12 Tools for Improving Board Effectiveness

London, 19th June 2019

Chris Pierce PhD
CEO, Global Governance Services

GGS

1. Improving board pack design

2. Focusing upon the tasks of the board

3. Ensuring the right items are on the agenda

4. Setting effective KPIs and using dashboards

5. Approving policies and a code of ethics / conduct

6. Prioritizing stakeholder relationships

7. Improving board induction processes

8. Using risk assessment matrices

9. Using board director profiling for board diversity

10. Improving information governance

11. Developing a governance map

12. Getting the most from your board evaluation

1. Improving Board pack design

Improving Board pack design
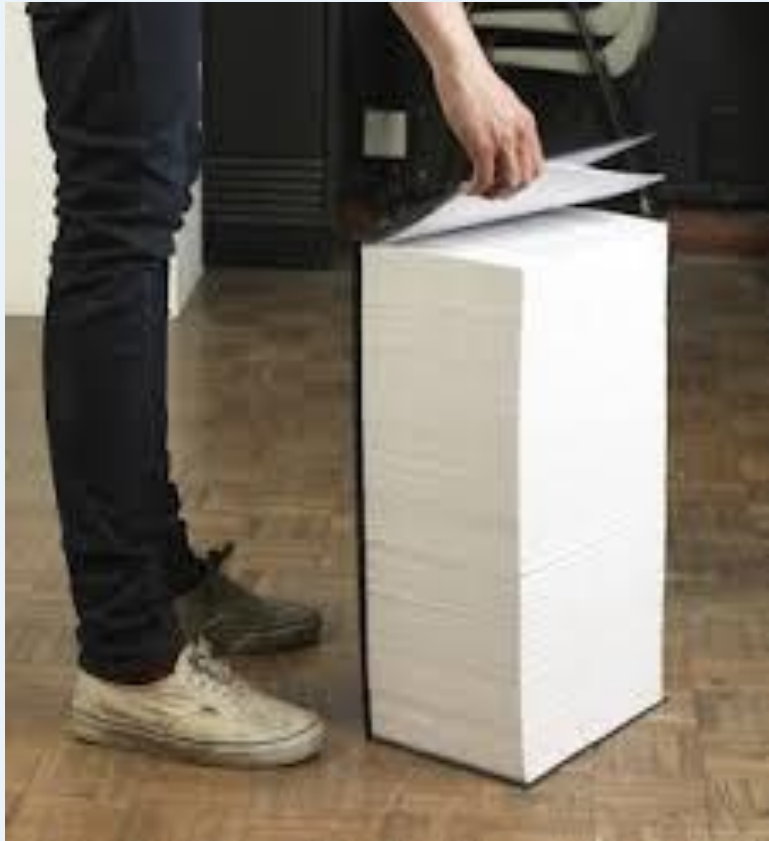
Nearly three-quarters of all respondents (74%) believe that their board packs are currently too long.

Organisations with a turnover of less than £10 million have board packs on average 125 pages long.

ICSA – The Governance Institute (2018)

Improving board pack design
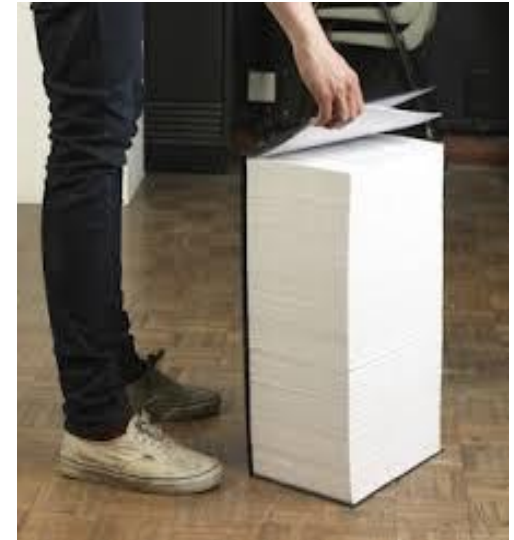
- The cost calculator developed by Board Intelligence and ICSA: The Governance Institute has revealed that a single board meeting at a FTSE 100 company in a regulated sector like financial services can cost up to £250,000 and over a 100 days of preparation,

- A small charity with turnover of less than £10 million typically devotes 20 - 25 days to board pack development at a cost of £4-5,000.

ICSA – The Governance Institute (2018)

Improving board pack design
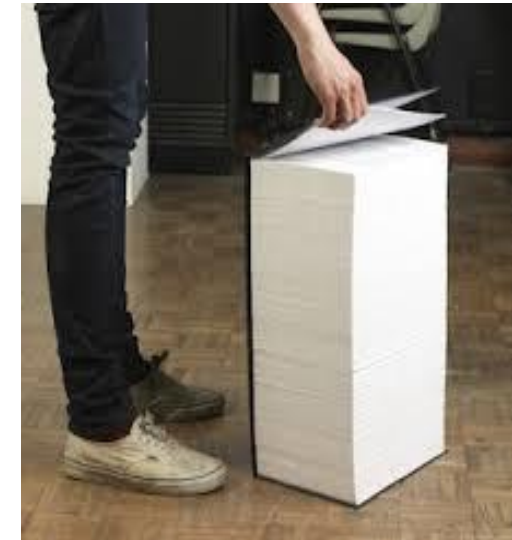
- Reporting Paper

- Challenges paper

- Board pack self assessment
  - Style
  - Scope and content
  - Process

- Board pack cost calculator

© Global Governance Services Ltd.

