First Aids for Disastrous Board Meetings

50 tips on ways to improve the quality of your meetings

First Aids for Disastrous Board Meetings

50 tips on ways to improve the quality of your meetings

Dr. Gregg Li

Acknowledgement

Writing a book is a major undertaking and without an overwhelming pressure to get this out, this book and the ideas contained, would not have been written. Four parties have played their roles, and having finally put this together, I must thank them individually.

The first party is my first editor, Kieran Colvert. his consistent prompting and friendly reminders have been the clock that I needed. He asked me to forgo my weekend golf games for some finger exercises on the keyboard. My personal thanks go to Kieran for his constant encouragement and professional editing. My golf game is now terrible but that can be repaired.

The second party would be the Chairpersons who have permitted me to be their coach and asked me for an additional and simple guidebook that they can reference. Through our discussions I am learning to be a better coach for others. I guess it was their way of telling me that my fees may be too high. Then again, I am sure they can afford the price of this book. It will not be free to them, as the proceeds of this book will be donated to some NGOs that deserve the extra funding. Thank you very much to the Institutes and Associations of Company Secretaries in South Africa, Australia, New Zealand, Canada, Malaysia, and Hong Kong which have published earlier versions of these ailments, and to the readers who have responded. Special thanks go to Sir David Akers Jones, Paul Chow, Alec Tsui, Warren Chen, Max Ma, Stephen Chow, and many other Chairpersons to Boards whom I cannot name. Their comments and suggestions have filled many of the pages.

The third party would be my consulting colleague who have mentored me and guided me in the development of practical solutions over the 20 years in governance consulting. Personal thanks would have to go to Professor Robert Tricker who's been one of my first teachers in corporate governance; to Professor Mike Hough in Australia who was the dean of both the business school and the education department at Wollongong; Professor Alfred Ho of the Academy of Management Consultancy; Professor Gilbert Wong and Gordon Redding who at that time were both at the University of Hong Kong; Nigel Knight, SY. Choi, Robert Cochrane, Eddy Fong, Ivan Choi, and others at Coopers and Lybrand (now PWC); Jill So, Charles Foley, Anthony Siu, Ivan Choi, Leslie Choy, Alice Quisi Cha, Regina Chu, Charles Canfield at the World Bank, Jamie Allen, and many others helping to heal these illnesses in different parts of the world.

The fourth party would be my wife, Karen, who has played the role of a mother hen, waking me every Saturday morning then locking me in a room with a computer and an air conditioner set at 21 degree C. I've found fast typing to be a good way to keep my arms warm. Her cup of hot green tea also does the trick.

To all four parties I owe my deepest gratitude.

Gregg Li

Preface

We often try to solve problems by involving others. We hold meetings. But meetings often are not well run. It is more the norm than the exception. Each of us has sat through countless hours of meaningless dialogues and wondered if there are tips we can use. Indeed there are. In this book you will find virtually a hundred listed.

At the highest form of meetings we have the Board of Directors and there are a number of common problems which often afflict the way they meet, such as Director absenteeism, which may seem relatively minor but which, if not treated, can seriously undermine the Board's effectiveness. There is no governance if the Board does not meet. But meetings do not need to be about governance or at this level of decorum or seriousness. It can simply be a problem-solving team. Hence, this book is a meeting and Boardroom 'first aid' quick reference kit for common ailments arising from meetings.

I have written this book as a reminder for Chairpersons and company secretaries who should be able to detect and treat such minor problems before they become life threatening. Although using the Board as a backdrop, this book is more about the skills needed to chair and facilitate any meeting. The first lesson of this book begins with the essential first step in any healing process – recognition of illnesses.

Over our many years of working with Boards of directors and running meetings, my colleagues and I have found that there are a number of common ailments which have afflicted all Boards – irrespective of whether they are the Board of a listed vehicle, a family Board, a non-government organization (NGO) or a government statutory body. And it doesn't matter if this is a family Board in

Indonesia or a professionally run Board in Sydney, because there is a good deal of overlap in behaviors among the Directors and the participants.

These minor pains or disorders are not always life threatening and often all that is needed is a little fine-tuning to get the system back to normality. We are often called in as independent external consultants – as Boardroom 'doctors' and 'surgeons'– to introduce just the right amount of intervention or shock to get the Board back to health, but in about a quarter of the cases we work on, we are actually superfluous and we are there more as independent commentators. The company secretaries and Chairpersons know the answers, but knowing what questions to ask is more their challenge.

Special Notes to the Chairperson and the Facilitator

This book has been written for the Chairperson and the facilitator. A few pointers are necessary to bring you to the proper perspective. First, a high level of self awareness and recognition that old way of meeting is indeed problematic, is vital for any Board or team to have. And, with proper guidance and coaching, the Chairperson and the Company Secretary together can often resolve many minor problems by themselves. You need to gain this level of awareness, before such Board related problems become unmanageable and a surgical operation becomes the only remedy. We have seen too many Boards go through the expected motions of a Board meeting, without realizing that the Board has actually fallen asleep or that it is comatose. Being conscious of its state of health is critical. Recognizing and accepting the current "unhealthy" state of behavior is the first step toward healing.

With awareness, much can be treated. To draw out the importance of self-awareness and self-treatment, in each chapter of this series I will include a few questions for you, the Chair, to review. The questions will provide the basis for self-inquiry and should be sufficient to initiate a good dialogue with the Company Secretary or an assistant and the rest of the Board or participants, to begin a process of self-treatment. The Chair and Directors are expected to practice the art of asking critical and insightful questions that articulate and flush out key issues and strategies. Asking the right questions facilitates meaningful dialogue in the boardroom and we shall keep to this spirit.

The Board itself, however, must have the resolve and determination to begin the healing process following this problem recognition. Interestingly, I have found in my many years of governance consulting that Directors themselves are able to draw on their many years of experience to address problems, but there must be a consensus and “collectively” the Board members must agree that the problem as stated is indeed a problem…and that they are willing to spend their time and effort in fixing the problem. Knowing where to go and walking the talk are two distinct sets of behaviors that is not common to many Boards. The healing process will only be effective if the directors are actively involved, committed to the treatment, and willing to change their own behaviors.

Such are the duality and challenges in governance. A few symptoms must be fixed quickly. However, when one sees an onset of a barrage of symptoms where any action to fix one can exacerbate the symptom of another, this would suggest it is time to bring in the real doctors, governance surgeons or; if this cannot be found or the powers that exist do not believe in your assessment, move on and say farewell to your current Board. Have the wisdom to recognize behaviors that cannot be changed, and move on. Maybe some other Directors with the right elements and better chemistry can sway the incumbent Board to wake up. All marriages start with the best of intentions, but sometimes a separation or divorce is the best solution (at a certain point in time) when the best remedial efforts are just not enough to turn the tide.

The power of “nothing”

In this final introductory section I will try to explain as best as I can the importance and power of “nothing”; or in other words, the absence of Board practices where taken together they would suggest a pattern of Board mis-management by the Chairperson and the Company Secretary. Nothing is seen to be done or there have been so few proactive actions that if taken together, these actions are just ripples in an ocean…hardly noticeable. We often describe the Board as a black box and this is apt because few outsiders are allowed into the inner workings of the Board. This book is not written for bystanders and spectators. This book has been written for the players and the players must be able to recognize the power of nothing.

Nothing is a powerful word. It is only with nothing that we can recognize something has taken place. But more importantly, both the 'nothingness' and the 'something-ness' are duality and both must exist for the whole to exist.

In other words, to fully appreciate the work of the Board, one has to do more than getting involved, but also to observe its behaviors after an event has taken place which would necessitate some Board actions. This speed of recovery and resolve do tell how well the Board is being managed and how well the entire company is being steered a the top. The actions that took place in the boardrooms of AIG, UBS, and Lehman Brothers after learning of their precarious positions in the Global Financial Crisis of 2009 are indicative of their ability to overcome challenges. Some obviously have done better than others. This is an important attribute. But this is only a half of the story. Effective Boards are quick to recover from mistakes. Effective Boards that are slow to respond and slow to recognize that they have fallen down are no longer 'effective'.

I was approached recently by a young student of corporate governance whose day job is a stock analyst for an investment bank. Given the impact and influence of the Board, recognizing patterns that would suggest a Board has been well managed quickly became the topic of conversation. She looked at all the components of what would be described as effective governance and referenced those components used by the OECD, the local exchanges, and even Governance Indexes developed by professors. Perhaps the only conclusion she could draw was that these factors were necessary but not sufficient for understanding the performance of good Board management.

The reason is that she has on hand only half of the equation. And by being a spectator, she is not privy to seeing the behaviors of the Boards during their interaction.

The other half of the equation should begin to surface when one understands that good and effective Board management is earned over time, and that both the Chair and the Company Secretary have spent enough hours to ensure that they function well. One must work at running an effective Board, as like a Marathon runner, he must work at his jogging several miles at a time each day, culminating and progressing ultimately into a Marathon length exercise.

The key is to learn to recognize the calmness; the “nothingness” in behaviors that must exist before or after an event has taken its course. Good Boards must be actively managed. Often it is what we don’t see that boggles the mind!

Introduction

There are many typical ailments that often trouble Boards of Directors and any typical business meeting; and I have highlighted just eight of them in this book. I shall use a typical Board as the backdrop, as the situation at this level can be seen as an extreme for a typical business meeting. If the solution would work for a Board, it would surely work for a meeting where sound minds come together for a discussion.

The eight typical syndromes that can usually be treated by Boards themselves are:

1. failure to recognize the purpose of having a meeting or a Board
2. long and unfocused meetings
3. failure to measure the performance and conformance of management
4. high absenteeism of Directors
5. indecisiveness and the need to retake decisions, and
6. frequent heated arguments (or conversely the absence of arguments) when Directors meet
7. working with inexperienced Directors
8. failure to understand the amorphous roles of the Chairperson

Although there are just eight topics, self-treatment topics need not be limited. As Boards become more sophisticated, new topics will arise in the future. As always, these new boardroom issues will require either or both of the fast and simple fixes and a complete overhaul.

Serious Illness Warning

As a final point, I would like to remind that these lessons have been written as reminders for the professional Chairperson and the Secretary of the Board. The Chairperson is assumed to be the instigator and leader of the Board, the ‘barefoot doctor’ or ‘the intern doctor in the emergency room” in corporate governance if you will; while the Secretary is the administrator and the co-leader, the “nurse” if you will, for these self-healing lessons.

Boards are notoriously difficult to heal simply because they are staffed by wise old persons. The older we are the more difficult it is to adopt new behaviors unfortunately. And this is precisely why intervention must be conducted as early as possible before wayward behaviors become the norm, leaving the only option possible is the surgical removal of certain individuals and sometimes the entire Board of Directors.

If the symptoms persist after a few months (or after two Board meetings) it may be best to seek outside professional assistance. For any change to take place and remedial actions to remain, determination and resolve, plus a lot of energy must be spent. One must be serious and allocate sufficient time and attention for the medicine to take its effect. Be consistent with the process of treatment and be willing to make some changes to boardroom behaviors.

On the extreme end, if the symptoms continue after six months, such consistent and repeatable issues may suggest it is time to completely overhaul the current Board. That is, let the current one die…and start anew.

Table of Contents

Lesson 1

Failure to Recognize the Purpose of Having a Meeting or a Board

This is probably one of my favorites. Many meetings should not have been held in the first place. Many Boards should do more than just making decisions through only Board meetings. But meetings will take place and Board meetings will happen.

Knowing the purpose and reason for any meeting is crucial and at first glance, may seem blindingly obvious. Although obvious, many conveners and Boards in fact don't really know their roles and more importantly, their roles vis-à-vis those of management. Many meetings are held because they seem to be the right thing to be done.

For Boards, one of the latest findings from the COSO 2010 Report on the state of ERM implementation was that many Boards are challenged with finding the right roles between themselves and management [1]. Supervising management is not the only role of a Board. One or two persons on the Board may know but collectively it is not conscious of its collective role, and because of that, the Board cannot facilitate properly what it needs to be doing. The difficulty is that roles change over time as the Board matures or as new Board members or participants are

[1] Please see the COSO's 2010 Report on ERM, December 2010. *Committee of Sponsoring Organizations of the Treadway Commissions.* www.coso.org.

introduced. The type of discussion, the level and rivalry of competition in the industry, and the intended outcome will affect what types of discussions must be discussed, and through discussion the roles will change. Good Boards spend the time in debating strategic questions and building their political will to sponsor or support certain position, and this would be framed by a consensus on what are and how the roles of the Board would function. Ineffective Boards just go through the motions and assume the world has not changed.

Sometimes meetings are held for legal purposes as stimulated by regulation or law, as in a Board meeting. Such Boards often follow the letter of the law on Board practices and conduct themselves as dictated by their lawyers. Meetings and discussion items become a ritual and, while the legal requirements for Board practices may be met, one really wonders whether the Board has any life at all. Boards need to conform to legal requirements but they also need to perform—conformity and performance need to be in balance.

Red Flags

- ✓ Competitor's Board (best from the same industry) has experienced similar meeting ailments.
- ✓ The first item on the agenda or from the Chairperson's mouth is to adopt the minutes of the last meeting.
- ✓ No discussion of strategy of the meeting or the purpose of the meeting in the last two Board meetings.
- ✓ The Board has long meetings, three hours plus, but nothing of real substance is actually discussed. Everybody is busy and minutes are long.
- ✓ The Board or the meeting participants refuse to conduct a self-appraisal or a performance review to recalibrate their roles.

- ✓ For Boards, the independent Directors begin to show up less and less, and are unclear of his or her role relatively to the others.
- ✓ None of the Chair, Vice Chair, Directors, or the CEO has a "published" job description…and more importantly, have different expectations of the roles of each post.
- ✓ Management has its own Board meeting and the Chair (who is also an Executive Director) chairs the management Board. A majority of the customer or operational issues are therefore dealt with by the management Board and the key issues are never summarized or reported to the Board of Directors who act as a rubber-stamping Board.
- ✓ The Chairman and the CEO is the same person, although the company is quite mature and the Chairman is over 65 years of age.
- ✓ The real Chair is physically missing; the Company Secretary or the legal counsel runs the Board as Chair and has been doing this for over a year.
- ✓ Minutes are produced and disseminated longer than seven days after Board meetings, sufficient for documentation but ineffective to call for action.
- ✓ Topics are repeated from meeting to meeting without adding further insight. Topics are discussed repeatedly without a decision being reached.
- ✓ The Board shows the symptoms of typical Board illnesses but no one dares to speak up.

Possible causes

The root of the failure to spot boardroom problems often lies in the Board's inability to understand what indeed are its "adjusted" or "changing" roles or functions. We who are Board members are not machines. Our roles do flux from time to time. The complexity multiplies further when each of us on the Board has a different set of expectations on how those combined roles would need to be changed [2]. Collectively, some Boards pay too little attention to increasing shareholder value while playing politics with management or among themselves. Other Boards are too focused on shareholder value and neglect to realize that often it is the employees who are generating such value, and it is the Board's role to think through how and what values to fund.

Robert Tricker describes the four core activities of Boards of Directors as:

1. Formulating strategy
2. Policy making
3. Ensuring accountability, and
4. Monitoring management.

How should Boards divide their time between these four functions? Our on-going research has shown that there is a basic difference between what experienced Directors believe should happen and what actually has happened in practice.

