

# Raising the Professional Standards of Your Board

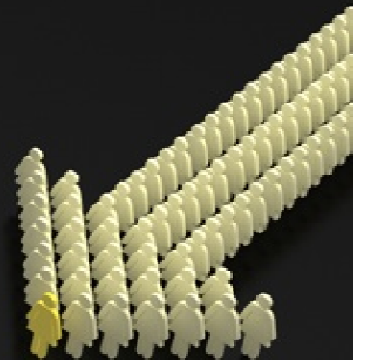
Presented by Tim Rose & Paul Munden



# Overview

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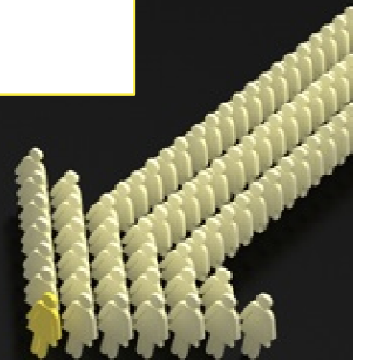
- Performance does matter!
- What should I be doing as a Director?
- Improving effectiveness



# Performance: Context

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**Goal**

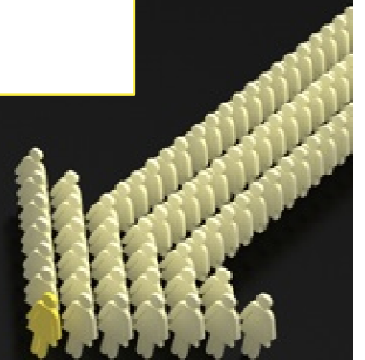


# Performance: End Game

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**Goal**

**USP**



# Performance: End Game

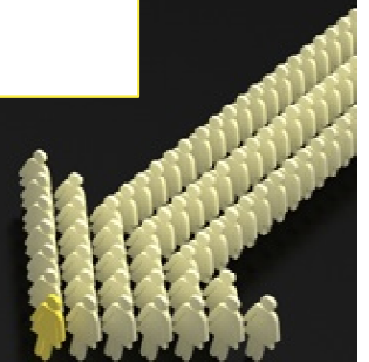
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**SMART**