GGS
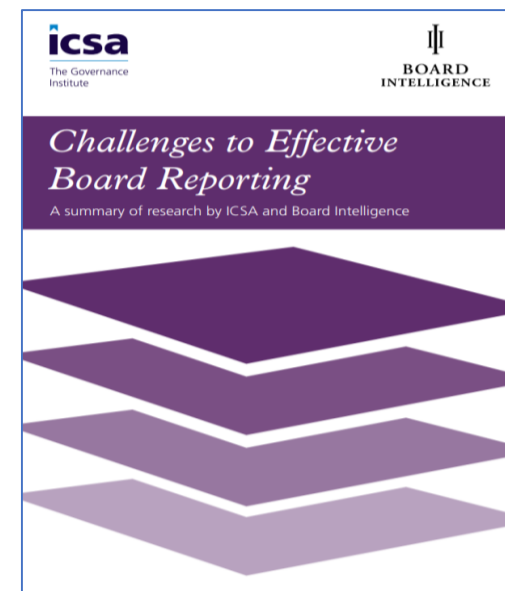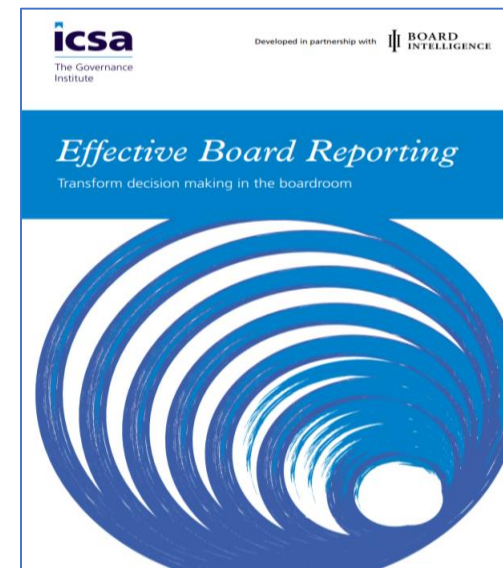
Using **board portals:-**

Software that allows boards to securely access board documents and collaborate with other board members electronically. Benefits include:

- Reduced paper usage
- Faster board pack creation and distribution
- Better source control of documents
- Better security of information
- Access to information by board members from any place and at any time
- Searching capability of archived board packets
- Dashboard of organization's key performance indicators
- One location for all important announcements and documents which require a "Read Receipt"
- Increased directors collaboration before meetings
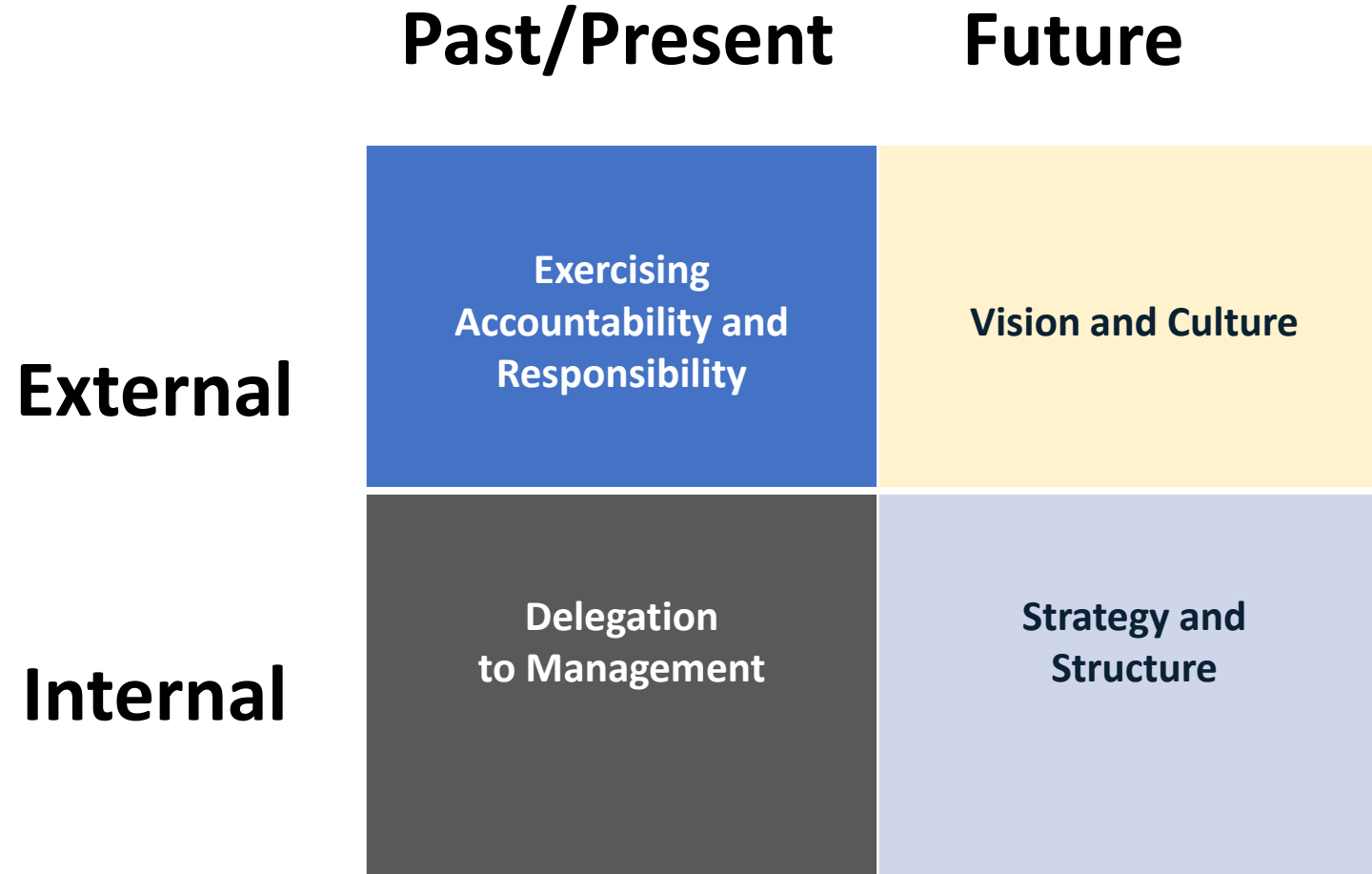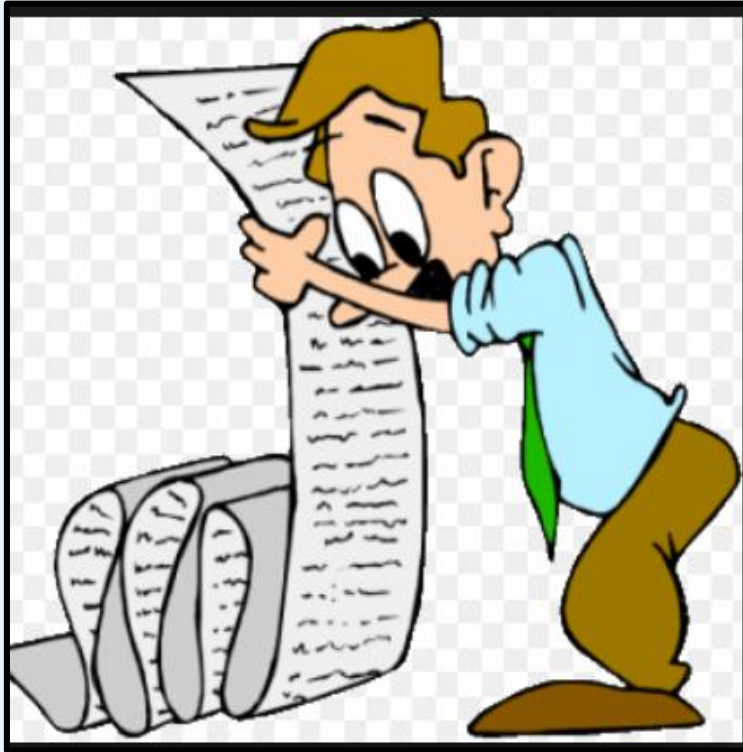
GGS