There is a spread of responses, of course, reflecting the different situations that can face Boards. In a company with an all-executive Board of Directors, the Directors combine their Director's duties with top management functions and it can be difficult to separate the two. In other cases, particularly in the Board of a holding company which has delegated much of the strategy formulation and policy making tasks in the group to its subsidiary companies or operating divisions, the dominant focus can be on internal supervision of the group and external accountability, with the

[2] Imagine how a basketball team fails to function when the players on the team do not recognize their respective roles and reinforce the roles of others. Imagine all five players wanting to bring the ball down the court or wanting to go after a rebound.

strategic and policy tasks limited to setting overall strategies and policies at the group level. The functions of the Board will always be affected by its own context.

However, the results seldom broadly differ. Asked for their opinion on how a Board should divide its time and effort, Directors generally suggest that the major focus should be on strategy formulation. When asked to draw on their own experiences of how Boards actually devote their time and effort, Directors concede that 80% of time is devoted to looking into the past, on accountability and monitoring.

Possible self treatments

A Board that doesn't know it has not been functioning properly probably doesn't know what proper function is. In other words, the Board is ineffective despite the fact that it is meeting, debating motions, and producing minutes in the prescribed manner.

This is where the Company Secretary is in the best position to advise the Chairperson and bring back some reality checking. Healing itself takes awareness. As in the case of the proverbial Zen master, sometimes all of us need a whack in the back to wake ourselves up and the Company Secretary is in the best position to do the honors.

Let's try this:

- **Analyze how time has been spent:** Assuming there are just four basic categories of activities – formulating strategy, policymaking, ensuring accountability, and monitoring the work of management – track where your Board spends most of its time. Present those ratios to your own Board. It will be like a cold shower in a hot day, refreshing! Can time be better spent addressing tough strategic and competitive questions, such as in which market shall we sell?

- **Ask others on how they would like to spend their time:** In your next Board meeting spend 30 minutes asking your Directors how collectively they would like to spend their time together next year. What are the significant issues they should talk about? What information will they need? What self-evaluation process – a simple health-check – should they install? What are the three to five things that must be accomplished this year, for the Board to have done its work?

I noted earlier that many Boards do spend most of their time monitoring the work of management – they spend their time analyzing the past, aiming more toward limiting value destruction than value creation. The Board should actively eliminate as much unnecessary work as possible so that individual and team efforts can be directed towards performance instead of activities that have a distant link to such performance. The Board's role is to ensure that the minimum effort is expended to control, supervise, and get operating units to perform to administrative requirements.

We are creatures of habit and this goes for Boards dealing with threats as well as for the way we face risks ourselves. We typically do nothing, thinking any storm will eventually pass us by. Most people simply anchor themselves to past behaviors, thinking that the disruption was a fluke and that we will get back to normality once the storm is over.

In the aftermath of the global financial crisis, however, some Boards are starting to re-evaluate their past ability to manage themselves in the face of risks. A handful of Boards have opted for an assessment of their performance, however informal. It is time we ask a very tough question – can we do better as Directors in how we manage unexpected but fatal risks?

Renewal

One of the biggest challenges for Boards is their ability to heal themselves following a crisis. The relationship among the Directors can be strained to the point of break-up. A critical aspect of self-treatment, however, relies on the members themselves and this process will take time and energy. Sometimes the Board can do these themselves; other times an independent facilitator or wise uncle is introduced to play as a mediator.

Unfortunately the older the Board in terms of the average age of the Directors, the less time and energy will be present and the longer in general the renewal will take. Self-healing often involves some level of renewal where the Board must quickly identify new talents for the boardroom. Successful companies often have a 'work-in-progress' plan to identify and develop talents that can assume positions of greater responsibility.

The influence of the dynamic external environment -- such as the forces of globalization, new technologies, competitive pressures, and compliance with new regulations on corporate governance -- exert constant pressure on companies to renew lest they fall behind. In the face of the uncertainty of the current business environment the Board must strengthen the capability to recognize their own consciousness, to treat, to heal and to re-invent itself.

Concluding remarks

Being able to recognize boardroom illnesses is a behavior that has often been taken for granted and this phenomenon is more pronounced for Boards that have yet to recognize changes to their roles, vis-à-vis management, and other stakeholders. The roles of the Board do change from being a passive monitor to an active player, and this can only be initiated and maintained by the current Board. Sometimes a Board intervention into management is necessary; sometimes, a disturbance. Being aware of the Board's current role and position, being conscious of the Board's health, of the health of the competitors' Boards and the consequences of their illness, and being aware of the purpose of its existence, are all vital signs of a Board's general well being.

In the next chapter we shall look at another symptom: having long and unfocused meetings. Boards are paid to meet and Boards principally do their work when members of the Directors come together to deliberate and debate, and lastly, to decide: Simple in concept but often neglected in many Board meetings.

For More Information

Kahane, Adam (2004) *Solving Tough Problems*. Berrett-Koehler Publishers Inc, San Francisco.

Checkland, PB (1981) *Systems Thinking, Systems Practice*. Wiley, New York.

So, Jill and Li, Gregg (2009) 'The 2009 Board's Self-Awareness Assessment', *Momentum Magazine.* Chamber of Hong Kong Listed Companies, Spring 2009, Pages 22–27.

Tricker, Robert. (2009) '*Corporate Governance: Principles, Policies, and Practices'*. Oxford University Press.

Lesson 2

Long and Unfocused Meetings

The first lesson looked at the essential first step in any healing process – the recognition of illnesses. For the second lesson we shall look at the problem of long and unfocused meetings which is a most common phenomenon, but here I would like to start by stressing the need to raise the Board's awareness that such meetings are indeed an issue; and that if this issue is allowed to continue unresolved, the Board will be building the momentum for more illnesses in the future. The Board will simply become a ritualistic entity, fooled into believing it is functioning at all.

As stated in the first chapter and a gentle reminder, readers are advised to seek the assistance of professionals should they encounter difficulties beyond their competency.

Boardroom boredom

Meetings form the basis in the exercise of power for Boards, and it is mainly through meetings that collective decisions are refined, agreed, and then communicated. The Board is a collective entity and its authority is made real through meetings. But meetings are often badly run because many of the Directors lack the skills to chair, facilitate, stimulate, reinforce, make the meeting fun and meaningful, summarize the key issues, or close a meeting. The first thing that most government auditors do in detecting the absence of governance is to analyze how many NGO and statutory body Directors have actually shown up or that a quorum has been established. When Directors do not show up for meetings, there is simply no governance. Meeting is the playing ground for the Directors.

Board meetings can be extremely boring and wasteful. Because we are not machines or robots, we easily lose interest in issues that do not concern us directly or immediately. Boring discussions, disinterested parties, boring movies, and, at our age when time is more valuable than gold, sitting around talking about someone else's accountability and strategy, or lack of such, is hardly worth doing. If adults have an attention span that last about 15 minutes or so, Directors (typically busy and energized individuals) should have much less.

When was the last time your Board meeting lasted 15 minutes before a short break was taken? When was the last time the Board took a break after 90 minutes of deliberation?

Let's begin the discussion with a general reference on what are the basic requirements of a valid Board meeting[3]:

1. it must be properly called and convened in terms of authority, service of the notice, adequacy of the content, and the period of notice and proper authority is given to convene the meeting
2. it must be properly constituted in terms of having the requisite quorum and a properly appointed Chairman to regulate the meeting
3. it must be properly conducted in terms of procedural rules on proposing the motions, debate, voting and passing resolution, and
4. it must be properly recorded in the minutes.

These are useful guidelines and one can understand the importance of preparing a meeting and following certain

[3] I've taken this from the Hong Kong Institute of Chartered Secretaries (*Company Secretarial Practice Manual,* Sweet & Maxwell Asia, Vol 1, 7–0575), which should apply to many UK and US influenced jurisdictions around the world.

legal procedures. But let us set legality aside for a moment, and focus on the design and process of a good meeting, something that the Company Secretary and the Chairperson can readily fix.

Today with so many issues bombarding the Board, Board members need to focus. The more we focus, the more we have time for other things. It is typical that the attention span of most adults is about 15 minutes on any topic, and for a few it may be just 15 words. We can stretch these 15 minutes to 30 if it is really interesting. But Board meetings often run for three hours, filled with long, one-way presentations on boring and repetitive subjects.

Some Board meetings last for several days to take account of visitors from abroad. If you think about it, the meetings are actually set by the Chair with the Company Secretary and one may conjecture that it is really these individuals who are boring. But meetings need not be boring.

Let's look at some red flags that may indicate that Board meetings can be better organized, run and reinforced.

Red flags

- ✓ Minutes are produced seven days after the meeting, useful as a piece of history but not as an agenda for action.
- ✓ Background materials are provided just one day ahead of the meeting (typically Directors should receive these materials seven days in advance, but two days should be the minimum).
- ✓ Directors come to meetings unprepared with questions, or without insightful questions.
- ✓ Directors are absent more than 50% of the time.
- ✓ The same person always initiates the discussion, or the same person always seconds a motion.

- ✓ Topics are repeated from meeting to meeting without adding further insight and without a decision being reached. If this is typical of the Board's decision-making process, it may suggest a deeper issue of accountability and role clarity.
- ✓ The agenda begins with 'matters arising' and the Board subsequently spends more than 50% of the meeting time on this, forgetting or neglecting the other agenda items. The same thing happens the next meeting and the Board never really gets to the other agenda items with any substance.
- ✓ Key points and counterpoints, and the identification of the key parties supporting each point, are not minuted. Knowing the counter-arguments to each decision provides the foundation and validity of why decisions are made in a certain way.
- ✓ There is no declaration of interest noted in the minutes.
- ✓ There is no energy in the room, and meeting is usually held at 2:30 pm, after lunch.
- ✓ Every now and then a mobile phone goes off.

Possible causes

As explained above, the Company Secretary and Chairperson set the tone, flow, style, the level of energy, and close the meetings. They are like the stage Directors of a play, and the meeting scene can be viewed as a loosely structured dance performance designed for street dancers. Bad meetings begin with bad planning, and bad planning is the result of a lack of focus, clarity of the roles and authority of the Board in the meeting process. Probably one of the biggest contributions that the Company Secretary can make to the company is organizing and preparing such meetings. More time should be spent preparing the meeting then managing the meeting.

Possible self treatments

Begin each meeting with a purpose – that is, why are we here and what do we intend to achieve by the end of today's meeting? The first order of a meeting is not simply to share information, or rather communicate the wishes of the Chair or the CEO. It is important, but there are other ways. Ask what can be delayed? What must be decided today? You can begin with two boxes – ‘urgent and must decide today’ items and ‘important and worth talking about today’ items – and ask everybody to yell out what goes where. Regular reminders of the goal of the discussion to keep the Board meeting focused, is key. Introduce to everyone how the Chair intends to spend the limited and valuable time together.

Demand that no one should provide materials longer than a few pages – all reports must have short executive summaries. Shorter ones are harder to write but provide higher clarity. Clarity from management contributes to clarity at the top. Longer reports should become appendices and should be summarized into one page that can refer to the information in the appendices. In other words, demand the management respect the time of the Board. It is true that a good shorter paper takes longer time to write.

Encourage each member to speak out – suggest to the Chair that everyone should have a view on matters of substance. Involvement and participation bring value to meetings. At strategic intervals, the Chair can simply go once around the table and ask for any last minute input from those present. A good Chair allows everyone some air time and cuts off those who take up time with nothing really substantive to say.

Focus on the important numbers – when spreadsheets are used. Rank the top five revenue items and the top five variances, then focus on these. This is the

'80/ 20 Pareto rule' that if you focus on what's important and large, the rest will eventually fall in place and even go away.

Use a dashboard – Many Boards today have a governance and executive information system that provides a dashboard. A dashboard is like a car's speedometer and tells you how fast the company is running. The more the Board can set aside the regular business, the more time the Board will have for irregular and unexpected items where the Board can have the most impact and the highest contribution. Dashboards are great for identifying new patterns of behaviors.

Use a two by two matrix – Draw a two by two matrix and label one axis as "important" and the other "urgent". Ask everyone to shout and place today's key topics into each box. Then focus the time on the most urgent and important first.

What the Chairperson can do specifically

The Chair is ultimately responsible for the quality of the meeting and typically will rely on the Company Secretary to help deliver that. Unfortunately, the Company Secretary gets most of the blame if a meeting is badly run. **Good meetings are the result of good planning by the Chair**, with the support of the Company Secretary; they do not happen by chance. A meeting is a forum to raise concerns and problems, and – hopefully through the collective wisdom of those present – will generate some solutions, or at the very least will reach a decision. However, the way some meetings are run fosters problems in the meeting itself, and such problems are best resolved at the outset.

The real job of the Chair is to chair meetings and this is the only formal authority that a Chair has over other Directors. Here are some suggestions for the Chairperson:

Always set an agenda – and discourage anyone who raises big topics not already on the agenda, otherwise there's not much point having an agenda. One has to be adamant about this. The Chair has the authority to delay further discussion until he or she has the time to think it through and this is a powerful weapon. Bundle routine items into an agenda for issues that need Board approval but not Board discussion so they can be dispensed with quickly and easily. Keep the number of the agenda items to less than 10. And remember to send the agenda and accompanied by readings at least 5 days in advance.

Agree a time to stop – and abide by it. Respect everyone's time. As a Board, lay ground rules for the meeting: determine speaker time limits; don't interrupt the speaker or let others interrupt; ask clarifying questions; attack the problem not the Board member, etc. The Chair is the traffic cop. The Company Secretary can act to make sure certain key items are in fact discussed and actions decided, before everyone steps out of the room.

Bring everyone onto a separate table – sometimes you may need to hold a separate meeting for discussion only, or you can design a session within a Board meeting that encourages dialogue about an issue, not decision-making. Have a short break or take a recess. Take 30 minutes to allow a side discussion, then come back and decide. Some issues just require more discussion and using the collective wisdom of the members in a structured manner can create a lot of value. Make the discussion something of substance and include a summary of the discussion with the next Board minutes. But before a good discussion can be had, the Chair must enrich the discussion by listening and getting input from all parties. Without sufficient context and issue trees, decisions made in a vacuum of issues are not good .

Set aside regular quality time for meetings with the CFO or with the managing Director/ CEO – always have separate meetings with your CFO and / or CEO without the presence of other Board members. Consider having a mandatory breakfast once a month or twice a month to talk about operational issues; and by doing this, remove as many operational issues as possible from the Board discussions. Make it a regular requirement to see them individually at least once a month. Have breakfast with them on a regular basis and don't change the schedule regardless. Use the telephone if you have to.

Lead the discussion but be sure to summarize – Even during regular Board meetings, the Chair should set the stage for dialogue by framing the context of the issue, explaining a possible strategy, or identifying the questions the Board should address. This is where preparation comes in and the Company Secretary can provide a list of relevant issues in bullet points that can stimulate guided discussions. Encourage everyone to speak; then be sure to remind everyone what agreement has been reached. Summarize often, as the discussants may not remember what indeed the key arguments were.

Appoint a Devil's Advocate – this is perhaps one of the most useful roles that one of the Directors can take on. For mission critical decisions, appoint a Devil's Advocate whose main role is to win and challenge all assumptions. Allow a separate time for such discussions. Be careful not to over use this mechanism, else the Board may become a debating council.

Involve as many Board members as possible – as cited above, try to bring everyone into the discussion and give those who are timid more air time. To raise participation, consider breaking the Board into smaller discussion teams for a tailored discussion under a team leader. Best discussion group is three to five individuals.

Give that team leader a question to solve and ask him to come back with a response. Design the teams carefully so that shy Board members are not with overbearing members. This will encourage speaking up and foster creativity. Or, ask each of the members to wear a different color hat and using de Bono's Six Thinking Hats[4], each person plays out one of the requirements of the hats.

A strong Board has members who can contribute to different perspectives, and often this means coming from a different background. They may even have varied motivations and a range of experiences that are different. Learn more about each other's communication and conflict styles and learn to work with each one.