**Goal**

**USP**

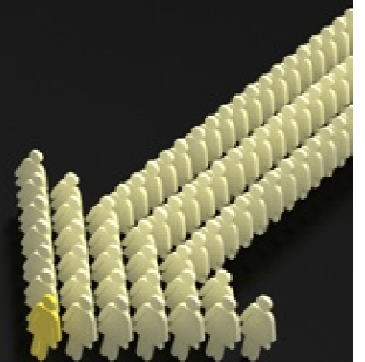
**SWOT**



# Performance matters : Journey

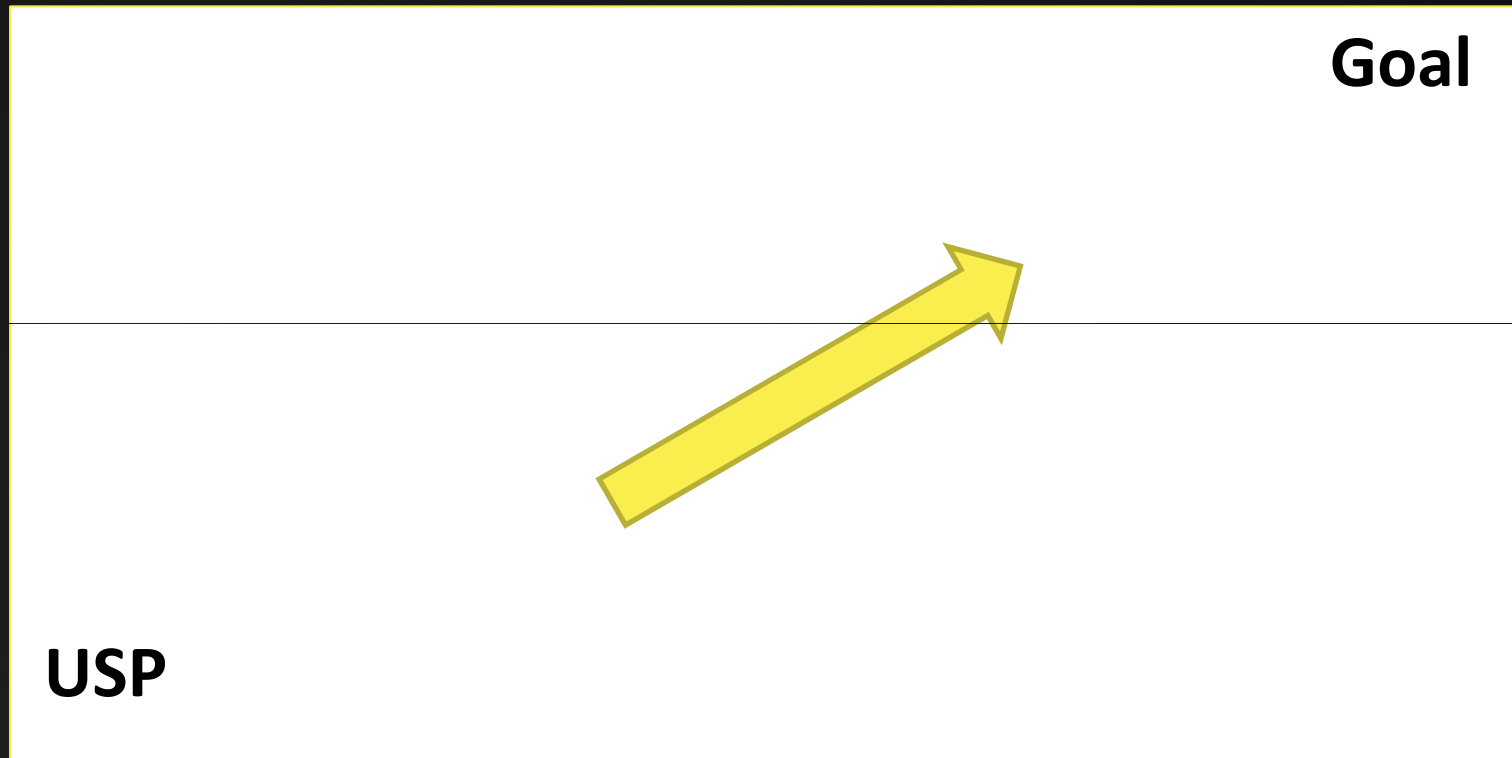
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- Lose talented staff
- Lose clients
- Lose buffer
- Lose profit margin
- Lose ability to be competitive
- Lost opportunities

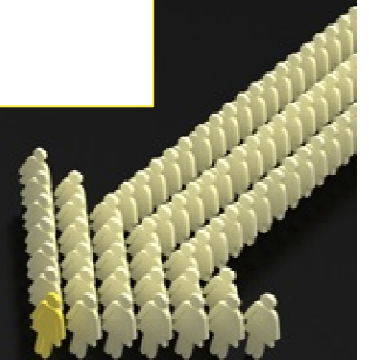


# Performance: Strategy

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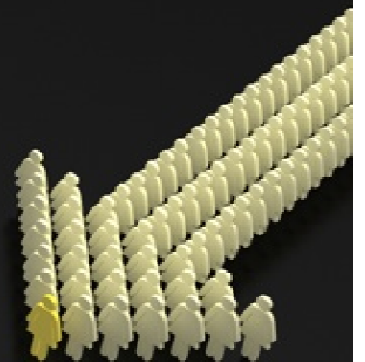
Evaluation .....