2. Focusing upon the tasks of the board

GGS

What does your board do?

Exercising Accountability and Responsibility	**Vision and Culture**
Delegation to Management	**Strategy and Structure**

Focusing upon the tasks of the board

	Past/Present	**Future**
External	Exercising Accountability and Responsibility	Vision and Culture
Internal	Delegation to Management	Strategy and Structure

3. Ensuring the right items are on the agenda

Barclays Bank Annual Report 2018

Board allocation of time*
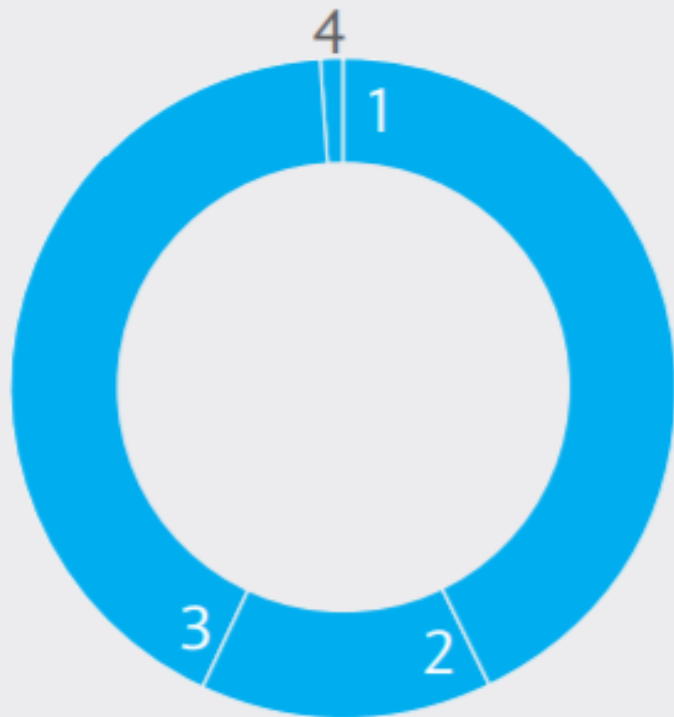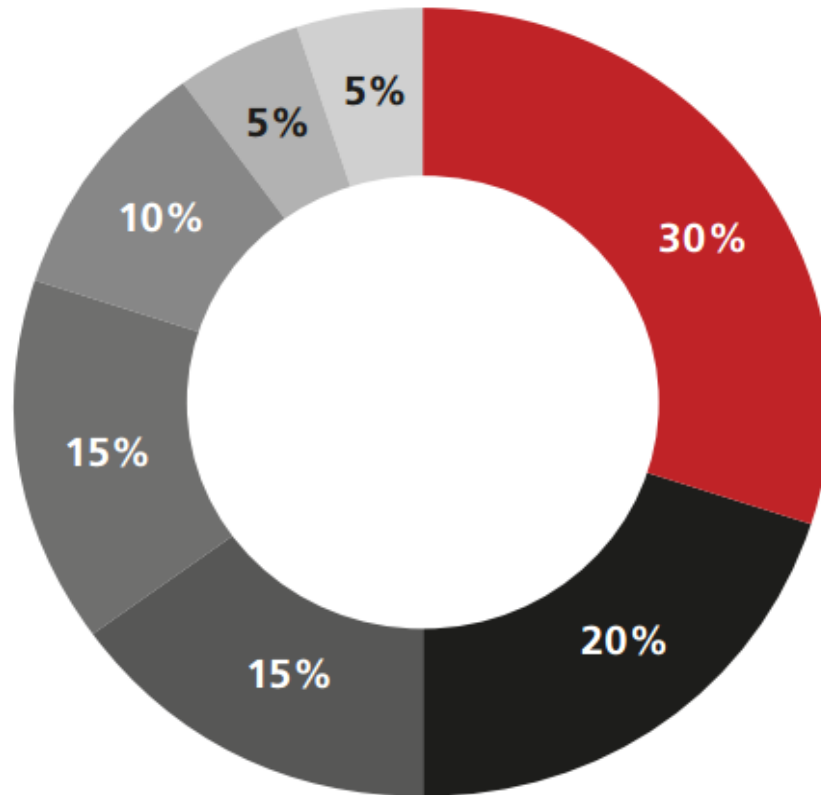
	2017	2016
1 Strategy formulation and implementation monitoring	47	55
2 Finance (including capital and liquidity)	15	17
3 Governance and risk (including regulatory issues)	35	26
4 Other (including compensation)	3	2

* Based on scheduled Board meetings

GGS

DBS Annual Report 2018

How the Board spent its time in 2017

- 🔴 Strategy — 30%
- ⚫ Feedback from the board committees — 20%
- ⚫ Governance — 15%
- ⚫ Business and operations update, market and competive landscape review — 15%
- ⚫ Financial performance and significant financial updates — 10%
- ⚪ Directors' training — 5%
- ⚪ Board networking and engagement — 5%

1. Inform
2. Agree / ratify
3. Decide

or

1. Decide
2. Agree / ratify
3. Inform

On the
Agenda

## 4. Setting effective KPIs and using dashboards

An organisation should establish its strategic and operational goals and then choose the KPIs which best reflect these goals.