Check personal conflict at the door – resolve personal conflicts quickly once they're evident and ask the parties involved not to join the next Board meeting and ruin the atmosphere. Board members are typically adult enough to have a sound argument without holding a grudge. The Chair should immediately address conflicts by talking to the parties individually. If this is not successful, find another Board member or individual that all parties trust to talk to them as a group apart from a full Board meeting. Invite *all* Board members to raise concerns, voice criticisms, and express their ideas even when they challenge the status quo. A powerful and useful means to provide feedback and bring peer pressure to bear, is to ask everyone, on a separate sheet of paper for each person, to note down improvements that each Directors

[4] Edward De Bono. *Six Thinking Hats* (1985). In his book *Six Thinking Hats*, Edward de Bono devised a technique whereby participants in a discussion, collectively or individually, are encouraged to look at the problem being discussed from six different perspectives. The white hat, for example, requires you to focus empirically on the data available. The red hat, by contrast, looks at the problem using intuition, gut reaction and emotion. *More information on the 'six hats' technique is available online at: www.debonoconsulting.com.*

can make. Collect these then read them out load by the Chair without naming names. Used at the proper time, this can silence the troublemakers.

Celebrate good decision-making – when you find agreement, congratulate the members. Members that resolve conflicts together often become closer and are able to handle future conflicts. Members also need to enjoy their time together. Don't forget, as human beings we desire some level of bonding and assurance. Some Boards even require a mandatory dinner before next day's Board meeting and this is used to build personal ties and network. Definitely Board items should not be discussed openly or for making decisions before the actual Board meeting.

Take time to rest and to celebrate – once a year organizes a social event, an away day or retreat. Set up periodic retreats away from the usual meeting site, but remember to come together for a meeting. This is where golfing and tennis come into play but they are used as reinforcement, not the main event. Away days should encourage Board members to bond and loosen up which favors good discussions. And demand that phones should not be permitted. Bring in a stretching therapist to break up the monotony of any long Board meetings.

Always demand minutes be written – note down in the minutes for future reference where members of the Board raise a key point. Good meetings in the future are the result of good protocols and this is reinforced through a series of good record keeping. The power of documentation and its relevance for Board members cannot be underestimated. Members who have raised significant points should be recognized in the minutes; otherwise they will be less inclined to contribute next time. The minutes should reflect strong points taken, counter-points, and lastly, decisions made. Indeed, good minutes are not easy to write and an effective Company Secretary is not just a note taker.

Concluding remarks

Board meetings contrary to belief do not have to be boring and monotonous. Repeatable and regular items need not to be the only items for review each time when the Board gets together, because they could have been reported without members coming together. Regular monthly and even weekly updates of key figures can be updated through flashes, bulletins, faxes and emails; thus valuable time should be left for real discussion when the members do meet.

Basketball was a fun pastime for me when I was young. I remember years ago during my teenage years in a basketball game, where one of my friends named Glen Tsuneda, reminded everyone there that getting a group of 10 together for a game is very difficult, so we should respect each other's time and play well. A good meeting can be like a basketball game. It doesn't need to feel like a chore. The older we get the more we forget how fun things can be. Granted, we no longer run around as much, leveraging on our physical abilities. We tend to use more of our brains these days when we get together. Enjoy while you can.

For More Information

Stephen Covey (2006), Habit 5, "*Seek First to Understand then to be Understood*". Simon and Schuster.

Lesson 3

Failure to measure the performance and conformance of management

In the world of management, what gets measured gets done. We begin with raising the Board's awareness that this lack of oversight in measuring performance and conformance indeed is an issue; and that by not resolving it when a few feverish symptoms have been noticed, the Board is building the momentum for more illnesses. As stated in the first two chapters, readers are reminded to seek the assistance of professionals if they encounter difficulties beyond their competency.

Failure to measure the performance and conformance of the management team, or to put it in other words, failure of the Board to sense the current status of the well being of the firm and hold management accountable, is hardly done systematically and proactively in many organizations. The majority just measure the performance side, and typically in a backward perspective. A few will do so at the end of every day or every week. Quite sensible, but financial performance indicators are not, and should not be, the only set of indicators measured. For NGOs, as they are not measured by profit, it is even more difficult. Quantifiable indicators are also not the only set of indicators, as there are many qualitative elements, like reputation and brand, which are just as relevant.

Red flags

This illness is not so easy to spot, and simple measures that look into both performance and conformance are often not used. Their absence is the best form of indication. Not seeing them means there are symptoms that one does not know how to describe. A car needs both an accelerator and a brake, and the feedback and feel for both must be clear and fast. This is in addition to a car's dashboard which has oil gauge, speedometer and odometer.

What are some of the red flags for Boards? The first is the single focus on performance indicators, rather than using a range of indicators to create a balanced view. Today, good Boards have a system called Early Warning System that attempts to provide a six-month window on the state of fatal risks. Let's take a simple example, imagine you have a restaurant and you have to choose between two extremes in staffing. You can staff it with the right number of staff to cater for the lowest or highest point of activity. At the highest point, you will not have idle staff standing by and service complaints will be minimal, or you can staff it at the average point of activity and expect to receive some complaints but save costs. The best solution is a compromise here and one needs both sets of indicators – staffing and customer complaint levels -- to arrive at a sensible solution. With just one set of indicators, the information is incomplete and cannot contribute to making any good decision. Here are a few more examples:

- ✓ ***Loosely formulated contracts for the top posts*** – many Chairmen or remuneration committees typically avoid any explicit agreements on financial and non-financial targets, and rely on simple financial agreements in the contracts for their CEO or CXOs. It is not a surprise that a few don't even have such a contract. Accountability is loosely defined.

- ✓ ***No job description for the Chief Executives*** – a root cause of the absence of contracts for the top posts is that the organization does not have clear job descriptions for these positions measured in competency or output terms. This might be either because the hiring took place many years ago, or because the Board simply wants more flexibility in how they determine a quality performance. At the end of a contract the Board either extends or opts not to renew the contract, based on a collective feel of the performance which is mostly comprised of qualitative assessments. Accountability is inferred. This provides a 'cushion' and frontal disagreement is avoided as there is never any firm target. Family businesses are good examples of companies where this is the norm. This is one way of managing.
- ✓ ***Having a single set of measurements that is performance based*** – conformance is inadequate or insufficiently tracked. Risk and internal control status are missing or discussed at most once a quarter. Or for NGOs, performance and processes are in the minority or even missing.
- ✓ ***Too much information to read at Board meetings*** – it is easy for management to overload the Board with agenda items and operational details. Consider it a warning when a Board receives a packet of supporting information that is over an inch thick. Have another meeting or ask management to summarize and link them back to how value is being created and risk is being managed.
- ✓ ***Over-reliance on quantitative measurements*** – that is, forgetting that much information can be

solicited by simply walking the floor. When was the last time any Director visited a client, a supplier or a subsidiary? Quantitative indicators are never sufficient by themselves.

- ✓ ***Over-reliance on the formal monthly or quarterly Board meeting when the market has become much more turbulent*** – the typical example here is where the Board goes through the formality of a meeting, runs down a list of numbers, then the Chairperson quickly closes the meeting. All this takes place in less than an hour's time. When there's a storm outside, a good captain is found out on the deck monitoring every wave. When was the last time an urgent Board meeting was held, and how is it possible for a Director who already sits on 10 Boards to join such a meeting? Is the Board prepared to ride out a storm by having the right mechanisms?

Possible causes

The obvious cause that comes quickly to mind, when such absence is noted, is that management's influence on the Board has been quite strong. All business activities involve some sort of risks and if these risks are not managed and mitigated or reminded to be, management cannot be held accountable. Along this extreme, there's a possibility that the Board is very much a puppet Board set up by management.

In reality, however, this is often not the case. It is more a lack of rigor, and we simply have a lazy Board that puts heavy emphasis on performance but neglects to install adequate safeguards in conformance or compliance. A few Boards may use the excuse that their CFO or financial controller has instituted tight internal control measures and the Board does not need to concern itself with issues of compliance.

Possible self treatments

To be in line with both conformance and performance, and more importantly, to balance how values are being created with consequential risks, the Company Secretary should aim to help the Board by setting up both sets of rapid response indicators. The first set should be related to managing risks and internal control, the second should be related to creating value and innovation. One without the other is nonsense. Performance without the context of managing risks is like a racing car without brakes. All businesses take risks in one form or another; and the magic is to hit a corner with just the right amount of braking so the car corners faster than competitors'.

Engineering governance indicators

I will not spend too much time here on setting up performance indicators, as there is already a massive volume of literature on what these are, from cash flow to price earning ratios. If any organization does not have this set of performance indicators defined and spliced into the fabric of the firm, the first immediate action is to seek out a good chartered accountant or management accountant. A great accountant is someone who can articulate this for the Board and management, and will introduce ways to help both parties receive and interpret these signals as soon as possible.

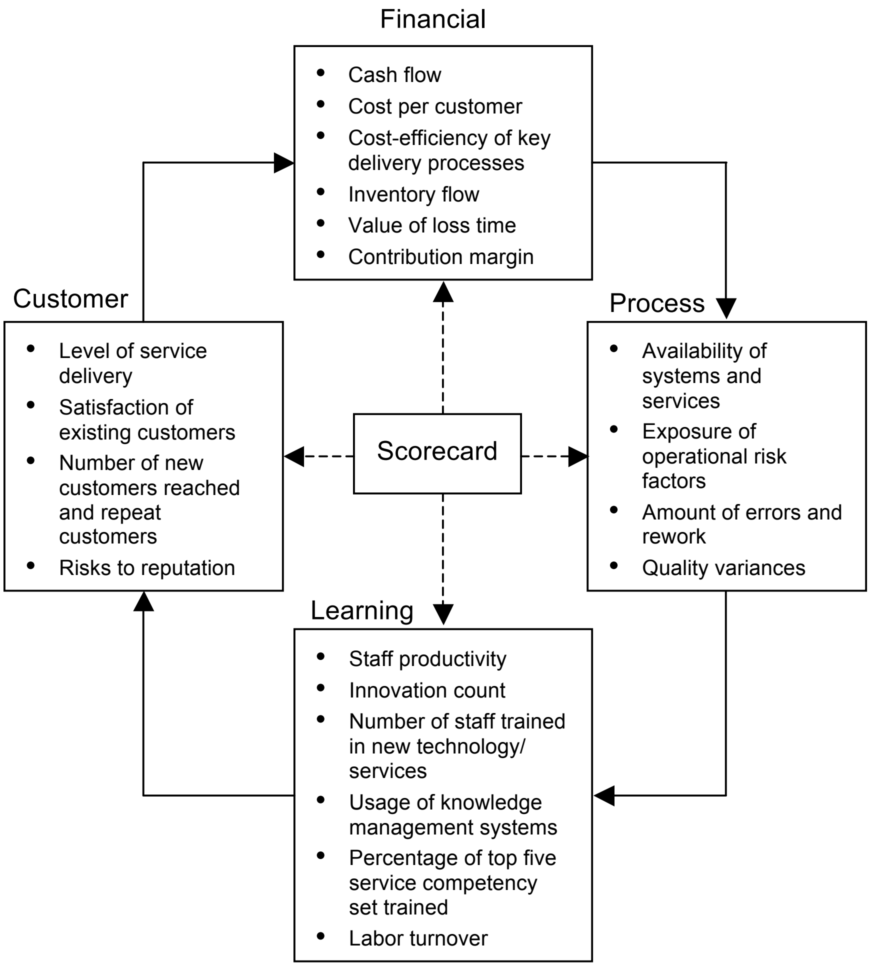
Many of these performance indicators unfortunately suffer from a lag factor, and by the time managerial financial information is available, the organization will have already charted a new course based on old information. It is like driving forward while looking at one's rear view mirror.

Improvements in indicator designs have been made over the years and one of the most popular designs is called the 'Balanced Scorecard', developed by Kaplan and Norton[5]. This

[5] Kaplan and Norton (1996), The Balanced Scorecard. Harvard.

scorecard expands the performance indicators and introduces three more sets of indicators – customer, process, and learning. The scorecard, as we shall see below, attempts to address the monitoring issue by providing a richer variety of inputs. The lag factor still exists. Although armed with more information, the Board and the management should have more opportunities to see slightly ahead of the curve in the road.

As an example, the graphic below illustrates some of the potential indicators that may exist in the 'business-case' scorecard of a service firm.



The Balanced Scorecard template has been adapted by many organizations, from police departments to multinational firms and schools. It is a quite useful tool to help the Board monitor a variety of expectations on management. Nonetheless, the Balanced Scorecard forces the enterprise to consider only four aspects of evaluation. Adequate for a first round of analyses at this stage. Assuming the roads ahead are not full of curves and bends, the organisation should move along just fine.

But the future and roads ahead are never steady nor straight – our world has become increasingly turbulent and unpredictable. Instead of using one set of indicators, or one set of rear view mirrors, we now have many indicators or many side mirrors. The indicators should overlap slightly. But be careful of overdoing this. One local organisation that we consulted with has had over 500 indicators to start with and the time needed to acquire and interpret those can be laborious. Moreover, you may be able to see much better than before, but you are still looking at mirrors. Another side effect of the Balanced Scorecard is the delusion that by managing these indicators you can actually see the bends ahead.

The Scorecard is a good tool, but a set of good tools is only as good as the person who wields them. All tools have limitations. We need to build on the tools further. Another way is to be much more proactive and explicit in managing the expectations of the Board, and this is done by engineering governance and risk indicators which have more of an early warning bias to them. Instead of having just one mechanism at one's disposal, the Board sends out additional signals in the form of active indicators and measurements. Today, many Boards are experimenting with faster and more responsive feelers. Increasingly, they are introducing their own early warning systems.

Engineering a simple early warning system

Early warning systems (EWS) are built onto the Scorecard by closing the time lag in reporting. Most EWS have a three- to six-month forward-looking window, and if properly set up, they should contain both essential conformance and performance indicators. They still will not provide the Board with a crystal clear vision of what is to come – no system can ever do that – but they do provide the Board and management with a set of forward-looking detectors that are more time responsive. Consider the EWS functioning like a set of good whiskers on a cat. These antennae will help the Board and management navigate in darkness. Good EWS have both qualitative and quantitative indicators.

To set up a simple EWS, follow these steps:

1. Have the Board of Directors set aside two hours for brainstorming (during the first quarter and outside the regular schedule)– in the brainstorming exercise, ask them to build on each other's ideas without being too critical at first. You want to avoid any pre-conceived judgment in the early stages. Remember, our views of the future are often clouded by our past experiences which can lead to misinterpretation of the future. Each pillar is a driver of performance or conformance.

2. Group the many ideas into four to eight red flags and define what is Red. Using a spider diagram that has eight pillars stretching outwards from the center; each of the pillars would be one of the red flags. Each red flag should have a number of contributory items that give it substance. Give each a working name for now (the name will be changed later with more clarity). Each red flag becomes a pillar and like a spider's web, extends outwards. Next, ask the Board members to identify the symptoms for each of those red flag conditions.

3. Set up the five rings, starting with six months – that is, start out at the outer ring with 180 days, then label the next ring as three months, then one week, 72 hours and finally 24 hours. These rings form concentric circles. Where the pillar and the circle touch, a node is formed. Having set the red lights for your pillars in step 2, you would further refine that light into how many nodes that you have. If there were now five nodes to a pillar, then you would use a traffic light system from red, orange, yellow, green, and blue. To sort this range, identify the symptoms or signals that management and the Board can see at each of the nodes, working from the inner to the outer. Sometimes there will be more than one symptom at each node. Note them down.

