey Stephen R – The 8th Habit from effectiveness to greatness

An Effective Board

Strategy Development:

- Clarity of strategy – the board should play a prominent role in the strategy development process
- Integration
 - Risk, sustainability, strategy, governance

An Effective Board

Process:

- Balanced board
- Engaging and robust debate
- Independent
- Diversity of views
- Process to address conflicts

An Effective Board

Effective chairperson:

- Independent
- Inclusive
- Encourage participation
- Link between board, management and shareholder
- Set tone
- Formulate workplan
- Ensure directors play an affective role
- Ensure directors are aware of responsibilities

An Effective Board

Committees:

- Well structured committees
 - Audit
 - Risk
 - Remuneration
 - Nominations
- Clear terms of reference
 - Board should empower but not abdicate
- Regular reporting to board

An Effective Board

- Is it or should it be any different for an SOE board?

Evaluating Board Performance

Evaluating Board Performance

- Improved board performance and effectiveness can be achieved through regular and timely appraisals of the board
- Effective and meaningful evaluation is only possible once the board has determined its own role, functions, duties and performance criteria as well as those of directors on the board and on board committees
- The board should carefully consider whether the evaluations of performance and independence should be done in-house or conducted by independent service providers, subject to legislative requirements.
- Evaluation procedures and results should be reviewed by the nomination committee or such similar committee of the board

*“Institute of Directors of Southern Africa: King Report on Governance for South Africa 2009”
p44*

Evaluating Board Performance (SOEs)

Experiences of board evaluations suggest that an approach that reflects best practice should:

- Ensure that government as shareholder is in a position to evaluate the performance of the state-owned enterprise against specified performance objectives;
- allow the board to evaluate its own effectiveness and performance as well as the performance of individual directors, and, if necessary, to take steps to improve its performance;
- ensure that the assessment of individual directors is supported by an assessment of that director by the chairman as well as other board members;

Evaluating Board Performance (SOEs)

- where circumstances allow, make use of independent external assistance at reasonable intervals to enhance the credibility of the process; and
- be transparent and ensure that all board evaluation results are submitted to government as shareholder.

“The Power of Governance: Enhancing the performance of state-owned enterprises – Reuel J Khoza and Mohamed Adam” p164

Evaluating Board Performance –Methodology

- Self –assessment
- Independent third party assessment
- Board and individual director assessments
- In either case the following techniques can be used:
 - 360 degree feedback
 - Dialogue
 - Questionnaire

Evaluating Board Performance – Key Questions

- Is the mandate/role clear vis a vis the shareholder and management ?
- Are the performance objectives clear?
- Does the board regularly review strategy and assess risks facing the organisation?
- How well do directors work together?
- Is communication and discussion appropriate/robust ?Are dissenting views tolerated?
- Is a sufficient degree of consensus achieved on key issues?
- How is the time of the board spent?

Individual Director Performance

- Does the director **attend board meetings** regularly?
- Is the director adequately prepared for meetings?
- Does the director participate actively during meetings?
- Is the director able to communicate and express ideas clearly?
- Is the director willing to listen and acknowledge other viewpoints?
- Does the director **understand the business of the company** and industry in which it operates?
- Is the director able to work effectively with other directors and management in the best interests of the company?
- What does the director do well?
- What should the director do differently?
- Are conflicts of interest declared and managed?

Conclusion

- Success requires a change in paradigm
- This change should encourage effective leadership and not tick-box compliance
- We need to start at the top