# Clip: The Monkey Business Illusion

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See You tube “The Monkey Business Illusion”

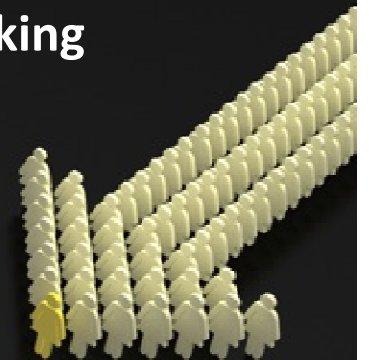


## Evidence suggests that:

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- Boards spent too little time on examining the worsening economic conditions and their implications for the business and its strategy cash management was not always receiving the attention that was needed, and balance sheets had been weakened by gearing up and share buy backs
- Many managements and boards had little or no experience of managing in a severe downturn, with the result that actions were sub optimal or late
- Board agendas allowed too little time for the big decisions and too much for the minutiae of governance compliance, **driven by a box-ticking mentality**

*Sir David Walker Review 2009*

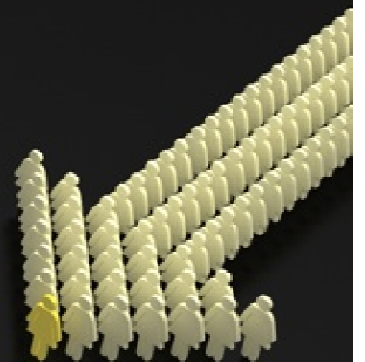


# Five Key Deficiencies in the Boardroom

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- Dereliction of duties
- Inadequate competencies
- Lack of diversity
- Under-utilisation of skills
- Poor selection and assessment

*MIT Sloan Management Review 2007*



# Non-Executive Directors

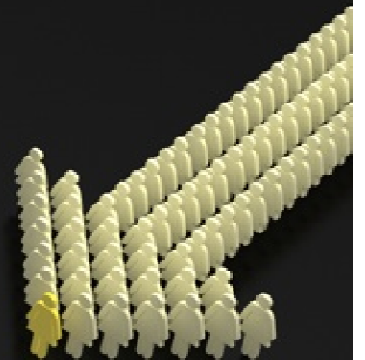
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“The single most powerful determinant of success for an SME is having an Non-Exec on board.”

“...brings innovation and an outside view of the business and it’s governance, and helps evaluate strategic options. Catalyst for change and progress.”

"A non-exec is an inexpensive resource compared to executives, consultants & professional advisors“

*Warwick Business School*



# Role of the Non-Exec Director

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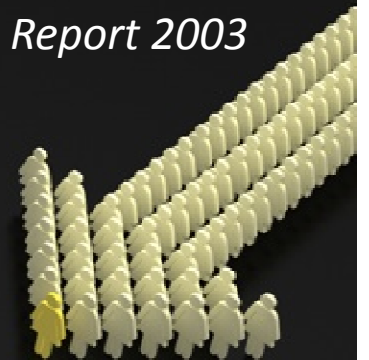
## Strategy:

- Non-Executive Directors should constructively challenge and contribute to the development of strategy.

## Performance:

- Non-Executive Directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

*Derek Higgs Report 2003*



# Role of the Non-Exec Director

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## Risk

- Non-Executive Directors should satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.

## People:

- Non-Executive Directors are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, senior management and in succession planning.

*Derek Higgs Report 2003*

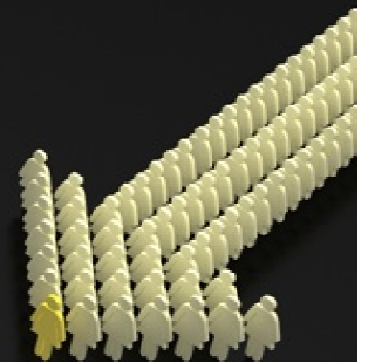
**S**trategy **M**onitoring **E**xpertise