4. Finally, consider how the information can be collected in its raw form – that is, without filtering by any person. Ideally, the data can be collected easily and best updated by an automatic tracking system. The most difficult part will be keeping consistent in how red lights are lit. You would like to have similar magnitude in terms of one red light for one pillar. It is difficult for our minds to grasp too many shades of red lights for examples. You now have your first working EWS.

Elements of a powerful EWS

Not all EWS are alike and there are a number of qualitative considerations I would like to point out. I have found this to be a useful list of 10 qualities of a powerful EWS:

1. It should have both quantitative and qualitative measurements because not everything can be neatly measured in the real world. Besides, one type of risk can trigger the presence of another type of risk, where individually each risk could be easily managed away. Rumors of the CEO having an affair with an employee coupled with the increasingly high level of whistles being blown about sexual harassment by other employees is a clear alarm that needs the Board of Directors' attention.

2. It should have 'active' elements, that is, it should function more or less like a radar where signals are actively propelled out into the darkness and, once an object is detected, the echo provides feedback to the sender. And like a radar screen, we should be able to see rings extending outward. These rings can be time tracked, as in the six-month range we highlighted above. Each time a signal hits one of the rings, a warning is issued. Use a color scheme of green, yellow and red. Once a yellow ring is breached, the Board should be immediately notified.

3. It should consider, as much as possible, ways to automate the collection of data. Consideration should be given to ways to automate the collection of these data elements into the design, so that measurements can be done without human intervention and full sampling can be achieved. Timeliness measures are good candidates for computerized tracking.

4. It should have a strategy to shorten the time lag in reporting performance. Consideration should be given to reduce the time for performance data to be reported after the event. The sooner the information is available, the more time the user has to remedy the situation and the sooner catastrophes can be averted upfront.

5. It should have a strategy to focus on a few key elements. There's always an attempt to measure everything in sight because data are available. A strong feedback system needs considerable thinking in the design stage on what core outputs need to be measured, but that needs to be balanced as data that are not captured upfront will never be able to be turned into useful information.

6. It should have overlapping but different sets of pillars. Individual measurements are always too simplistic. The key is to focus on a few critical factors but using different measures to overlap the reporting window. All measurements have biases and by overlaying similar but not exactly the same measurements we can gain a much better understanding of the rapidly changing situation.

7. It should have a strategy to focus on exception reporting. We have found that one of the most powerful means to signal changes from standards, is to use exception reporting, where the results deviate against a set of parameters.

8. It should have a strategy to avoid excessive surveying. We have seen good intentions turn into bad execution, such as when a customer is bombarded with multiple surveys and requests for information.

9. It should be tied into a contingency response system**.** As multiple stakeholders are involved, the relevant authority will be confusing. Who has the authority to review results, to recommend actions, to decide on actions and to be told about the actions taken? Who should be speaking with the press and with what information? We have found that constructing a decision authority matrix, mapped against the various stakeholders, can help to simplify decision making. When chaos strikes, we don't have too much time to think and it's best to have a contingency plan for each of the red flags.

10. It should have a strategy towards corrective action and regular systems checks. Many users often forget that any warning system must be linked to some form of corrective action. This consideration strengthens the power of a warning system. Also, all systems will eventually break down and need to be recalibrated. As we are dealing with changing expectations, there is a need to continually upgrade standards which would trigger an evaluation. A system that involves multiple stakeholders needs continual adjustments of the standards. In other words, seeing all green lights in a report should signal to the evaluators that they are not measuring as rigorously as they can, and that they may be seeing the calm before the storm.

Concluding Remarks

Over the years I have found that Boards that are on their toes often have some form of early warning system in place. They may rely on a series of informal but effective means to gather information, and sometimes so much can be gained by simply walking the floors. Management is very much about managing people, and any Board that is impervious to pains or unaware of the company's morale is bound to be standing on a slippery slope. If your managers are not walking the floors and lock themselves in a room 24/7, you should be very concerned. If you are not walking the floors and have never walked into the sales office or spoken with the CFO in his or her office, do so tomorrow.

For More Information

Hubbard, Douglas (2009), "*The Failure of Risk Management*." John Wiley & Sons.

Pepper, John (2007), "*What Really Matters*." Yale.

Kelly, Kevn (1994), "*Out of Control*." Basic Books.

Lesson 4

High Absenteeism of Directors

This chapter looks at some self-healing exercises that the Board can consider in reducing low attendance rates of Directors and other participants.

In the world of business, motivating employees to deliver the work of the principal or shareholders is a foundation of governance. Directors too, need to be motivated and committed. Their attendance represents a necessary part of corporate governance. Without attendance, there can hardly be any governance. Governance by written resolution where attendance is not necessary should be reserved for mundane matters, not matters that are complex, difficult, and fuzzy to resolve. Directors come together to debate and through dialogue must make a choice in the form of making decisions, and this process is one of the most important functions of a Board. Absentee Directors cannot deliver this function.

Again, we shall begin with raising the Board's awareness that any absence is indeed a warning; and that by not resolving it at the earliest possible time, and allowing absence to be an acceptable form of behavior at your Board, the Board has begun to take the first step down a slippery slope. As stated in the first three lessons, readers are advised to seek the assistance of professionals should they encounter difficulties beyond their competency.

One of the first actions that governance auditors perform to determine the effectiveness of advisory Boards and Boards of statutory bodies is to conduct an attendance check. This is one of the easiest sets of evidence to gather and one whose absence would link directly to a lack of governance. Since Boards perform their duties of governance with the presence of Directors, any absenteeism at mandatory meetings indicates that the Board is dysfunctional. When any individual has a record of attendance that is less than 50% per year, the effectiveness of that individual to act as a Director is suspect. And when you have a merry-go-round effect on attendance, where different mixes of Directors attend different meetings, what you really have is a dysfunctional group. The Chairman and the Company Secretary are the first to be blamed.

Red flags

Let's look at some of the possible red flags that the Chairman and the Company Secretary should pay attention to before absenteeism reaches more than 50%, or where, although present, a Director fails to participate in meetings.

- ✓ **First absence** – responding to the first time a Director is absent is probably the most neglected responsibility for many Boards. Didn't the Director make an implicit promise to attend every meeting? The situation is more critical if the Director only informs you after the fact, and you end up with a meeting possibly without a quorum. Board meetings are mandatory for Directors; they are not negotiable. Attendance must be respected and Directors are expected to commit to attendance.
- ✓ **Consecutive absences** – the second consecutive absence is a second red flag. This may not represent 50% absenteeism (although many Boards have only four formal meetings per year), but consecutive absences without ironclad excuses are like having two strikes in a baseball game. Three strikes and then the Director should be "out". The requirement for attendance should best be spelt out early in the

engagement contract with the Director. Any Director missing three consecutive Board meetings without approval from the Chair is assumed to have resigned.

- ✓ **Attendance confined to Board meetings** – this is another silent indicator that can say a lot, and relates to where Directors attend only Board meetings and skip all other mandatory gatherings for Directors. Directors need to have a deep understanding of the firm in order to conduct proper oversight. There are a few Directors who believe that attending Board meetings is a duty, but attendance at other activities is beyond the formal requirements. A Director that does not recognize the need to visit a key customer or critical supplier, or has never visited a subsidiary, is a foolish Director. How can good decisions be made without a proper contextual understanding? Being independent and being ignorant are not the same. Of course, the Chair needs to ensure such additional meetings do not become a burden.
- ✓ **Absenteeism approaches 50%** – if a Director's rate of absenteeism hovers around 50% of all the mandatory and additional meetings -- outings, visits to customers and suppliers, etc., then we have a borderline absence. Complete absence is only a few activities away or a few months away. Again, commitment is demonstrated through attendance and participation.
- ✓ **Directors sit on more than three other Boards** – Sitting on one Board, although on a part-time basis, is a dedicated commitment. The recent Walker Report from the UK went as far as suggesting that any Chair who cannot devote two thirds of his/ her time to any one Board should not be the Chair. Unlike a full-time activity, Board level work has both regular and non-regular hours, and requires

someone who has dedication and flexibility to match. A good rule of thumb is that Directors sitting on more than three other Boards will be overstretched and unable to perform at their best. Any such Director would have to be a super time manager and would be under stress. A good Board has Directors who are committed and focused. Any Director sitting on more than three other Boards, particularly those with a full-time job, cannot function properly as a Director and is probably functioning more like a flower in a vase, to make the room look slightly more professional. Ask that person to focus or replace that person right away.

- ✓ **Directors fail to participate in meetings** – moving away from attendance we have another phenomenon where the person is present but his brain has left the room. A good chairman involves everyone in a discussion and teases all relevant thoughts out of the participants, even the thoughts which are not yet well developed. This kind of lack of participation can also be a sign that the Director has not been provided with information beforehand from which he can speak about intellectually or with conviction. The Director was not mentally or psychologically prepared. Directors, as different individuals, should have different perspectives, and it is this difference that encourages a healthy dialogue to properly address risks and create future value. Every opinion, every comment, no matter how insignificant, has its value in a Board-level discussion. If new risks are exposed as early as possible, the chances of recovery are certainly increased.
- ✓ **Directors are unprepared for discussions** – cases where Directors rush into a meeting just to be on time, or arrive with few notes, or without those few

vital Board papers which have been received and should have been read, are an indications that the Directors are not mentally committed to the discussion. Commitment is made real through preparation and engagement. One does not enter a marathon without a pair of proper running shoes or studying the terrain beforehand. The moment of truth for Directors comes when they are engaged in Board discussions. They should be prepared.

- ✓ **Directors leave early or play with their Blackberry phones** – long and boring meetings are often the cause of absence, so long and boring discussions should be a warning. When the Chair or Company Secretary sees a Director leaving early, reading emails, leaving the room to answer phone calls or talking with other Directors, these are signs that the discussions, or even the meeting, may have gone on for too long, or that the Chair has spoken for too long. Board meetings are solemn events and must be respected. There should be no phones, emails, or sideline discussions (or if arise, they must be dealt with immediately and on an exceptional basis) – such high expectations should be the protocol at all times.
- ✓ **'Rubber-stamp' meetings** – not all Board-level work will be interesting and there are times when meetings can be boring, legalistic, administrative, or may, to some, seem like rubber-stamping. A good Director not only understands the necessity of dealing with mundane issues, but also requests that they be kept within reason. Directors are not machines but people with low attention spans. Meetings don't have to be boring. Work that is boring for some will be very interesting to others, and we often hire staff to perform work that we consider boring.

- ✓ **Directors are parrots to the Chairman** – sometimes we have Board meetings that are so friendly and genteel that disagreement doesn't really exist at all. This is not a healthy sign as there must be disagreements and conflicting views at the highest level of a decision-making body. The Board exists to resolve and prioritize conflicting objectives and the Chair is there to manage chaos. When you have too many 'yes-people' on a Board – due to the presence of a powerful Chair, or a collective groupthink mindset, or the deliberate selection of like-minded individuals who are not expected to disagree with the Chair – the Board cannot function properly. Heated debates, which are properly facilitated and managed, are necessary activities at functioning and healthy Boards. It is important that Boards know how to foster healthy (and sometimes emotional) debates because clarity of intent must be known. We may even have Directors who, despite having supported a Board decision, counter or undermine it outside the Board. This kind of behavior needs to be dealt with separately and is beyond the scope of this book.

Possible causes

We have touched upon the various possible causes and they range from over committed Directors to boring meetings that encourage low attendance. Fundamentally, every Director is extremely busy and although ideal, not everyone is and should be "committed." Some would just choose to be "involved."

A wise man once said to me, that we would always find the time for the things we want to do. And not being present is a statement we made to ourselves and to others on how we have chosen. There are simply more important things in this world than just being a Board member. And this reminds the Chair to be aware that the absentee Directors might be facing conflicting demands on his or her time. Trade-offs have been made. This also suggests that a review is immediately needed, to consider the Director's incentives, commitment, and engagement.

Possible self treatments

The first requirement is to be sensitive to these behaviors. Recognize and deal with them as soon as new or young Directors attempt to test the resolve of the system. It is like having a new baby – the commitment and attention by the parents is on a 24-hour basis. Seasoned Directors, as the elder siblings of the young Directors, should know better that any new misbehavior must be dealt with firmly and quickly before it becomes a norm.

The best solution combines both a carrot and a stick approach. Below are some useful means to deal with these behaviors and getting good results often involves a combination of these practices.

1. **Set out a year agenda** – that is, give everyone an idea of how the various Board meetings are linked and that no single meeting stands alone, implying the need for continuous attendance. For example, in January the main topic could be strategic direction, and in December a review of the year. Not all meetings are the same and Directors should not be given the impression that they can skip one meeting and catch up with the same discussion next month.

2. **Make meetings interesting and learn something new every time you come together** – blend the meeting with a variety of events that can engage Directors. Include an agenda item that talks about a competitor's new product or service areas, where someone outside brings a fresh perspective on a stale discussion item. Don't just end the agenda

with 'any other matters' but with fun items like stretching exercises. Even old dogs can learn new tricks if they are properly motivated. An important but not often understood role of a Chair is the need to motivate the other Directors toward performance.

3. **Post and remind Directors about attendance rates** – this does not work for all Boards, of course, and depends on the culture. Some Boards even post this information on their websites. Any individual with a borderline attendance record at 75%, or a declining record, should be given a verbal warning or a friendly reminder of his commitment. A special meeting is automatically set up once any individual falls below this threshold.
4. **Engage Directors by asking for their input** – have the Chairman speak with the Directors over lunch or dinner individually at least once a year to seek the Director's input on how to improve the current meeting processes and items for discussion. This lunch meeting can be that automatic meeting cited above.
5. **Pay by attendance** – don't just provide a blanket remuneration policy where everyone receives the same payment. Provide a base then add a meeting fee. Some Boards even give Directors some shares (based on attendance) so that their interests are aligned.
6. **Remind Directors that D&O (Director's and Officer's) liability insurance typically does not cover negligence, and absence from a Board meeting is strong evidence of negligence** – lawsuits can arise from many sources and they do not need to come from minority shareholders.

Sometimes a disgruntled employee may sue the Board for wrongful firing.

7. **Leave those long and contentious discussions in Committees** – and mix the Committees with senior employees. Sometimes Directors are more serious when employees are involved in a discussion. Committees exist for a reason and all Directors should be encouraged to have direct participation as a Chair or Co-Chair of a Board Committee, and be able to articulate and recommend actions to the full Board. That is, give them something “real” to do. Find ways to engage these Directors.

8. **Remember the power of bonding** – although often used as a bad joke, getting Directors together on a friendly fellowship-building exercise from golfing to a family day, once a year, actually is not a bad idea. We are human beings and a certain level of trust must be built for the team of Directors to work together. However, it is key not to call a Board meeting on the same day, and with no prior notice. This gives Directors the impression that most Board meetings are held on the golf course. Respect the time when a Board meets as one would respect Sabbath.

9. **Engage Directors and have each of them put onto their agenda item, to become a mentor to one of the senior members of management or the children of those members** – there are many ways to engage the Directors. It can be at or outside the meetings. For outside the meetings, it is a great way to reach out and establish a dialogue and a informal network. A lot of information can be learned from such a network. Some Boards even ask the Directors to participate in some corporate social responsibility initiatives.

10. **Review the Directors' performance once a year** – and include a dialogue about attendance, participation, engagementand decision-making.

To summarize, the most powerful actions are delivered and expectations are set as early as possible, that is, the Chairman and the Company Secretary should aim to seal in good attendance and encourage proper behavior from any Director once they join the Board. Good Boards are not built in one day. Help the Directors recognize that the Board's activities should be a top priority. For many people, Board activities are not instinctive activities. Just like a golf swing that takes time and practice to master. To get rhythm and consistency, one needs to practice and practice, and practice properly, until the new behavior becomes his second nature.