30% of respondents to the AFM IT survey (2018) stated that they did not track KPIs.

Measure…

- What gets measured gets managed.
- Just because you can measure it, doesn't mean you should.
- You can't manage what you don't measure
- What gets measured gets done; what gets recognized gets done even better.
- Bad measures drive out good measures
- The easy-to-measure drives out the hard -to-measure
- The easy-to-measure drives out the important -to-measure

Setting effective KPIs and using dashboards
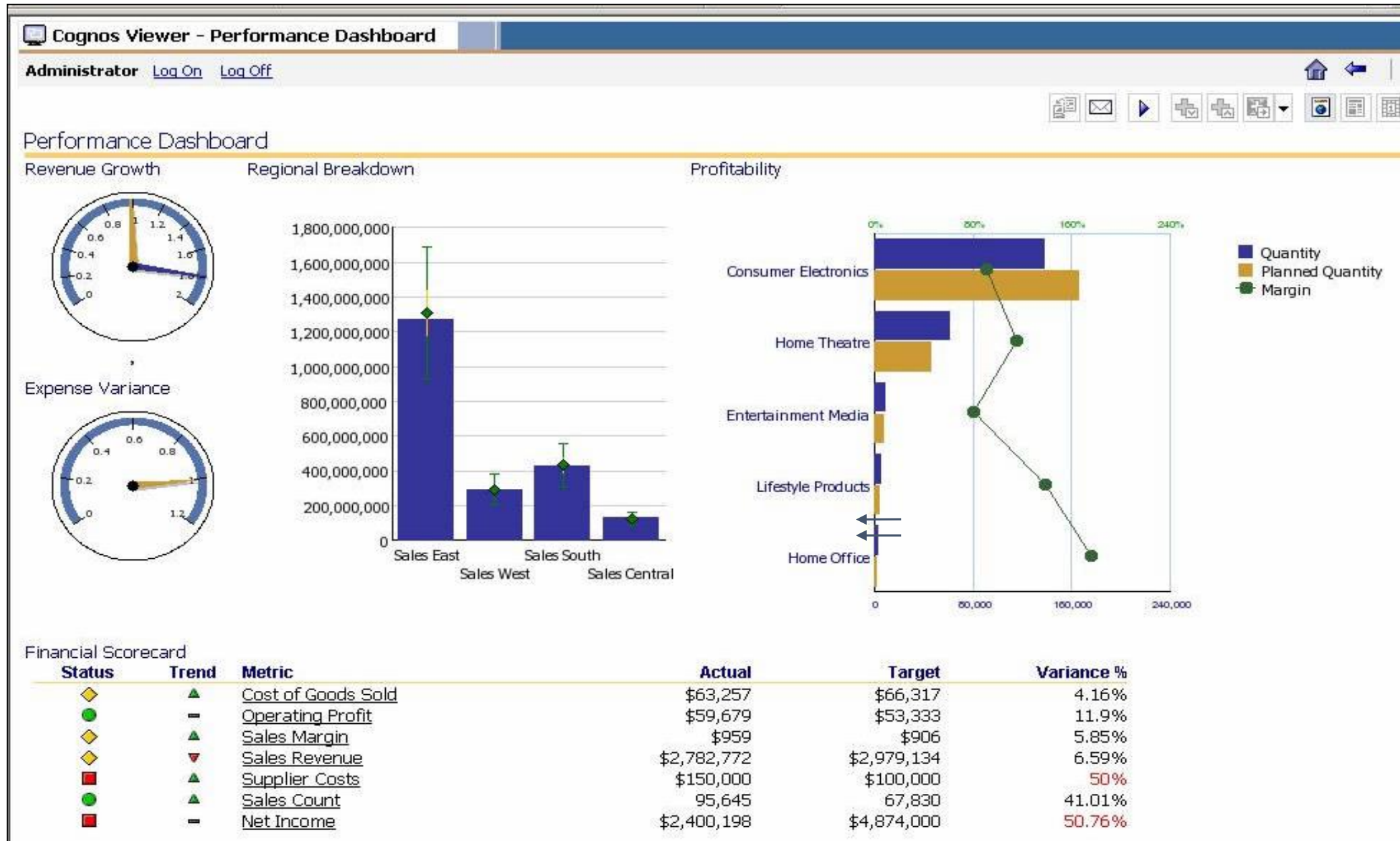
5. Approving policies and a code of ethics/conduct

Questionnaire

- Policy in place, board regularly reviews it and it is accessible on the intranet / website / annual report.

- Policy in place but not regularly revised

- No policy in place and we need to develop one

- We do not require a policy in this area

- How many policies have your board approved or amended in the last year?