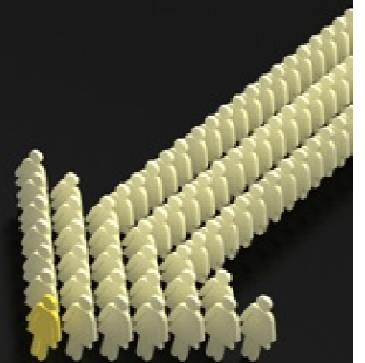
# Dynamics of the SME Company

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- Better governance leads to improved PERFORMANCE
- Creating value not bureaucracy
- Governance structure - no universal one size fits all approach
- SME have limited ability to sell their ownership stakes
- Family structures
- Inherited management
- Growth and expansion can expose management and structural weakness
- Succession



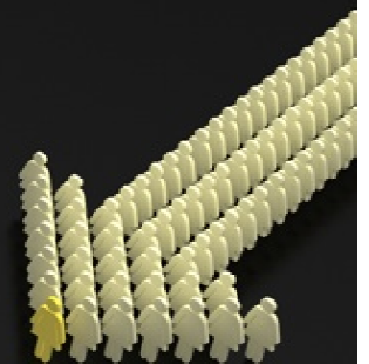
# What Should I Be Doing as a Director?



# Key Tasks of the Board

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1. Establishing vision, mission and values
2. Setting strategy and structure
3. Delegation to management
4. Exercising responsibility to Shareholders and other Stakeholders



# Key Tasks of the Board

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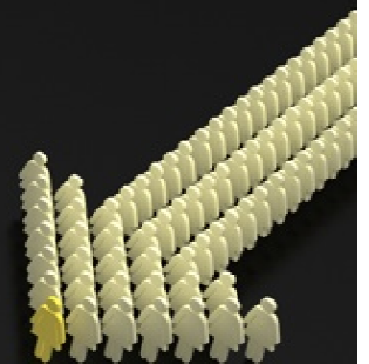
## 1. Establishing vision, mission and values

- Determine/maintain the company's vision and mission to guide and “set the pace” for its current operations
- Determine/maintain the values to be promoted throughout the company
- Determining /maintain and review the company goals growth objectives so that they are consistent with the mission, values, and the needs of shareholders and other interested parties and able to form the basis of company strategy.

## 2. Setting strategy and structure

## 3. Delegation to management

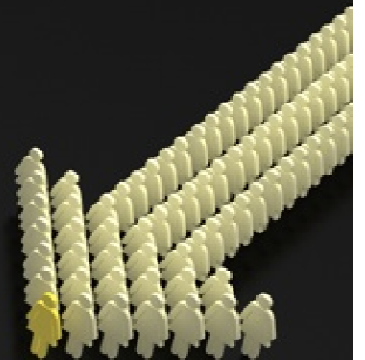
## 4. Exercising responsibility to Shareholders and other Stakeholders



# Key Tasks of the Board

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1. Establishing vision, mission and values
2. Setting strategy and structure
  - Reviewing and evaluating present and future opportunities, threats and risks in the external environment; and current and future strengths and weaknesses and risks relating to the company
  - Determining corporate and financial strategic options, reviewing and selecting those to be pursued and decide the resources, contingency plans and means to support them
  - Determining the business strategies and plans to implement the corporate strategy
  - Ensuring that the company's organisation structure and capability is appropriate for implementing its chosen strategy
3. Delegation to management
4. Exercising responsibility to Shareholders and other Stakeholders



# Key Tasks of the Board

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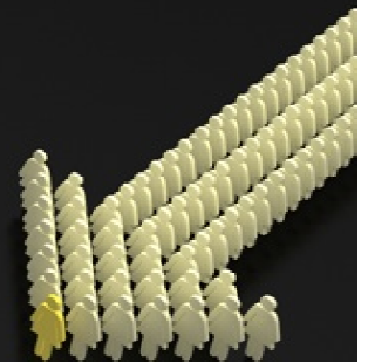
1. Establishing vision, mission and values
2. Setting strategy and structure
3. Delegation to management
  - Delegating authority to management and monitoring and evaluating the implementation of policies, strategies and business plans
  - Determine the monitoring criteria to be used by the improving management information
  - Ensuring that internal control procedures provide reliable and valid information for monitoring operations and performance
  - Ensuring that senior management's successes and failures are communicated to them and ensure appropriate rewards, sanctions and training are implemented
4. Exercising responsibility to Shareholders and other Stakeholders