We understand how difficult it can be to pick up new skills. The older we are, the more difficult it is. On average, the Board shows the tendency to have the highest average age of any team in the company. It is therefore more important that we manage and encourage right behavior from the senior members of the team. By doing so we are making a real investment in the company and in how everyone's future is linked with the welfare of the company.

Concluding Remarks

How much respect Directors have paid to Board meetings is a strong indication of the Directors' commitment to the management and governance practices of the company. Sometimes the absentee Directors need to be reminded and the persons earmarked for such work is either the Chair or the Company Secretary. Wayward behaviors are best checked at the gate (and reminded by the Company Secretary) and being very observant of the behaviors of Directors is what distinguishes an excellent Company Secretary from the run of the mill. The Chair, on the other hand, must support and acknowledge the time spent by the Company Secretary on such matters, and be willing to step in and remind the absentee Directors why such behaviors should not be the norm in the Chair's current Board. Being a good Chairperson requires the Chair to be forceful in promoting what are acceptable behaviors.

A final note to close is to remind all Chairs to be good role models. Frequent absence of the Chair easily leads to the indication that even the Chair does not respect everyone's time and the practices of effective governance. In fact, to appreciate how well governance has been exercised in a particular company, make a note on how often the Chair has missed his Chairmanship. Any chair that cannot uphold an 80% attendance rate should step down.

For More Information

Berger, Roland (2009),"*Innovating at the Top*", INSEAD Business Press.

Gadiesh, Orit and Hugh MacArthur (2008), "*Lessons from Private Equity Any Company Can Use*", Bain and Company.

Mitchell, Melanie (2009), "*Complexity, A Guided Tour*", Oxford University Press.

Lesson 5

Indecisiveness and the need to retake decisions

This chapter looks at some self-healing exercises that the Board can consider to facilitate effective, connected, layered and rational decision-making.

In the world of business, being able to make quick decisions based on timely and quality information is the difference between winning and losing, between eating your competitors' lunch, and having them eat yours. All businesses exist through their own creation of value, set against a mix of risks that they manage, and are able to survive because they have adapted to the changing environment just slightly better than their competitors. Nonetheless, as the environment becomes more complex and competitive, and the confluence of risks are testing the very ability of management and the Board to make good choices among many options, and doing so in the face of risks and value creation, it is time for the Board to seek help.

Making good decisions is a learned trait. The more we are used to making difficult decisions at a senior level, the better we are at facilitating an agreed outcome through a group decision-making process which reflects the majority view. At the Board level, choices are often fuzzy and not that straightforward. A good decision can quickly become a bad one if the contexts or the players are changed. Good decisions allow for a certain amount of flexes, and despite these flexes, things get done. Boards have to make good decisions that do not lead to a chain of more problems; and many Boards should be fairly adept at it. Then again, even the best of us sometimes need a few pointers and the Board is no exception.

Good decision makers tend to be focused on:

- waiting just long enough and getting only the necessary and essential information first, but knowing when to stop waiting as information will never be complete under most circumstances;
- reaching out to their networks that can provide useful intelligence and a more balanced view, so that the decision is not made with any particular strong biases;
- hearing both sides of the argument, allowing both to articulate the core issues (both for and against);
- discerning patterns from a series of unrelated facts (often catastrophes arise from a confluence of seemingly unrelated risks);
- pulling in the appropriate individual(s) with the right authority and persuading them to present their argument and their participation;
- being a good listener, which means, trying to understand firstly what the speakers are trying to convey before interpreting and making judgment on what the speakers have said, and
- pushing everyone towards a decision that is the best at that point in time, and understanding the potential consequences of those decisions.

In reality, making a good decision is not a 100% error-proof activity. Many Boards are not always filled with Directors who are competent in facilitating the making and adoption of good decisions. The Boards of NGOs, family businesses and public bodies tend to be filled with all sorts of individuals. Many of them are passionate about their contribution but most of them may not have the proper development and understanding to operate at the Board level, or understand the consequences and knock-on effects of their decisions. A few are so-called independent Non-Executive Directors. Many join Board meetings with no proper understanding of the operating model and the competitive context in which Board-level decisions are made. Given that we are all human, we do make mistakes.

In the process of making a decision, few of us have all the necessary information and time to make a good one. We make decisions based on a lot of limited information. Rarely are we well informed of all available choices and consequences to make a balanced judgment. A good friend who worked at American Express New Accounts department, and whose main work was to process and approve new card applications, once told me that approving a new card member is easy when all the available information have been provided by the applicant. 'The twist is that hardly anyone provides a complete list of information required by American Express, which would make such a decision easy', said he. Critical and relevant information, such as properties owned; other credit cards currently held; overdrawn credit limits; the fact that the applicant is about to be unemployed; or that he or she has maximized the limits on other cards; is usually absent. To counter these risks, at American Express there exists a credit department that has to approve new credit to new and existing card members each time a transaction is made. In other words, the company has learned to install a system to weed out potentially bad decisions, and has learned to accept the limitation of approving wrong card members at the outset.

Red flags

Let us look at some red flags or symptoms that the Company Secretary and the Chairman should pay particular attention to. Again, we shall begin by raising the Board's awareness that any lack of clear decisions, or a lack of a healthy process of decision making, is indeed a warning, and that by not recognizing these red flags at the earliest possible time, the Board has begun to take a first step down a slippery slope. As suggested in the other lessons, readers are advised to seek the assistance of professionals if they encounter difficulties beyond their competency.

Let's look at a list of red flags:

- ✓ **Board-level decisions are increasingly irrational**. A complete lack of common sense in how a decision has been arrived at is often the first wake up call. There are no building blocks on how that decision has been improved in terms of quality or considerations, as it rises through the organization. All decisions are seemingly made by one or few individuals, based not on their access of elements needed in those decisions, but on the positions or authority of those individuals. It does happen but should be a rare occasion. When this behavior becomes regular, something is obviously wrong. Doing nothing is a sin.
- ✓ **Decisions are based on a single source of information.** Key decisions are made based on evidence that is not corroborated by overlapping sets of facts from different sources.
- ✓ **There is an over-reliance on risk models or anything like a spreadsheet.** Key or fatalist decisions are based on simplistic models that work 80% of the time. However, the impact of that 20% failure rate can easily destroy the business model. Also, we tend to trust figures more if they were derived from some spreadsheets.
- ✓ **The Board is clueless on the values that are non-negotiable.** The Board has not articulated a set of values to live by and, when confronted with the need for a new decision, it therefore has no

basis with which to frame tough and convoluted discussions. It has neither set nor debated on a range of risks that the firm cannot absorb (in other words, the risk appetite statement does not exist). For example, the Board just believes that more profit is the strategy and the basis which key decisions are made. For NGO Boards where there is no single overriding profit number to guide them, deciding among similar choices is extremely difficult.

- ✓ **Boardroom debates are repetitive.** The same debate is repeated in successive meetings without any decision being made. Probably the only reason why the topic is repeated on the agenda is to provide some comfort that a discussion is taking place, when in reality the aim is not to get a real decision. When the same debate occurs again a few meetings later with no new information, everyone sits around wishing it had not been brought up.
- ✓ **Frequent 'new information' necessitates decision revisions.** It is a normal practice when new, relevant, and important information comes to light for the Board to deliberate its implications. The problem is that getting 'new and material' information appears to be a suspiciously frequent occurrence in the Boardroom these days, requiring the Board to revisit any decisions made within a quarter. The real scenario might in fact be that somebody didn't like the first decision.
- ✓ **Decision makers are too fast in making decisions**. The Chairman or CEO usually makes a quick decision, but the debate is frequently revisited as 'new' information arrives. The decision-maker wants to appear decisive but comes across

as indecisive while he maintains he is just being a realist.

- ✓ **There is a single decision maker.** This can happen under the influence of a powerful Founder/ Chairman. His aim is to get on with business, and he sometimes deals with one department one way and another department another way. There is no policy and he is really above any policy. When he is absent the Board comes to a standstill, and when the lieutenants whom he trusts eventually leave, they take clients and best practices with them.
- ✓ **The Board is using an outdated risk profile.** The Board believes in using enterprise risk management as a process to help improve decision-making, but the risk profile or risk registry has not been updated for 12 months.
- ✓ **There is no consensus on what constitutes an emergency.** Each Board member has a different approach to grading risks. A red light is not the same for everyone – some see it as an emergency, others see it as a caution or go-slow sign while others are completely color-blind.

Possible causes

Some executives tend to make bad decisions more often than others. Any decision so made leads to more problems down the road. When that decision was made, the individual was not able to foresee nor appreciate the consequence or limitation of such a decision; and more problems or limitations are set in, which would further narrow good choices. Good decision makers are like generals. They can appreciate the many possibilities of any action but also appreciate the limitations of such actions in his plan and decision. Granted no one can predict the future. A good decision maker tries to anticipate the many possibilities when things may go wrong and Murphy's Law rules. Executives should be fired for consistently making bad decisions, but we often do not do this. We promote them to the next level of incompetence.

Good decision makers must firstly be good listeners and have the confidence to admit mistakes and learn from their mistakes. Unfortunately, the older we get, the less we tend to listen and the more we believe others should learn from us. We forget that context and environment, which is ever-changing, really decides whether our decision is appropriate or not. Some context by which we have based our good decisions on may no longer exist. Best practices are, as they say, yesterday's news.

Possible self treatments

The first action for the Company Secretary would be to draw the above symptoms to the attention of the Chairman and other Board members to the above symptoms. Recognition of a symptom is the first battle and appreciating the process of good decision making is important because such processes should be repeated. One can begin to acknowledge this by simply asking Board members to run down the above list and circle the items most reflective of the current Board. Collect the list and tally the results. One can even provide a score of '1' to '5', where '1' stands for being low or ineffective. Allow each member to assess each item independently. Then have the Chair read off the results or the combined scores of each. It is important that Board members do not identify themselves on the checklist.

Let's look at some of the possible quick fixes (bear in mind that some fixes can be combined and sequenced).

1. **Expand the Board's network.** Many families that are successful in business excel because they have a wide and reliable network. Good, reliable and timely information do contribute towards making good decisions and having the right channels (before you need it) really do help. Decisions to invite additional outside Directors with a strong network may just do the trick.

2. **Consider introducing an Enterprise Risk Management (ERM) system.** A properly structured ERM system does help the Board make more rational decisions as key risks are identified, analyzed, evaluated, treated, transferred, monitored, and made so across the silos of the company. The key, however, is to keep the system flexible and begin slowly. An ERM system is supposed to break down silos and this is something that management may not endorse wholeheartedly. An effective ERM system does not need to be fanciful with major investment in hardware, spreadsheet to collect risk data, or coordinated by a Chief Risk Officer. The essence of ERM is to understand the residual risks, brought about by having a good debate on how such risks should and can be dealt with as they travel across the organization. The debates generate a better understanding of the limitations and the range of alternatives. As a decision is made, the context going forward will change, and those, who have learned about the limitations of those choices, will become much more adapted to adjusting and recombining many choices to form a new decision.

3. **Learn to be a customer again.** Use the service or product. Ask the Directors to think out of the box by getting some first-hand experience on how the firm has been acquiring and keeping customers by

purchasing and using the firm's products and services. If a decision is going to affect the business model, then come back to the basis of buying behaviors. By doing this they will open up their thinking and come back to the fundamentals. Decisions should be framed around the consequences in getting and keeping customers, as that should be the ultimate aim of any business. Or be a little more creative and learn to be a customer of your competitors.

4. **Test the assumptions on your risk models regularly.** All models attempt to explain complexity by keeping certain variables constant or making them irrelevant. Sometimes, when we take a longer view of things, a small perturbation in a minor factor can have a significant impact on the outcome. Sometimes we may have taken out these 'irrelevant' pieces for the model to fit. Continue to question your assumptions behind any model, but do continue to push for simplicity. And If you have found simplicity, question its relevance.

5. **Articulate a value statement.** Have the Board articulate what are the non-negotiable values that define the Board's intent. A good corporate governance or value statement often does the trick. Since the Board often deliberates on fuzzy issues, having something solid to build on is important. Good Boards try to articulate a risk appetite statement, and not just a value statement; and in the near future, having a risk appetite statement will probably be a requirement mandated by regulatory bodies and corporate governance associations.

6. **Remind everyone that the Board's decision is final.** Remind everyone that the Board does not take any decision lightly and will not deliberate the

same issue twice, unless new and material information becomes available. Moreover, only the Chairman has the authority to reopen the debate.

7. **Create and publish a decision-making authority matrix.** On a sheet of paper, write down 20 items for which the Board has primary responsibility and management may have secondary responsibility. The juxtaposition of authorities will serve as a useful document for new and old Directors. For example, who formulates the firm's strategy – the Board, or has it been delegated to the CEO?

8. **Use a scoring system and a decision tree.** This is a very popular technique used for decision-making when you have multiple alternatives and factors to consider. First, list all your choices. Then, on the columns, give each factor a label. For every choice, give a 'score' to the factor from zero (poor) to five (excellent). You now have everything neatly presented at a glance to figure out what to choose. The final piece is to add up the numbers. Naturally, the best way is to ask each Director or member to score their own list and then combine the total scores, whereby the choice with the highest score should be the one.

9. **Delay is an option, but give a firm date when a decision has to be made.** Sometimes indecision is already a decision – that is, delay. Delay is a strategy that is often forgotten but often used by the shrewdest of Directors. Other times, problems in making a decision could be reflective of the underlying structure where elements such as delegation, empowerment, matrix management, a flatter structure and participative culture will have implications on how key decisions are made and, according to Victor Vroom and Arthur Jago in their 1988 book '*The New Leadership: Managing*

Participation in Organizations' (Prentice Hall), the style of leadership can be unique to the firm and will affect how decision is made.

10. **Agree to disagree**. Remember the Board must learn to work together and no single decision is ever worth that much as to destroy a Board. Individually we all have conflicts and indecisions, but we go on. Our brains do not blow up when we have a headache and we continue to live and work as individuals. Install a system for mediation. Have a time out!

Concluding Remarks

Making rational decisions consistently is a learned behavior; good Boards simply have a habit of making more of them. The Chairman and the Company Secretary are the best individuals to foster and encourage such habits.

Good decisions are built, one layer at a time. As each layer of the organization makes their decision to do their job, that decision and its outcomes are felt across the organization. New decisions are needed at the next level. Effective organizations have a way of embedding this process, such that by the time a decision is needed at the top, it has already been grounded by experts in the organization but not limited by the experts.

Good management is able to understand how to manage and balance risks and opportunities. Where there are excessive risks, good management would suggest more control measures and considerations. One of the key reasons for setting up an ERM framework is to encourage management to think through a problem more systematically, and having done so, recognize the limitations of such systems. Again, an effective ERM system does not need to be fanciful with major investment in hardware, spreadsheet to collect risk data, or coordinated by a Chief Risk Officer. The essence of ERM is to understand the residual risks, brought about by having a good debate on how such risks should and can be dealt with as they travel across the organization. This is what organizational learning is really about.

For More Information

Douglas, Mary and Aaron Wildavsky (1983), "*Risk and Culture: An Essay on the Selection of Technological and Environmental Dangers*," University of California Press.

Flynn, James and Paul Slovic and Howard Kunreuther (2001), "*Risk, Media and Stigma: Understanding Public Challenges to Modern Science and Technology*", Earthscan.

Hubbard, Douglas (2009), "*The Failure of Risk Management*." John Wiley & Sons.

Li, Gregg and David Hill *(2007), "Risk – A Matter for the Board*, The Journal of The Hong Kong Institute of Chartered Secretaries.