- Which policy has not been reviewed by the board in the last 4 years?
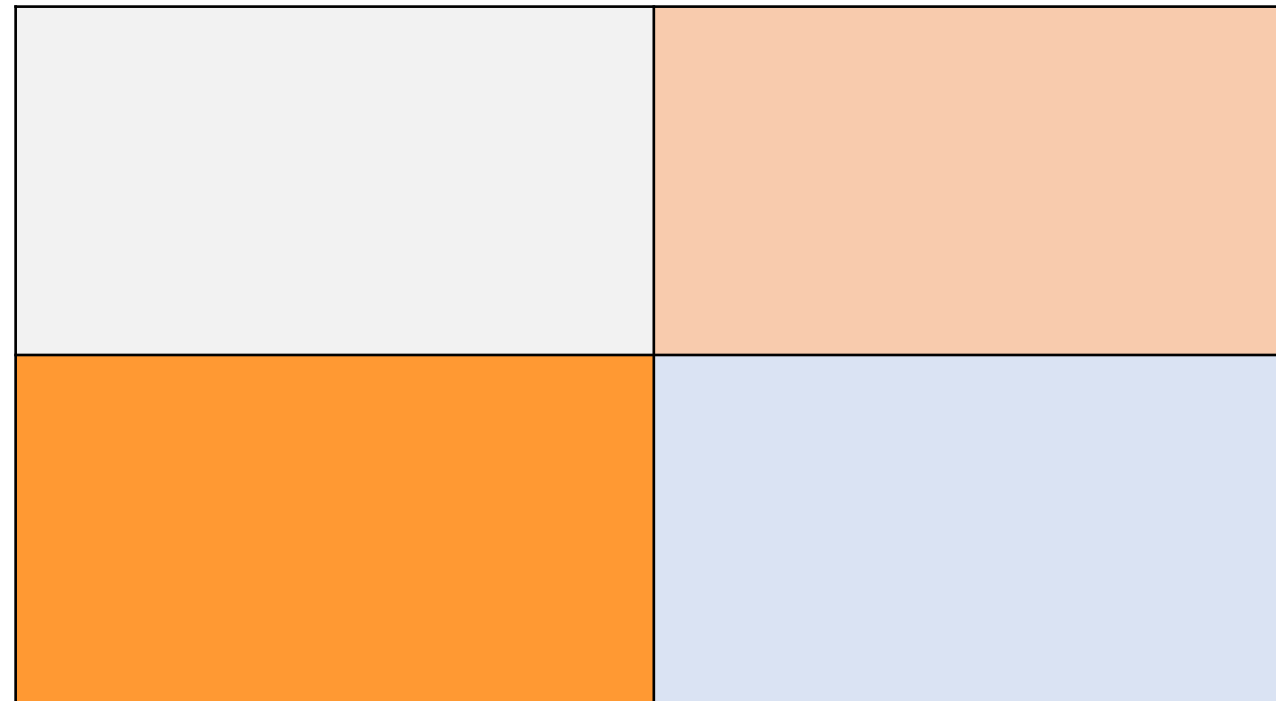
GGS

6. Prioritizing stakeholder relationships

GGS

Stakeholder mapping

	Low unpredictability	High unpredictability
High Power		
Low Power		

GGS
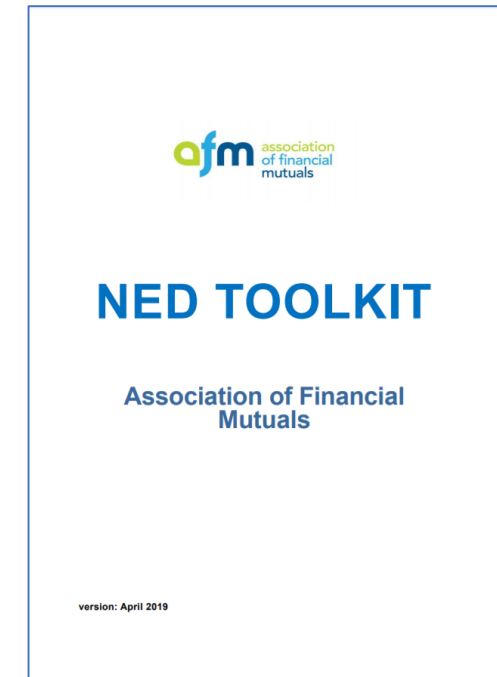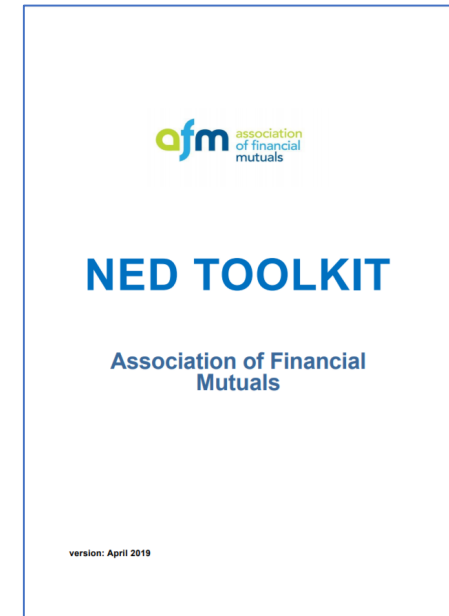
7. Improving board induction processes

Public documents

1. Financial statements

2. Solvency & financial condition review

3. Rules (memorandum and articles)

4. Terms of reference for all Board Committees

5. Matters reserved for the Board

Internal Documents – stand alone

1. Business plans, business model and strategy documents

2. Management responsibilities map and other organisation charts

3. Internal ORSA report

4. Regular supervisory review

5. Actuarial valuation report

6. Approved risk tolerance/risk appetite statement

7. Compliance plan

8. External/Independent auditor reports

9. Business continuity plans

afm association of financial mutuals

NED TOOLKIT

Association of Financial Mutuals

version: April 2019

GGS

Internal Documents - series
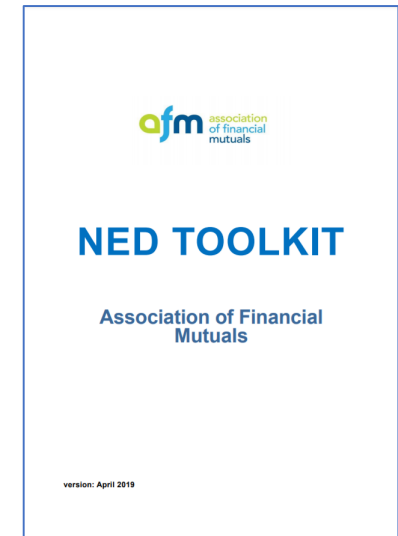
1. Board packs and minutes

2. Committee packs and minutes

3. Management accounts and management information packs

4. Internal audit reports

afm association of financial mutuals

NED TOOLKIT

Association of Financial Mutuals

version: April 2019

GGS
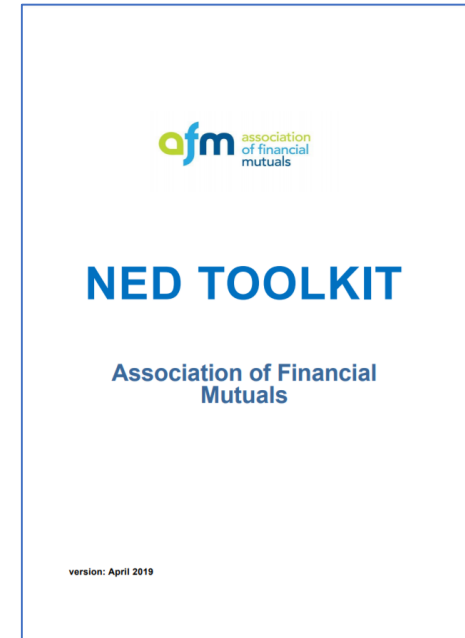
Policies

1. ORSA policy

2. Investment policy (which may include Liquidity policy and Capital policy)

3. Conduct Management policy

4. Supplier policy (may include outsourcing policy)

5. Financial crime prevention policy (may include anti-money laundering etc.)

6. Equality & diversity policy

7. Risk policies

8. Seeking external advice for the Board policy

9. Compliance policy

10. Internal audit policy

afm association of financial mutuals

NED TOOLKIT

Association of Financial Mutuals

version: April 2019

© Global Governance Services Ltd.

