

How to create Effective Boards

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High Performance Boards

SOUTH AFRICAN CONTEXT

- Lots of pressure on Boards at Globally & in SA at Present – Significant Corporate Failures
- New Companies Act of 2008 – Fiduciary Duty/Responsibilities and Directors Liability
- King IV Report – basis for Good Corporate Governance in South Africa especially for Listed entities.

MY CONTEXT

- INSEAD International Directors Course
- Experience as an NED in SA
- IODSA South Africa Courses

KNOW YOUR ROLE – Directors Role as a Board Member

- Oversee the Strategy of the Company
- Act in the Best Interests of the Company
- Consider the Interests of all Stakeholders (in line with King IV thinking)
- Value Creation
- Contribute Effectively to the Board
- SUPPORT and CHALLENGE the Management Team

ACHIEVE OPTIMAL BOARD COMPOSITION

- Responsibility of the Board Chair and/or the Nominations Committee
- Matrix of Current Board composition (disclosure requirement of King IV)
- Formal Process for the robust recruitment of Directors
- Detailed Succession Planning Process in place for the Board of Directors

ASSESS OPTIMAL BOARD COMPOSITION

Every Entity is Different – determine what is Optimal for your Company taking into account the following:

- Structure of the Board
- People
 - Quality of the Directors
 - Experience & Knowledge
 - Strengths, Talent, Gaps and Weaknesses
- Ensure there are Processes to achieve an Effective Board
 - Robust Recruitment
 - Agenda/Information
 - Strategy/Succession Planning

STRUCTURE OF THE BOARD

- Optimal Size – no specific optimal number BUT usually not good to be too large so it becomes cumbersome or too small such that decision-making is impaired
- Determine Qualifications and Experience Required
- Diversity
 - Gender – proven that women enhance the performance of Boards
 - Cultural – Massive differences in our society that need to be addressed
 - Diversity of Thinking – people from different backgrounds and experience

DIVERSE BOARDS

- In South Africa Diversity is a Critical factor due to our past and if we want to ensure adequate transformation on High Performance Boards
- In terms of Gender – JSE according to a recent PWC survey 19% of directors on Listed companies are female while the requirement is 30%
- In terms of ACI – only 38% of Directors on listed companies are ACI (African, Coloured, Indian)
- Diversity of thinking is also key – not all accountants or economists for example, important to have people from different backgrounds and expertise

DIVERSE BOARDS

- The agreed composition of the Board must be conducive to diversity in terms of both gender and racial demographics
- Ensure that people are treated with consideration
 - for example meetings starting at or before 8 am are difficult for mothers with children and puts pressure on them
 - All sub- committees must have diverse representation to prevent Boards within boards where people feel excluded/disrespected
- Diversity workshops at board level so people understand and respect each others differences and work efficiently together
- People don't "like to feel stupid" so don't bring in young inexperienced members without ensuring adequate training and mentorship
- Create safe spaces for everyone's perspectives to be heard – board reviews are good for this if well handled

QUALITY OF DIRECTORS

- Independent
- Accountable
- Experienced and Knowledgeable
- Engagement with Stakeholders
- Clear Roles and Responsibilities

INDEPENDENT

- Majority of Directors must be Independent
- Optimal - No relationship with the Company except for the receipt of Board Fees
- Independence of Mind and of Each Other – Not a Boys Club
- Willing to Challenge Management and Other Board Members when and if required.

ACCOUNTABLE

- Continous Board Assessments
- Annual or at least Every Two Years
- Internal or Externally undertaken
- Must be Transparent and Feedback must be delivered to ALL including Chairman
- Ensures that Board members understand they need to Deliver
- Facilitates the Growth and Development of all Directors and the Board as a Whole

EXPERIENCED and KNOWLEDGEABLE

- Select highly competent Directors as part of recruitment
- Have an evergreen list of Potential Directors
- Must have strong succession planning to bring in younger Directors and Train them where necessary
- Robust Induction Process
- Constant On-going Training
- Effective Boards have a combination of people to provide the requisite skills experience and knowledge to the Board

ENGAGEMENT WITH STAKEHOLDERS

- Boards responsibility to engage and report to Stakeholders
- Primarily undertaken via the Integrated Report
- Imperative that Board Chair and Sub-Committee Chairs are actively involved in the preparation thereof
- Directors also need to be available at the AGM and any other shareholder engagement where this is required

CLEAR ROLES AND RESPONSIBILITIES

- Board must be made aware of their Role
- Adopt well-defined Board Processes
- Setting of Board and sub-committee agendas are critical
- Material/Board Packs must be succinct yet comprehensive to support meaningful Discussion
- Establish Specific Sub-committees to undertake specific Roles
 - Remuneration, Audit and Risk Committees at least
 - Clear mandates and charters
 - comprise independent directors

In Conclusion

- My view is that:
 - the Company Secretary has a vital Role to perform in ensuring that companies have Highly Effective Boards that are Value Creators for Stakeholders
 - You control the Process and that is key to achieving the Optimal Structure and the Quality of People that are necessary for these Effective Boards

QUESTIONS?