Lupton, Deborah *(1999), "Risk and Sociocultural Theory*," Cambridge University Press.

Ropeik, David, and George Gray (2002), "*Risk: A Practical Guide for Deciding What's Really Safe and What's Really Dangerous in the World Around You*," Mifflin.

Schaap, Eric, Gregg Li and Jill So *(2008), "Risk: do you measure up?"*, The Journal of The Hong Kong Institute of Chartered Secretaries.

Sunstein, Cass R. (2002), "*Risk and Reason: Safety, Law, and the Environment*," Cambridge University Press.

Lesson 6

Frequent heated arguments (or conversely the absence of arguments) when Directors meet.

This chapter looks at some self-healing exercises that the Board can consider in maintaining a good working temperature, balancing both cold and heated debates in boardrooms.

We began this book with the intent to raise the effectiveness of Boards. Boards earn their pay when Board members meet and deliberate. How well meetings are conducted really does play a crucial role in contributing to Board effectiveness. Earlier, we touched on five typical issues that many Boards face and looked at some of the quick remedial processes. In this chapter we shall touch on another, and definitely not the final issue – where heated debates either infrequently or occur too often. A Board without heated debates now and then is not a healthy Board, contrary to popular beliefs.

This chapter is about how to lower the temperature in a heated debate and, in some instances, how to raise the temperature. We have come to expect that whenever wise humans get together to deliberate on tough and conflicting issues, inevitably many become passionate and argue for their positions with strong convictions. A few may become entrenched and see only the merits of their own position. On the other extreme, where business becomes too predictable and routine, Board meetings can become mundane and cold. Reporting of financial figures takes up 80 per cent of the meeting time, and no one disagrees with any of the points raised by management or other members of the Board.

Either extreme is a harbinger of deeper problems to come. One instance would resemble a migraine, and the sooner one recognizes the pain and deals with it, the better it is for everyone. The other extreme is a slow and boring meeting where three meetings with such symptoms are more insidious and may signal the onset of rigor mortis. It does not matter if the Board is directing a listed vehicle, an NGO, or a government body…. Eventually, either extreme can occur. It is up to the Chair and the Company Secretary to recognize the symptoms early, and help regulate the Board's temperature when they appear. A good Chair knows how and when to bring 'life' back to the Board.

As this is another prescriptive type of remedy, I would like to remind readers that these lessons have been written as reminders for the professional Chair and the Secretary of the Board. The Chair is assumed to be the instigator and leader of the Board, the 'barefoot doctor' or 'the intern doctor in the emergency room' in corporate governance if you will, while the Secretary is the administrator and the co-leader, the 'nurse' if you will, for these self-healing lessons.

Consistent and repeatable issues may suggest it is time to completely overhaul the current Board. That is, let the current one die…and start anew. Such is the duality and challenges in governance. A few symptoms must be fixed quickly. However, when one sees an onset of a barrage of symptoms where any action to fix one can exacerbate the symptom of another, it is time to bring in the real doctors, governance surgeons or; if this cannot be found, move on and say farewell to your current Board. Maybe some other

Directors with the right elements and better chemistry can sway the Board to wake up.

Red flags

Let us look at some of the possible red flags that the Chair and the Company Secretary should pay attention to before such behavior becomes the norm and the pace and quality of discussions are affected. Trust between Directors is hard to build but easy to lose. Without trust, the team quickly becomes dysfunctional. Below is a list of behaviors and symptoms that suggest the team members may have become too stressed or too well rested.

- ✓ **One individual is continually picked on.** A few individuals use shouting as a means of silencing opposition. New comers, young Directors or comparatively weaker members are shouted down. Greg Case, the Chairman and CEO of Aon and a former McKinsey consultant, often reminded his young consultants that in a Board-level presentation he stands ready to back any consultant with fact-based arguments, and to get rid of anyone who dares not speak up when they have the facts. The same advice should be given to Directors who need assertiveness skills.
- ✓ **Board members are prone to short, emotional outbursts and opinionated arguments**. A few members are quite emotional and take any challenge to their position as a personal attack. Heated debates may even move into the realm where some members use foul language. Raising the professionalism of the meeting should be the aim of the Company Secretary. Allowing it to descend to the level of a street brawl cannot attract the best and brightest to your boardroom.

- ✓ **Cliques of two or three individuals are formed.** One of the easiest things to spot is the formation of alliances among members of the board. It does not affect most conversations but a heated debate might find members taking sides, not based on the merits of the arguments, but on the closeness of their boardroom relationships. More often than not, the allies seem to be always on one side. This is the beginning of a divided Board.
- ✓ **Discussions deteriorate into name-calling and finger-pointing**. Childish behavior such as this must be contained. It usually precedes the throwing of a tantrum or a piece of stationery.
- ✓ **There are at least two heated exchanges in a meeting.** When heated exchanges begin to increase and the Chair or the Company Secretary begin to lose control of the meeting, other Directors, particularly the senior Directors, should help persuade and guide the meeting to calmer waters. Unless the Board is dealing with a crisis, too frequent and too many heated debates are symptomatic of an incompetent team of management or Chairmanship, or both.
- ✓ **There is a perception that the Chair has been unfair or has favored one of the Directors**. We all play favor from time to time, and the point is not to overdo it. Often what is obvious to others is not obvious to the Chair and a friendly reminder from the Company Secretary should be sufficient.
- ✓ **Board members resort to sneers and quirky remarks.** This is one of the most difficult types of behavior to spot because it happens very fast and the remarks are often personal remarks made between two individuals. If made by one individual to the Board then the individual has something that needs to be said. The Chair must be able to

engage each member individually and herein lies the opportunity. Ask them to be more explicit because their views are very important. Or ask the members involved to remain after the meeting immediately after such outburst. The Chair should do the trick to manage such childish behavior. Loyalty should be to the Board or to the Chair who symbolizes the leadership of the Board, not to other members. A quick one-to-one talk with the Chair after the meeting is in order.

- ✓ **There are no heated arguments in the first three meetings.** The converse of heated debate is the complete absence of them. Given that Boards are supposed to push the business model and test assumptions, heated debates should inevitably surface. We spoke of meeting behavior that needs to be managed and this is also a red flag. By the time the third meeting comes around, if the situation remains the same, it is highly likely that members begin to believe the club-like highly administrative behavior is the norm and stop themselves from challenging the status quo. Such behavior may suggest that the Board has not been performing its oversight role properly.
- ✓ **There are no heated arguments in any meeting and every meeting looks and sounds the same.** Once the behavior described above has become the norm, attendance will fall, meetings will probably end on time and become a predictable routine. This month’s agenda items look like last month’s and the one before that. We noted in earlier lessons that the first test of governance is attendance – corporate governance obviously cannot take place without members coming to Board meetings. Here we have presence but no engagement. Their minds have checked-out.

- ✓ **3-hour meetings.** Long Board meetings, late nights before the Board meeting and Board members falling asleep are precursors of problems to come. If the watchmen have fallen asleep, it is time to take a short break. Board members are suffering from fatigue. This is one step away from a sleeping Board. It is a dangerous sign if Board meetings have no energy because they run into three hours or longer in one sitting.

Possible causes: cross-cultural impact

Many years ago a colleague from London was surprised to see that Board meetings can get heated in genteel Bangkok, where shouting is not the norm, although at times he didn't understand the body language or the conversation. That is a stereotype, and increasingly with so many cross-border alliances we will find ourselves sitting on a Board that has members of different nationalities.

I am also reminded of another case where, of an NGO Board with 20-plus Directors., The conversation was so mild and genteel that the Board appeared to be in a trance-like state. It was simply rubber-stamping whatever was brought by management to the attention of the Board, and creating a controversy was disdained. There was a constant drone of silence in the room – groupthink was setting in. The Board was not really engaged; it was performing an oversight process.

Heated debates within the boardroom are a must for a healthy Board. One of the first expectations that the Chair must establish, apart from reminding everyone that Directors are collectively responsible for the well being of the organization and not simply being there to represent themselves or their sponsors, is to welcome good debates. Good debates do raise the level of understanding for everyone and, if properly conducted, good debates can take everyone to the next level of understanding. Once we recognize that resolving complex issues is the remit of the Board, and that the more formless the organizational debates are, the more they should be discussed in the boardroom, then we are in for a few heated discussions. Complex issues often lead to healthy debates, ideally based on quality and timely information, backed up by sufficient evidence, with risks and opportunities properly considered, and presented in ways in order so as to lead to some sort of decision. But debates can and do get emotional.

Sometimes Directors resort to childish behavior like throwing a pen across the table in order to stifle the debate, or pouting in their own corner and not contributing any more useful information. Communication between Directors, built on a foundation of mutual trust, is necessary for a healthy Board. A Board only works if members are allowed an opportunity to express their points of view, however upsetting to other listeners at first. The Chair and the Company Secretary have a role to play as the traffic cop, and to manage the debate before it becomes ballistic, and averting actions that all parties would come to regret later.

Again, we shall begin by raising the Board's awareness that any lack of, or excess of, debate is a warning sign; and that by not regulating the flow of such debates, the Board can quickly become dysfunctional. As with presented in the previous lesson, readers are advised to seek the assistance of professionals if they encounter difficulties beyond their competency.

Possible self treatments

The key is to be sensitive to the behavior described above, recognizing and dealing with it as soon as it appears. To call attention to such behavior, and to catch it before it begins to take on an acceptable air of recognition, are the priorities. It is like permitting a new staff member to show up one hour late for work – before long that staff member will start coming in one hour late every day. Many of us do not easily pick up new habits, but once a new habit forms, getting rid of it is extremely difficult. This is why the first Board meeting in which the Chair, with the assistance of the Company Secretary, sets the tone of professionalism for meetings to come is so very important. I cannot stress this point enough!

The best solution combines both the carrot and the stick approaches. Below are additional tips and means to deal with such behavior – Good results often involve a combination of these practices.

1. **Take a 15-minute break.** Most of us have attention spans that last for only 30 minutes, 45 at most. Put in a short break or mix the agenda with an interesting sidebar from time to time. For the Company Secretary, aim to discourage marathon meetings that last three to four hours. Sometimes this is difficult as Directors are coming in from abroad and want to group a series of meetings within a few days. Long meetings running into four or five hours do happen, but they need not to be focused on the same issue. A balance must be struck here or the Directors may begin to dive too deeply into operational issues. For independent Non-Executive Directors this is a warning light.

2. **Set up a proper debating procedure**. A good debate is healthy. There are many battle-tested procedures in fostering a healthy debate. A search on the Internet on 'debating protocols' should suffice.

3. **Change the physical surroundings**. Take the Directors out of their comfort zone. Change the seating arrangements. Have a stand-up meeting and keep the discussion short. Use a round table. The Company Secretary sets the stage of the engagement and this authority to set the physical stage, while often overlooked, is very powerful.

Have a bowl of fruit or light snacks, stretch, move around, and let the brain recharge.

4. **Watch the flame attentively and raise or lower the heat once a quarter**. The flame can be regulated by the discussion agenda. This can be determined by the Chair, with the assistance of the Company Secretary, or by the parties who present to the Board, and by the length of the debate which is set by the Chair. Use your prerogative to throw in a thorny issue now and then to spice up the discussion, but be prepared and set the stage properly by showing both the points and counterpoints in all issues. A good way is to always include an item called "Critical Issues for Debate" in an agenda. These are one to two items that need further discussion and to which the solutions are hard to reach. The Company Secretary needs to prepare the issues with the proper a). context; b). points and counterpoints; and c). examples and implications.

5. **Set up an Advisory Board or a task force**. When heated debates get out of hand, it is best to appoint a leader and form a task force to really iron out all the issues. Take the wind out of any controversial topic by moving it into another realm. Agree upon a deliverable deadline with the task force leader to show resolve. If outside members are needed, consider calling this an 'Advisory Board' as a means to raise the status that it needs.

6. **Invite everyone to speak for at least two minutes, uninterrupted**. By the time the rotation comes around to an individual with the emotional bent, he or she should have calmed down. Because it is a heated argument, the Chair may not be thinking properly and it is best that the Company Secretary can remind the Chair to take on this rotation. Sometimes when I am teaching and a

bright student hits me with a whopper question that is beyond a quick and sensible response, one of the best ways to respond is to field the question to other students and let them have a chance to find holes in the argument. The extra time allows me also gives me sufficient time to develop a cogent response.

7. **Remind everyone of the Board's oversight role**. Remind everyone that the Board is the last line of defense, and that major mistakes can kill the organization and the Directors' hard earned reputations. It may even put them behind bars and incur huge financial losses for everyone. The threat of imminent death focuses the minds.

8. **Ensure the Chair stays independent and avoids peer pressure**. The Chair must avoid taking sides. Some Boards give Chairpersons the swing vote and this actually puts tremendous pressure on the Chair. Other Directors must be reminded not to put the Chair in a position where he or she has to take side. The Chair should be reminded not to take sides and to treat all other Directors fairly and professionally, despite the fact that the formation of small groups within the Board is a natural process. Again, the Chair must engage each Director personally and individually for he or she is the leader of the Board and, if appropriate, discourage the formation of alliances among Directors. The link between the Chair and each Director must be stronger than the links between the Directors.

9. **Bring in more Independent Non-Executive Directors (INEDs)**. Adding a few independent Directors may do the trick to remind everyone of the importance of staying focused. Sometimes it takes an outsider to point out the blindingly obvious to the Chair. I have often found having more outsiders

than insider Directors really add the right amount of cynicism to Board discussions because the Chair and the Company Secretary naturally become less complacent.

10. **Remember the importance of playing**. Informal alliances among Directors can best be avoided if all Directors have an equal opportunity to mingle. A team that can play together can fight together as a whole. Trust is never automatic among the Directors simply because they happen to sit on the same Board. Laying out the Chair’s expectations of teamwork and collective responsibility through some social activity is important. As adults we may play differently, but we do enjoy a good game that is fair, competitive and fun. There is a reason why golf is chosen, but be careful not to have a golf game every time the Board meets.

These are useful tactics but, like any tactics, they are limited in their long-term impact and are more powerful when combined. Bear in mind that the most powerful corrective and preventive actions are delivered as early as possible. The Chair and the Company Secretary should aim to encourage good behavior, and discourage improper behavior, from any Director as soon as they join the Board. Good Boards can not be built in one day.

Debates are healthy. In some cultures being emotional and explosive is a sign of disrespect to the participants and the listeners, and ultimately can and does undermine trust. Without trust and proper respect, the Board as a team becomes dysfunctional and the organization goes into an epileptic seizure, with the result that strange decisions are made, sometimes more to placate a certain faction.

In the final analysis, one has to recognize the fine differences of characters and personalities that come with all Boards. All Boards are unique. That’s why the mix of Board members is an important consideration, and balancing the chemistry and personalities with the right set of individuals really does make a difference between a great and a lousy team. Like a captain in a ball game, the Chair is responsible for creating this mix and maintaining a balance that can nurture good debates without undermining trust. If at the end of the term the Directors can still dine together on a social occasion and the organization has weathered storms and come out intact, then the Chair and the Company Secretary have done a superb job indeed.

Concluding remarks

A proper, functioning Board of Directors, is alive. It jerks. It launches itself forward. It debates. And it deliberates.

Let us take a typical scenario and see if the reader can spot the problem.

Risk management and the discussion of risk management have been requirements at many boardrooms these days. A coachee reminded me however that on his Board no one brought up the top of the firm's top five risks. This idea of risk management is never discussed as if everyone seems to inherently know where the situation stands, inherently know what are these risks and how these risks are being treated. Everyone respects the formality of the Board and no one challenges anyone else openly.

What is wrong with this picture?