Improving board induction processes

Regulatory documents

PRA Documents

1. The PRA's approach to insurance supervision (October 2018) which includes the PRA's 8 Fundamental Rules

2. The PRA Rulebook NEDs should be able to find their way to relevant sections, such as the discrete sections for Solvency II firms and Non-Directive insurers

3. Corporate Governance: Board responsibilities (July 2018)

4. PRA's strengthening accountability webpage
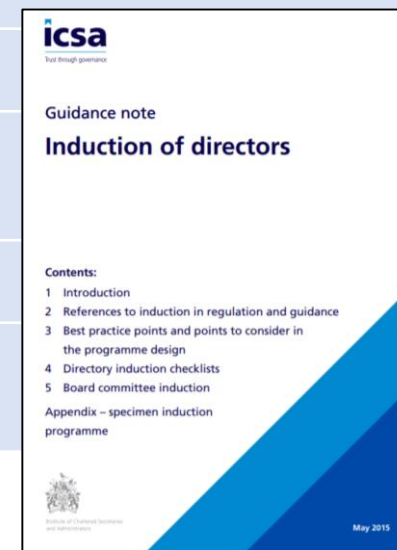
FCA Documents

1. The FCA Handbooks are online including a helpful timeline feature

2. The FCA's Principles for Business (section 2.1)

3. The FCA's webpage for How we supervise firms 4. The FCA's 'Business Plan' including 'risk appetite'

4. COCON – Annex 1: Guidance on the role and responsibilities of Non-Executive Directors

5. FCA's Senior Managers and Accountability Regime webpage

AFM Documents

1. Guide to corporate governance

2. The Duties of Directors of Mutual and Not-for-profit Insurers

3.   AFM Corporate Governance Code

Meetings with management

CEO	Overview of business, key strategic issues, key business issues, commercial structure
Company secretary	Company law, corporate governance, conflicts, share dealing, administration matters
CFO	Overview of finances, capital framework, taxation For finance focused directors, also see key Finance staff
HR director	Overview of HR function, talent issues, remuneration, succession planning, staff retention, performance management, development
Business development	Business development update, recent transactions, transactions currently being considered
Head of legal	Legal update, key matters, litigation, etc
Head of compliance	Compliance programme, regulatory issues
Head of risk	Risk appetite, risk register, third party risks
Head of internal audit	Internal audit programme, results of previous audits

icsa
Trust through governance

Guidance note
Induction of directors

Contents:
1 Introduction
2 References to induction in regulation and guidance
3 Best practice points and points to consider in the programme design
4 Directory induction checklists
5 Board committee induction

Appendix – specimen induction programme
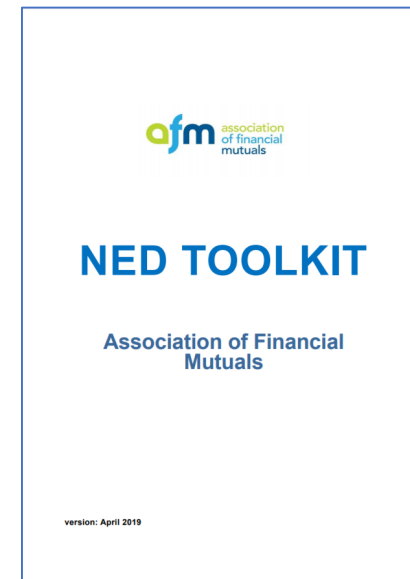
May 2015

GGS

8. Risk assessment matrices

Directors might be questioned on various aspects of Solvency 2, such as:

- the firm's capital, levels and quality

- reverse stress tests

- the SCR and MCR

- the firm's liquidity position

- own solvency needs

- the stress tests and results

afm association of financial mutuals

NED TOOLKIT

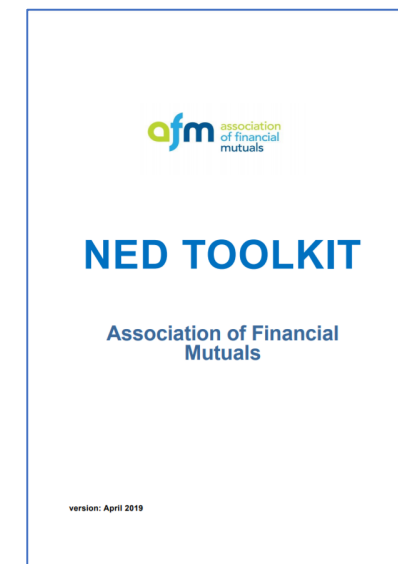**Association of Financial Mutuals**

version: April 2019

Are the following processes robust?

- product governance
- competition law compliance
- promotions sign-off
- data protection
- financial crime prevention
- consumer contract drafting
- treating customers fairly

/...

- complaint handling
- sales processes
- third-party relationships
- information security
- outsourcer relationships
- distribution relationships
- operational error and cause analysis?