# Key Tasks of the Board

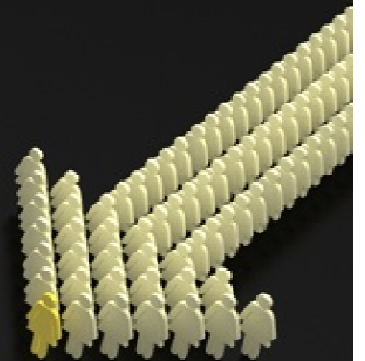
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1. Establishing vision, mission and values
2. Setting strategy and structure
3. Delegation to management
4. Exercising responsibility to Shareholders and other Stakeholders
  - Take into account the legitimate interests of shareholders and other organisations, groups and individuals who have a direct interest in the achievement of company objectives
  - Promoting the goodwill and support of shareholders and other relevant parties



# Performance: Features of a High Performance Board

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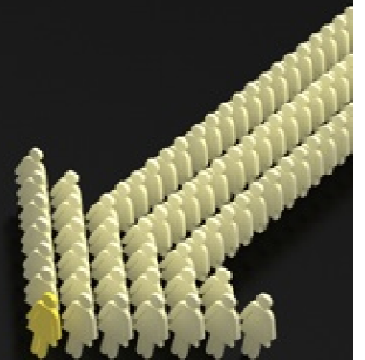


# Performance: Features of a High Performance Board

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1. Own the strategy
2. Build the top team
3. Match reward to performance
4. Ensure financial viability
5. Match risk with return
6. Manage corporate reputation
7. Drive effective board process

*Bain & Co 2003*



# High Tasks & High Performing Boards

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## 1. Establishing vision, mission and values

Drive effective board process

Own the Strategy

## 2. Setting strategy and structure

Build the top team

Match risk with return

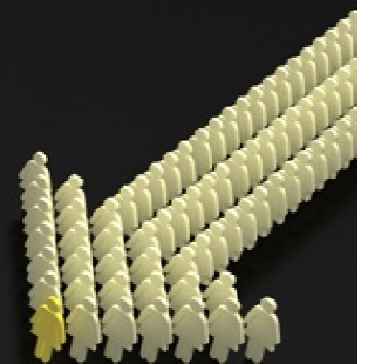
## 3. Delegation to management

Match reward to performance

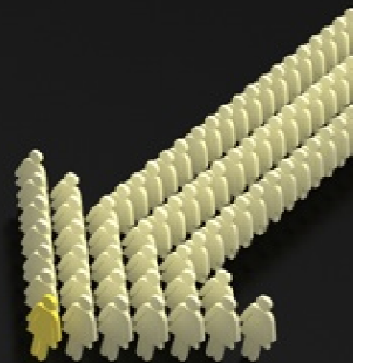
## 4. Exercising responsibility to Shareholders and other Stakeholders

Ensure financial viability

Manage corporate reputation



# Improving Effectiveness



# Improving Effectiveness as a Board

**Board Evaluation: How do you rate your board in the handling of each of these areas?**

	Poor	Adequate	Good	Excellent
	1	2	3	4
Determining the company's values and aspirations		x		
Setting corporate vision/aims/mission/objectives		x		
Contributing to strategic thinking and agreeing strategic plans		x		
Ensuring availability of required people and resources			x	
Ensuring reputation is protected and safeguarded				x
Determining and reviewing policies				x
Monitoring adherence to laws/regulations				x
Monitoring company operations and performance		x		
Knowing and understanding the business environment			x	
Identifying and monitoring critical risks			x	
Focusing on the most important issues at Board meetings			x	
Communicating outside the Boardroom		x		
Taking risk decisions and exercising commercial judgement				
People - succession planning	x			
Money/finance		x		
Fulfilling a leadership role		x		