An astute observer may sense that something is definitely wrong with this picture. Firstly, risk is never static. Secondly, risk is not the same for everyone. Some people are risk takers. Most Boards are averse to risks. With those as the assumptions, then the methods of treatment inherently would be different over time, depending on the perspective and on the period in which the risks are being treated. If one way does not work, another would be tried. Every time a Board meets, the status of the key risks should be different and the ways in which these risks are being treated and managed, by extension, would be different. A tough but fair Director may notice that and question the management to find out the level of possible resilience; in other words, on what basis any treatment would change over time. And the discussion would be heated because assumptions would be made and then challenged, about how management would be applying a certain process and the competency in delivering those processes. Every person has his or her way of dealing with the issues at hand. Often, there is never a perfect, always correct way, and each way is as good as any other. The key is having a dialogue and discussion. A proper dialogue would do so much in closing the gaps in mis-understanding; and in understanding what indeed are the options at the Board's disposal should the situation take a turn for the worse.

For More Information

Daniel Kahneman, Paul Slovic, and Amos Tversky (1982), "*Judgment Under Uncertainty: Heuristics and Biases*," edited by Cambridge University Press

Daniel L. Schachter, Daniel (2001), "*The Seven Sins of Memory: How the Mind Forgets and Remembers*", Houghton Mifflin.

Slovic, Paul (2000), "*The Perception of Risk*", Earthscan.

Lesson 7

Working with Inexperienced Directors

One of the most annoying aspects of Board activities is to work with fellow Directors who are not familiar with or appreciative of their role as a Director, the power and accountability that comes with the job, and the impact of the position. Because the Board is a collective animal and has very limited spare time for anyone who is not playing their part, having a Director who is functioning less than the norm puts a huge drain on resources and puts the company at risk and the reputation of everyone else at risk. It is quite annoying for those who do understand and must baby-sit those new to their jobs.

It is also annoying when someone has come to rely on other Directors to take the helm when the time and situation demands it. Not everyone can be at top for 24/7 and to be able to rely upon your fellow Directors is an important assumption. How often do we as Directors ask other Directors to take the leadership (and responsibility) of a discussion so we can handle other priorities? Can we continue to ask for backup when new Directors are not up to par? Indeed, inexperienced Directors can drag down the professionalism of a healthy Board.

Nonetheless, we must learn to live and work with them, groom them and hand over some of our Directorial responsibilities to them. A good Director learns how to be a better Director. An ineffective Director stops learning and believes he or she no longer needs to learn. A great Chair knows the best time to bring out a good Director must be within the first quarter upon his or her joining the Board. If this period passes, any initiative will be difficult to sustain.

Many Directors are brought onto the Board because of their political abilities and connections, not so much because of their Directorial abilities (competencies) or understanding and practices of corporate governance. Much of a Director's job is in fact learned on the job. The new Directors may be the Chairman's best friends or golfing buddies or someone who just happen to have extensive connections as far as in Bhutan where the company has some influence. A few may be former heads of departments in another company and bring with them their "managerial skills" which for many are assumed to be the same as "Directorial skills." For NGO Boards, many are there to fulfill their representation for some stakeholders or obligation to a society now that they are financially independent. They may even be the sons and daughters of rich patriarchs and donors, and have neither time for nor understanding of the power that they are about to wield.

This chapter looks at how to deal with this particular situation or learning to prepare and work with inexperienced Directors. As presented in the other lessons, readers are advised to seek the assistance of professionals if they encounter difficulties beyond their competency.

Red flags

What would trigger such red flags for the current Chairperson or the Company Secretary? Surely the Nomination Committee would have known the capabilities and weaknesses of the new Directors who are joining the team.

In reality, assessing the competencies of Directors is a difficult task and the best test is actually in the field or at their job. Assessment centers are available but these are reserved for professional Boards which can afford the time and expenses. Some Boards just require a one-year probation and use that year as an assessment.

Here's a list of early symptoms that may indicate this problem has begun to surface in your Board:

- ✓ **New Directors joined the Board without an orientation program**. The Directors are thrown into the pool without any adequate preparation and sink or swim is the norm for any new Director. The Director is told to learn everything on the job. It is assumed that of course he or she has the capacity and desire to learn about the complexity of the organization by a simple tour of the facilities. Besides, the new Director is in his or her sixties and has set on several Boards before.
- ✓ **Directors are not provided with the organization's risk registry** and have few clues what are the fatal risks being faced by the organization. The Directors have little clarity or discussion on how risks are being defined, tracked, managed, transferred, and reported by the current management team to the Board. Many have few clues to their unique roles in business continuity or as a member of the call tree when their organization is on fire.
- ✓ **Hiding behind the seniors.** This is a situation where a new Director relies on the senior members to help cover his or her shortcomings. It is typical that the new Director will assume someone else have read the Board papers, that someone else will be asking those tough questions, and somebody else will be running the Board. This person comes to meetings when his or her mentor is also present.
- ✓ **There's an over-emphasis on their particular roles as an independent Directors** but without regard to the capacities of the individuals to

understand the industry which the company is in. There is a false set of assumption that the other members are not expected to be as independent. Independence and the need for independent are highly overrated. Independent judgment and mindset is slightly different.

- ✓ **The new Director has limited or no prior experience of serving on a Board of similar nature**, and / or only partially at a management Board. Each type of Boards brings its own dynamics. A supervisory Board or a Board made up of managers is managed very differently because the roles, responsibilities, items discussed and interactions are very different. There may be political maneuvering and juxtaposition of power at the Board of manager level, but at the Board of Director level all the Directors must act as one.
- ✓ **The new Director lacks an understanding of managerial execution**. He or she has a misconception that any idea can be easily implemented, without understanding that in any strategy, the real meat is in execution by the company's own staff. Academics are often at risks here.
- ✓ **The Director has not asked any silly but pertinent question during his or her first meeting and remains silent and observant.** New behaviors are learnt. There's a good chance that by the third meeting this Director will not be asking any question at all.
- ✓ **When asked to explain the business model of the company, the Director is dumbfounded** and does not understand the source or engine of the revenue generation (which needs to be protected) and how such revenue is being generated or how

services or products are sold to bring in those revenue. Even after a year, the Director is unable to fathom how the current firm stands out from its closest competitors.

- ✓ **The new Director shows off his or her academic pedigrees and throws out qualifications to impress the other members**. This is the other extreme of a timid and non-engaging Director and a Board can end up with a Prima Donna who believes he or she knows it all of it. Pride, conceitedness, and power in one package is a dangerous combination and can blind us to see or accept reality. When the new Director is asked how he or she sees the role of the Board, the first retort is "'You tell me, you are the expert!"
- ✓ **Youth and independence**. With great power comes great responsibility. One has to learn through proper guidance and actual exercises and there are few short cuts. Youth brings vitality and a different perspective on risks. Their ignorance and outspokenness, if unchecked and not properly balanced with the maturity of others, may change the risk profile of the company. There are a few youngsters who do, and can and do make good Directors. They do exist however. For family businesses, often the young son who has just graduated from Harvard or Princeton is asked to run the Board and he is expected to fail. But you are expected to help them to overcome failures as well.
- ✓ **Maturity or simply too old to learn new things**. On the other extreme you may have new Directors who are used to their ways of doing things and proclaim that theirs are the only ways. Anyone over 70 years old should be spending more time with their grand children and not sitting on Boards which

demand a tremendous amount of time and efforts to learn about the workings of the company. But then again, exceptions do exist. and there are a few Chairpersons who are in their 80's and still are actively joining new Boards. One can still play professional basketball at 40s but the pain and tears on the body will eventually have their say. Anyone who sits on a Board and do not read, prepare, or digest normal Board papers or hold a 15-minute coherent conversation should no longer be on the Board. Flexibility in thinking is what one is looking to find. The ability to learn quickly, grasps the key point in any argument, and cogently explain to others the emergent risks and opportunities going ahead, is an invaluable asset.

Possible causes

How does one train and develop a prime minister or anyone of authority without first putting him or her in training situations that resemble that ephemeral role? These days sitting on any Board carries a tremendous amount of risks and even with the best type of Directors' and Officers' Liability Insurance, this will not provide sufficient comfort to entice good Directors to join a Board. The reward often is not commensurate with the risk exposure. Instead of paying CEOs enormous pay packages, perhaps we should provide these new guardians with higher level of compensation, but let us not digress.

This phenomenon of having and working with inexperienced Directors begs interesting questions:…How does one train and develop a new Director when any competent Director would probably not join a Board that would have them? How does one define and agree upon the necessary competencies necessary for an effective Director for the company when for most Directorial positions a job description does not really exist? As a Board really does work as a team, the individuals joining the Board should bring skills and experience that are lacking in the present company. The people you want on your Board may just be inexperienced when they comes to practicing an oversight roles.

In some fortuitous circumstances one can entirely avoid the issues and simply bring in someone who has sat on another Board in the same industry. That would be a solution but eventually even these new recruits need to be properly prepared so that they can be functioning by their second or third Board meeting.

The key comes down to the selection and preparation process, which apparently if the above list of symptoms were found, would suggest that it had not been done properly. Finding and preparing new Directors for succession is a non-event and often go unnoticed in many Boards. Succession of Directors is most difficult to do at the best of times and is nearly impossible to carry out under normal circumstances because there are simply too many variables that cannot be controlled or gaps that cannot be fulfilled given the time and circumstances. Current reality being what it is, many Boards are living with a few disinterested and inexperienced Directors simply because they are available. This they reasoned is much better than not having anyone at all. Having a stated number of independent Non-Executive Directors, often three or a third of the total, is now considered a best practice and blind adherence to such meaningless numbers is sometimes the cause.

Possible self treatments

1. **Set up a Nomination Task Force or an Ad Hoc Nominating Committee**. This simple act should encourage the development of a job profile and sets the expectations for all. With the job profile defined, one can easily develop the first few competencies by using a simple gap analysis for each Director and manage the priorities and development path for that Director. Such

clarity focuses the development effort and time for everyone.

2. **Prepare and operate a Director's' Orientation Program**. A good Program looks at helping new Directors understanding the critical success factors of the firm, at knowing the wants and needs of the key customers or clients that have provided that security to the firm. Besides, the program also prepare the Directors to and of understanding the range, depth, and types of risks and opportunities that are endemic for the firm. Good Directors are groomed and is done so proactively; and the good ones sometimes are prepared a decade before they are needed.
3. **Give the new Director a mentor**. Apprenticeship should work even at the boardroom. Get the new Director a mentor Director whom he or she can reach out. For a few, consider giving them a professional governance coach. Good coaching comes from the coach's ability to recreate experiential scenes for the coachee.
4. **Encourage the new Director to join and learn from other Boards**. A few NGOs run excellent Boards and by participating in those, one learns what skills to bring back and how to reinforce the skills of others on the Board.
5. **Ask your insurance broker or risk manager to present the company's risk registry to the new Directors.** Get others to help teach the new Directors. Better yet, ask the Directors to compile what they believe should be the proper risk register and by using problem-based learning, they will learn from the mistakes they have made by comparing their output with that of the professional risk manager.
6. **Have a frank discussion with other Directors in a separate meeting to define the role of this new Director.** Define and discuss what does the role entails and set up a job profile that others are willing to support.

Again, job effectiveness is defined by self as well as by others.

7. **Install a performance appraisal process for Directors or have them involved in setting and refining the evaluation criteria for Board performance.** One learns best through action. Consider a 360 type of evaluation where at the end of the year the Directors are evaluated by management, by peers, and by the Chair.

8. **Ask the new Director to submit a list of questions to the Chair before each meeting.** Force him to learn to prepare.

9. **Run a scenario workshop once a year or ask the new Director to lead a round-table discussion for fellow Directors and Managers**. Where the Directors and Managers come together to deliberate creates an excellent environment for sharing, learning, and working together. Outside Directors need to learn to work through others and by putting themselves in ad hoc working committees, they really get to learn and feel the inner workings of the organization that they do not see by looking at numbers and paper submissions.

10. **Ask them to become more than they can be.** Ask them to design the job profile of a chairman or the Chair of a committee. Ask them what are needed to enhance that Chair's effectiveness, buy-in, and working through others. Demand that they extend their reach. Joining the Board is only the beginning, albeit to many and particularly in Japan this is considered more as a lifetime reward. Joining a Board is not an ultimate aim. Doing well, and making an impact, and staying on the Board as a true member, requires dedicated and continual attention and effort. It should never be assumed.

Concluding remarks

Great teams have great players. Great Boards have great Directors working together as a functional team. All good Directors can learn to become great Directors. All new Directors expect in general to be great some day, and the attention and effort paid to achieve this shared mutual goal must be set in as early as possible. Any lousy Director or who has the potential to be an ineffective Director will inevitably dumb down the quality of your Board. More than anywhere, one rotten egg will spoil the entire basket.

Take the ability and the desire to learn and excel. Although it is so immensely difficult to get Directors to learn new tricks, any excuse must be quickly challenged. This is because any Director who has stopped learning or desiring to be great has implicitly given up the chance of the firm to be great. A good Director learns how to be a better Director. An ineffective Director stops learning and believes he or she no longer needs to learn. Interestingly, few assessment tests have a section that requires a new Director to learn and use a new skill.

Many Directors are brought onto the Board because of their political abilities and connections, and not so much because of their directorial abilities or understanding of corporate governance. This chapter has looked at how to deal with this particular situation or learning to prepare and work with inexperienced Directors or those with less than the desire of being great themselves and bringing the best out of them. Directors are powerful catalysts for whatever values or cultures that the Board is trying to establish, reinforce, or nurture. Igniting those internal flame and harnessing those along with all other Directors in an aligned direction will and do create that torch for change.

For More Information

Kida, Thomas (2006), *"Don't Believe Everything You Think: The Six Basic Mistakes We Make in Thinking"*, Prometheus Books.

Gilovich, Thomas, Dale Griffin, and Daniel Kahneman, (2002) *Heuristics and Biases: The Psychology of Intuitive Judgment*, edited by Cambridge University Press.

Gladwell, Malcolm (2005) *Blink: The Power of Thinking Without Thinking*, Little, Brown and Company.

Lesson 8

Failure to Recognize the Leadership Roles of the Chairperson

Recently a Chairman of a central bank, who was working with me on an Enterprise Risk Management (ERM) framework, asked me a fascinating question on his proper role as the Chairman and how that would change as a result of the introduction of ERM as a last resort. It was particularly apt since the Board, a young Board (that is, with new Directors), has an opportunity to refine and even redefine his role. His concern has led to some thoughts on this topic, the new role of the Chairman under an ERM framework .

As typical in many organizations, the role of the Chair is never actually defined and is more assumed. A wise Chair never assumes such things however, as he is being held at a higher standard than the other Directors. His leadership of the Board singles out a higher level of accountability that he has had over a normal common Director, and although one understands that a Board is collectively responsible and that no one actually is above everyone else, his position encapsulates power and summarizes accountability to one person. This he understands, but this he does not accept without discomfort.

We have learned in the earlier lessons that effective governance requires role ownership, known in another word as ‘accountability’. The person playing the role must own the problems presented to that role and must not pass the problems to someone else. This is different from the ownership of asset which is the basis of governance. Accountability is a higher order of responsibility, and carries an implication that the person would take on the consequences of his of inabilities to deliver.

Red Flags

Red flags for role clarity is not easy to spot and takes a wise and honest Chairman to say he or she does not know how to best exercise that role. It is like a father figure who admits to his children he does not know how to be a good father. In reality, many of us never learned about how to become a good parent, and we base our understanding and reference on the days when we were children and how our parents had played their roles. We may even ask other parents, or in this case, ask other Chairpersons how this role can be better defined and refined.