NED TOOLKIT

Association of Financial Mutuals

version: April 2019

Using risk assessment matrices

Leading Governance Risks over the next 18 months

1 Risk oversight

2 Cyber risk oversight

3 Executive talent management

4 Corporate performance and valuation

5 Director recruitment and selection

COSO III

ENTERPRISE RISK MANAGEMENT

| Governance & Culture	Strategy & Objective-Setting	Performance	Review & Revision	Information, Communication, & Reporting
Leadership from the top sets ethical values, structures, and standards for both enterprise & risk.	Strategy and objective setting include risk appetite and the basis for adapting to risk.	Business risks prioritized in the context of risk appetite. Able to asses & implement risk responses.	Reviewing risk & performance and adapting to risks. improvements may include substantial changes.	Continuous process of information exchange and reporting, (internal and external)

GGS

9. Using board director profiling for diversity

Skills

- Operational skills
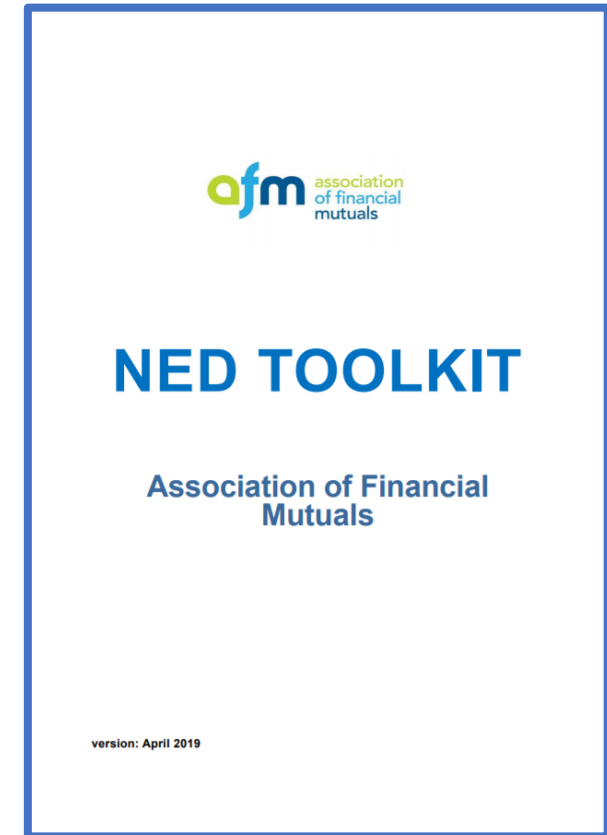
- Functional skills

- Corporate finance skills
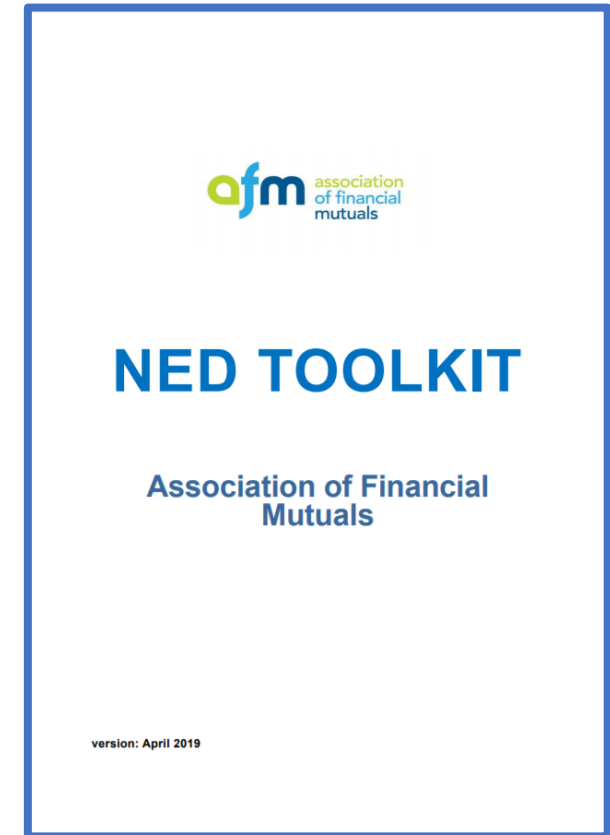
Roles

- Executive lead
- Executive Team
- Professional
- Manager

- Expert
- Consultant
- Practitioner
- Customer

NED TOOLKIT

Association of Financial Mutuals

version: April 2019

Using board director profiling for diversity

Key Kotak Committee recommendations for attributes of directors of listed companies accepted by SEBI in 2018

Industry knowledge / experience

- Experience

- Industry knowledge

- Understanding of relevant laws, rules, regulation and policy

- International experience

Technical skills / experience

- Accounting and finance

- Marketing

- IT

- Talent management

- Leadership

- Compliance and risk

Behavioural competencies

- Integrity and ethical standards

- Mentoring abilities

- Interpersonal relations

Indian Code of Conduct for Independent Directors 2013

Detailed guidelines for professional conduct, roles & responsibilities include:

1. Upholding ethical standards of integrity and probity;

2. Acting objectively and constructively while exercising director duties;

3. Exercising responsibilities in the interest of the company;

4. Devoting sufficient time and attention to professional obligations for informed and balanced decision making;

5. Not allowing any considerations to vitiate objectivity and independent judgment;

6. Not abusing position to the detriment of the company or its shareholders or for personal advantage;

7. Bringing an objective view in the evaluation of the performance of board and management;

8. Safeguarding the interests of all stakeholders, particularly the minority shareholders;

Indian Code of Conduct for Independent Directors 2013

9. Undertaking induction and regularly updating and refreshing skills, knowledge and familiarity with the company;

10. Keeping well informed about the company and the external environment;

11. Satisfying themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;

12. Seeking appropriate clarification or amplification of information and, where necessary, taking and following appropriate professional advice and opinion of outside experts;

13. Paying sufficient attention and ensure that adequate deliberations are held before approving related party transactions and be assured that they are in the interest of the company;

14. Reporting concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy.

10. Improving information governance

Improving information governance

- Inadequate information
- Information overload
- Information filtering
- Exceptional reporting
- Data protection (GDPR)
- Information security

COBIT = "Control Objectives for Information & Related Technologies"

The COBIT framework defines processes for the management of IT and a set of recommended best practices for governance and control process of information systems and technology with the essence of aligning IT with business.