# Improving Effectiveness as a Member

## Activity –Board Cycle

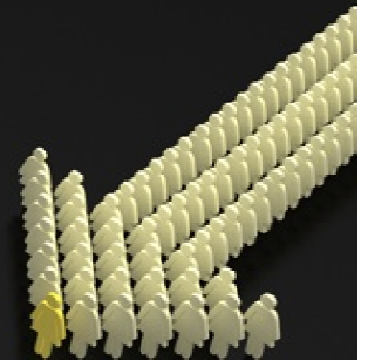
The board assesses the following during the year:

- Full risk review
- Audit committee report
- Other committee reports (remuneration, risk, nomination)
- Performance and financial review
- Strategic review\*
- Operational review
- Functional review
- Shareholder issues (eg dividends, communication)
- Stakeholder review
- CEO or equivalent report/management review
- Cash flow/treasury report\*
- Business Plan progress
- Agree capital investment and major contracts
- Agree board remuneration and organisation's reward strategies\*
- Approve changes to financial policies\*
- Approve annual accounts\*
- Control budgets and capital expenditure\*
- Approve terms and conditions for board members
- Investment programme review
- Economic review
- Appointment and removal of directors
- Health and Safety\*
- Subsidiary or other activities\*\*

\*\* Main board review perspective only

## Annual Review Items

- Annual performance review
- Establish vision, mission and values\*
- Decisions/communications on changes to corporate policies, objectives or strategies
- Board Evaluation/board performance review
- Approve plans/budgets for coming year
- Election/re-election of directors\*
- Annual review of senior staff
- Appointment and remuneration of auditors\*
- Approve dividends\*



# Improving Effectiveness as a Member

Personal development as a Director - knowledge & experience

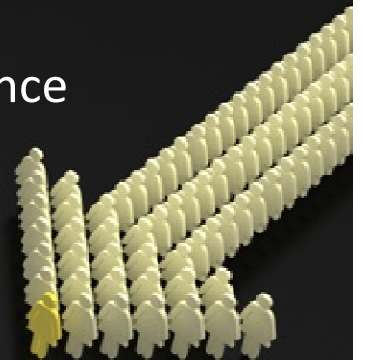
How to qualify as a Chartered Director?

Stage 1 - The Certificate in Company Direction : Learning

- The Role of the Director on the board
- Finance for Non-financial Directors
- The Director's Role in Strategy and Marketing
- The Director's Role in Leading the Organisation

Stage 2 - The Diploma in Company Direction : Application of learning

Stage 3 - Chartered Director Interview : Testing evidence of experience



# Q & A Session

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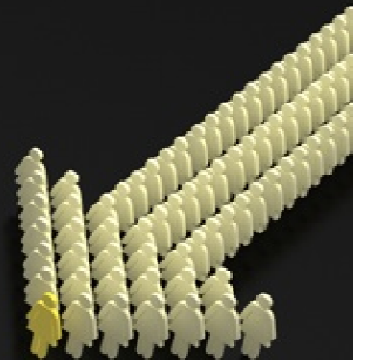
## Tim Rose

- IoD Essex Committee Member
- Chartered Director
- Interviewer for the Chartered Director Programme
- Tim holds a number of Non-Executive positions
- Lives in Colchester

## Paul Munden

- IoD Essex Member
- Chartered Director
- Lead Tutor for the IoD Professional Development Programmes
- Paul is an experienced commercial law barrister
- Lives in Great Dunmow

Presentation copies: [tim@GrowbridgeAdvisors.co.uk](mailto:tim@GrowbridgeAdvisors.co.uk)



# Q & A Session

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