## ISACA   is an independent, non-profit, global association.

It was previously known as the Information Systems Audit and Control Association, but ISACA now goes by its acronym only, to reflect the broad range of IT governance professionals it serves

It engages in the development, adoption and use of globally accepted, industry-leading knowledge and practices for information systems.
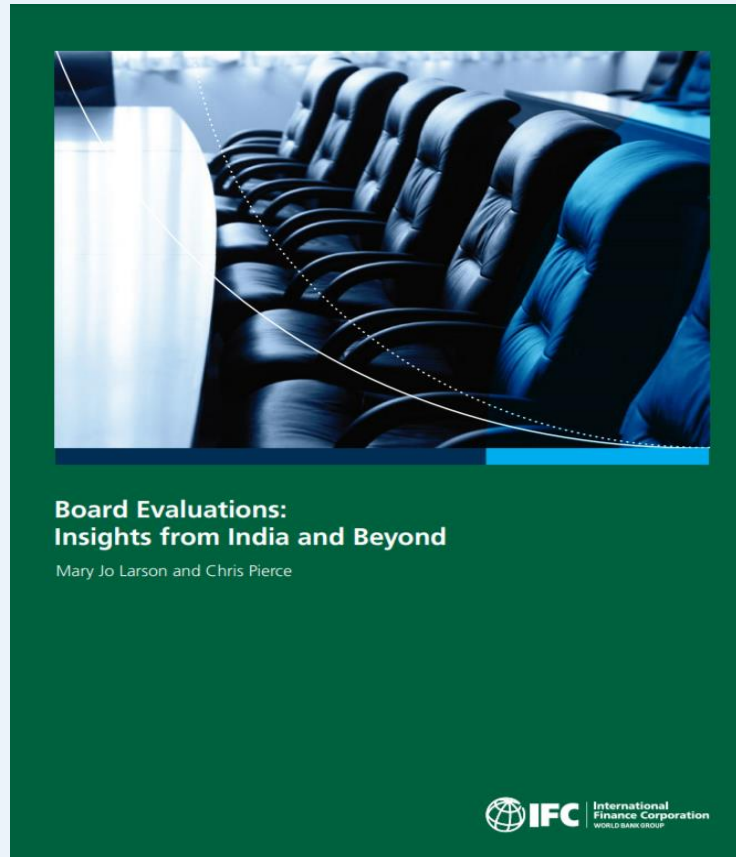
11. Developing a governance map

11. Developing a governance map

49
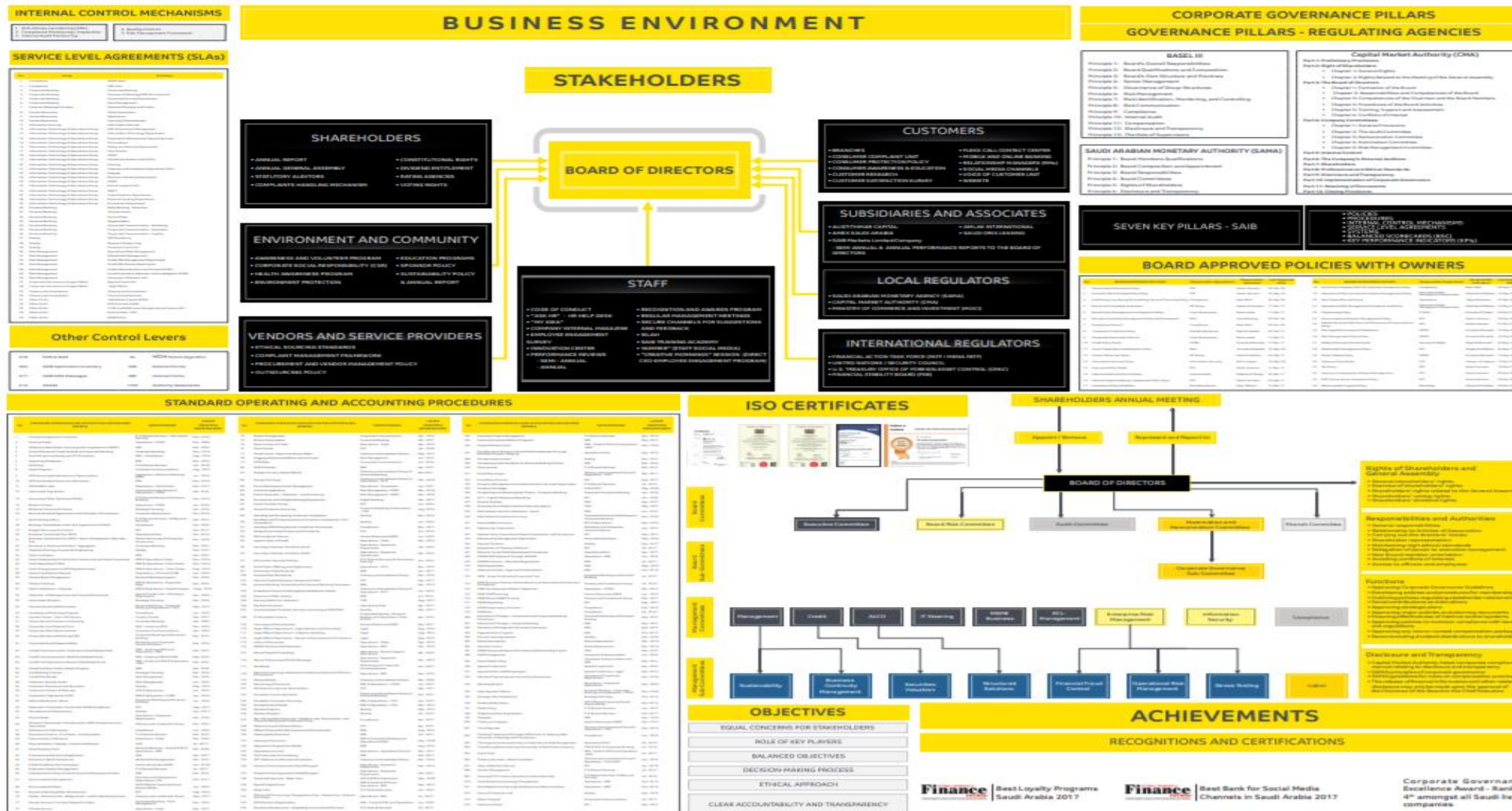
The twelfth tool is the most powerful of all of the tools in your toolkit!

12. Getting the most from your board evaluation

**Board Evaluations:
Insights from India and Beyond**

Mary Jo Larson and Chris Pierce

IFC | International Finance Corporation
WORLD BANK GROUP

Thank you…………

Dr. Chris Pierce
CEO, Global Governance Services
www.ggs.uk.com