What are some of these red flags for a Board? Or rather for the Chairperson and the others who are being led? At the age when we are asked to sit on Boards, typically we assume we know better and no one is silly enough to ask these fundamental questions by the time we reach Chairmanship, that the roles of a Chair be different from a normal Director. And how can we by noting such differences enhance our ability to be a Chair? This reminds me of the emperor's clothing story, in which a young bystander who saw that the emperor was naked asked a blindingly obvious question….,"Why is the emperor not wearing any clothes?"

So, what are the red flags that signal something is out of place? Here are a few potential signals that some reevaluation is properly due:

- ✓ ***Roles were defined by the CEO*** – Given the Board is so busy these days, one way for a lazy board is to ask the CEO to recommend the roles of the Board and that of the Chair, and upon close scrutiny, the Board would either reject, delete, or amend these roles. In some extreme cases, it is still true in many parts of the world that the CEO still pre-screens the Directors who would be joining the Board. The CEO works very hard to install levers (such as defining the job descriptions) for those who will someday become his or her Chair.

- ✓ ***Assume the role of the Chair to be the same as the role of the Board of Directors*** -- The role of the Chair is never explicitly stated anywhere and the Directors assume the Chair would know, while the Chair would rather have a vague definition and assume no one should know. Sometimes a certain amount of flex is expected and allowed because all other positions have already been defined and fixed.
- ✓ ***Check the power of the CEO*** – Granted, checking the authority of other powerful figures is an important role, but it should not be the only role. Single emphasis on this is never healthy and will leads to a superficial level of compliance.
- ✓ ***Run the Board of Directors*** – This is probably one of the key differences between a Chair and the other Directors, and should be noted. But this is not the only difference. The Chair is often expected to run the Board meetings, and when Board meetings are badly run, the first person to be held accountable should be the Chair.
- ✓ ***Let the Nominating Committee work on the job profile for a Chair that never gets done***-- Given the Nominating Committee must seek and select a new Chairperson from time to time, it has to know the competencies and the roles needed to be a good Chair. Unfortunately, given that most incumbents or Chairpersons do not like to be replaced without his explicit mandates, such a job

profile often gets starteds with the best of intent but never actually gets finalized or adopted. It is often partially created and will always be an item that is to be done.

- ✓ ***Focus on finding and managing the CEO*** – It is a powerful role but not the only role. For many Boards where most work have been delegated to the CEO, leaving the Board and especially the Chair this particular role, the work of the Chair is quite simple. A wise Director once remarked to me that all he has to do is to find a great CEO and let him run the organization. He subsequently withdrew his remark when he had to resign from the Enron Board.
- ✓ ***Set the agenda with ease*** – Again, a key role but not the only role. Setting the agenda must be done with care and like a good movie Director, a good Chair sets the scene. An agenda should not be set by the CEO or by the Company Secretary.

Possible Causes

Many causes are possible for the lack of attention to clarifying the roles of the Chair. Sometimes it is best **not** to be clear and allow the roles to flow with the growth and the pace of development for the Board. Other times, it is best to have a reference point where others Directors may use to reach out and extend their authority. The other Directors on the Board would need to know their authority vis-à-vis the Chair whom they would use as an anchor. Eventually, this role will need to be articulated only because the Chair himself wants to know the criteria with which his performance and that of the Board would be evaluated. Given that the Board evaluation has increasingly become the norm and Boards are expected to perform such evaluation once every few years, a good Chair should expect nothing less. To understand, accept, or even work under such ambiguities is why the Chair has been called upon to 'lead' the charge of stewardship.

Possible Self Treatments

The role of the Chair is mostly to lead the Board of Directors, or to lead a group of seasoned and wise individuals, and encouraging them to become stronger as a team. This is the epitome of leadership, to influence others to be better as a team than each can be individually.

A good Chair understands that as a leader of the Board there will be individuals whose work may not be equal to others' and the time spent on the work may also vary. One cannot attribute equal time. It is not the input or the number of hours one spends on Board meetings. It is the process, the output, the quality of questions and inquiries, and the outcome that would define the quality and impact of the Board.

Let's now take a step back and imagine what would be the roles of a effective Chair.

To do this properly, we should try to identify a range of roles and activities that he or she would be performing as a leader of a small group of wise and powerful people and a few who have the authority and ability to implement and deliver on the action. In my opinion, a good Chair would have these "things" to do:

1. **Select and define the relevant topics and issues for discussions** (That is, setting the agenda and ensuring proper issues are addressed and debated every time they come together to deliberate);
2. **Chair the Board meetings and the Annual General Meetings**. One of the most important but often neglected roles of the Chair;

3. **Bring in and harmonize a group of intelligent, and cynical, competent, and committed (in time and interest) Directors that have to work with one another, respecting and questioning the powerful CEO** (Namely, setting up and running the Nomination Committee);

4. **Bring out the best in everyone as each member brings a special gift**. Engage the members individually and personally as loyalty is to individuals, not to any company. Knowing how to employ the strengths of each member while be mindful of their weaknesses. Set up smaller teams that can help those team leaders (that is, setting up committees and surrounding that committee Chair with those who can help the Chair focus on and deliver on the committee's work);

5. **Mentor the CEO and spend the time in understanding and listening to the challenges being faced by the CEO.** (In other words, checking and balancing the power of the CEO). Remind everyone that only the Board has the obligation to hire, fire, motivate, and keep the CEO.

6. **Manage the best use of time and attention. As the Chair of all Non-Executive members, he or she would likely be the one who spends the most time on the organization, as compared with other Non-Executive members, at the organization.** The incumbent Chair sacrifices their his or her time on behalf of the members. To be more specific, (that is, the Chair needs to minimize down time, deal with absence of members and Directors, cut shallow debates or refuse to take onc unprepared and incomplete proposals to the Board.)

7. **Compensate the members well and in a fair manner.** Actually, the Chair needs to lobby the sponsors -- seeking the funds, resources, and justifications to compensate the members within terms of financial and non-financial rewards for their contribution of the most valuable gift they have -- their time and attention. Board members engage themselves in a dialogue not simply for a of need, monetary or non-monetary need, but for a combination of things that would appeal to each of the individual members. Each of us is motivated by a different combination of incentives. Find out what those combinations are for the members.

8. **Evaluate the performance of the Board**. Or, engage others to help evaluate the Board then improve the working performance of the Board. It is always a good idea to do an annual review and ask all members how to improve and make the best use of their limited time when they come together to talk about the business of the organization.

9. **Understand and question the business model.** As everyone is busy with delivering the results and assumes the business model has not been changed, a special role of the Chairman given his position, is to ask some of the most extreme and fuzziest questions that underpin the purpose of the organization. Wear the black hat in a De Bono scenario and throw in a few counter questions from time to time. Such as "*Should we close the organization, merge it, sell it, or combine it with other organizations?"*

10. **Groom your successors**. No one, and not even the Chairman at the best of times, should be forever in that position. For many positions, 9 to 12 years is the maximum limit for a post and typically by the time anyone has a chance to sit on a Board, he or she will

have passed their 60th or even 70th birthday. Better to let others have a chance. Creating a lasting legacy and planting the seed for tomorrow's governance is what a great Chairman should bring.

Concluding Remarks

Above are 10 potential roles of a Chair. Some are more relevant than others. But like all roles of a leader, it is the followers who reinforce and refine the roles for their leaders. The leaders define the roles; then the followers refine them. A leader leads each Board in his way and no Board is the same. An interesting point to note is that I did not include how such roles would be different under the introduction of a new ERM environment, because this should not matter. The roles of the Chair do change slightly with time and with the new introduction of new management concepts, but the fundamentals do not change.

To drive home these fundamentals, a key next step should be for the Chairman to pose his questions on his roles to his or her members and listen to their points of view: A role is not defined just by the incumbent but by that person and those being influenced directly by that role. An excellent juncture for this is the first Board meeting of the fiscal year where the Chair can and should pose this question: *What do you think my role should change in view of the challenges in the year ahead?* A good Chair would prioritize these roles according to the maturity of the Board, of the Directors, and of the ecosystem that the firm is currently operating under. For example, a command and control Board would be more appropriate for a firm operating in a competitive industry than one that is not, as an example.

Take the analogy of a jockey who rides many races in a day, and is tasked to ride a variety of horses to win, possibly on the same day. A winning jockey just wins more races because he knows how to bring out the talent of each horse, how to get into position, and how to hold then let out the energy. A thoroughbred is only as fast as the rider who can bring out the speed in that thoroughbred. Likewise, a Board can only be as effective as the Chairman who knows how to bring the best out of his or her Board of Directors.

For More Information

O'Malley, Michael (2010), "The Wisdom of Bees", Portfolio Penguin.

End of Lessons: Concluding Remarks

Frequent, consistent and repeatable issues that are similar to the virtually 100 issues and fixes listed in this book may suggest it is time to completely overhaul the current Board. That is, let the current one dieand start anew.

Such are the duality and challenges in governance. A few symptoms must be fixed quickly. However, when one sees an onset of a barrage of symptoms where any action to fix one can exacerbate the symptom of another, this phenomenon would suggest it is time to bring in the real doctors, governance surgeons or; if this cannot be found, move on and say farewell to your current Board. Maybe some other Directors with the right elements and better chemistry can sway the Board to wake up.

Appendix A

A Complete List of Symptoms

Lesson 1: Failure to recognize the purpose of having a Board

- ✓ A competitor's Board (better if from the same industry) has experienced some ailments recently.
- ✓ The first item on the agenda or from the Chairperson's mouth is to adopt the minutes of the last meeting.
- ✓ No discussion of strategy in the last two Board meetings.
- ✓ The board has long meetings, . Three hours plus., but nothing of real substances is actually discussed. Everybody is busy and minutes are long.
- ✓ The Board refuses to conduct a self-appraisal or a performance review to recalibrate its roles.
- ✓ The independent Directors begin to show up less and less, and are unclear of their own roles compared with the others'.
- ✓ None of the Chair, Vice Chair, Directors or the CEO has a "published" job description. What's worse, they have different expectations of the roles of each officer.
- ✓ Management has its own Board meetings and the Chair (who is also an Executive Director) Chairs the management Board. A majority of the problematic customers or operational issues are therefore dealt with

by the management Board and the key issues are never summarized or reported to the Board of Directors who acts as a rubber-stamping Board.

- ✓ The Chairman and CEO is the same person, although the company is quite mature and the Chairman is over 65 years of age.
- ✓ The real Chair is missing; the Company Secretary or the legal counsel has run the Board as its Chair since last year.
- ✓ Minutes are produced later than seven days after the Board meeting (sufficient for documentation but ineffective to call for actions).
- ✓ Topics are repeated from meeting to meeting without adding further insight. Topics are discussed repeatedly without a decision being reached.
- ✓ The Board shows the symptoms of typical Board illnesses but no one dares to speak up.

Lesson 2: Long and unfocused meetings

- ✓ Background materials are provided just one day ahead of the meeting (typically Directors should receive these materials seven days in advance, but two days should be the minimum).
- ✓ Directors come to meetings unprepared with questions, or without insightful questions.
- ✓ Directors are absent for more than 50% of the time.
- ✓ The same person always initiates the discussion or seconds a motion.
- ✓ Topics are repeated from meeting to meeting without adding further insight and without a decision being reached. If this is typical of the Board's decision-making process, it may suggest a deeper issue of accountability and role clarity.

- ✓ The agenda begins with ‘matters arising’ and the Board subsequently spends more than 50% of the meeting time on these matters, forgetting or neglecting the other agenda items. The same thing happens the next meeting and the Board never really gets to the other agenda items with any substances.
- ✓ Key points with counterpoints and the identification of the key parties supporting each point are not minuted. Knowing the counter-arguments to each decision provides the foundation and validity of why decisions were made in a certain way.
- ✓ There is no declaration of interest noted in the minutes.
- ✓ There is no energy in the room, and meeting is usually held at 2:30 pm, after lunch.
- ✓ Every now and then a mobile phone goes off.

Lesson 3: Failure to measure the performance and conformance of management

- ✓ Loosely formulated contracts for the top posts.
- ✓ No job description for the Chief Executive.
- ✓ Having a single set of measurements that is performance based, which means conformance is insufficiently tracked.
- ✓ Too much information is read or presented at Board meetings
- ✓ Over-reliance on quantitative measurements.
- ✓ Over-reliance on the formal monthly or quarterly Board meeting when the market has become much more turbulent.

Lesson 4: High absenteeism of Directors

- ✓ First absence – responding to the first time a Director is absent is probably the most neglected responsibility of many Boards.
- ✓ Consecutive absences – the second absence is a second red flag.
- ✓ Director's attendance is confined to Board meetings.
- ✓ Absenteeism approaches 50%.
- ✓ Directors sit on more than three other Boards at the same time.
- ✓ Directors fail to participate in meetings.
- ✓ Directors are unprepared for discussions.
- ✓ Directors leave early or play with their blackberry phones.
- ✓ 'Rubber-stamp' meetings.
- ✓ Directors are parrots to the Chairman.

Lesson 5: Indecisiveness and the need to retake decisions

- ✓ Board-level decisions are increasingly irrational.
- ✓ Major decisions are made based on a single source of information.
- ✓ Over-reliance on risk models or anything like a spreadsheet.
- ✓ The Board is clueless to the values that are non-negotiable.
- ✓ The same debate is repeated in successive meetings without any decision being made.
- ✓ Frequent 'new information' necessitates decision revisions.
- ✓ Decision makers are too fast in making decisions.
- ✓ There is a single decision maker.
- ✓ The Board is using an outdated risk profile.

- ✓ There is no consensus on what constitutes an emergency.

Lesson 6: Frequently heated arguments (or conversely the lack of arguments) when Directors meet

- ✓ One individual is continually being picked on.
- ✓ Board members are prone to short, emotional outbursts and opinionated arguments.
- ✓ Cliques of two or three individuals are formed.
- ✓ Discussions deteriorate into name-calling and finger-pointing.
- ✓ There are at least two heated exchanges in a meeting.
- ✓ There is a perception that the Chair has been unfair or has favored one of the Directors.
- ✓ Board members resort to sneers and quirky remarks.
- ✓ There are no heated arguments in the first three meetings.
- ✓ There are no heated arguments in any meeting and every meeting looks and sounds the same.
- ✓ 3-hour meetings.

Lesson 7: Working with inexperienced Directors

- ✓ New Directors joined the Board without an orientation program.
- ✓ Directors are not provided with the organization's risk registry and have few clues what are the fatal risks being faced by the organization.
- ✓ Hiding behind the seniors.
- ✓ There's an over-emphasis on their particular roles as Independent Directors but without regard to the capacities of the individuals to understand the industry which the company is in.

- ✓ The new Director has limited or no prior experience serving on a Board of similar nature.
- ✓ The new Director lacks an understanding of managerial execution.
- ✓ The Director has not asked any silly but pertinent question during his or her first meeting and remains silent and observant.
- ✓ When asked to explain the business model of the company, the Director is dumbfounded and do not understand the source or engine of the revenue generation (which needs to be protected) and how such revenue is being generated or how services or products are sold to bring in those revenue.
- ✓ The new Director shows off his or her academic pedigrees and throws out qualifications to impress the other members.
- ✓ Youth and independence.
- ✓ Maturity or simply too old to learn new things.

Lesson 8: Failure to recognize the leadership roles of the Chairperson

- ✓ The Chairperson's roles have been defined by the CEO.
- ✓ The Chairperson's roles assumed to be the same as those roles as the Board of Directors.
- ✓ The Chairperson's main role is only to check the power of the CEO.
- ✓ The Chairpersons' only role is to run the Board of Directors.
- ✓ The Board lets the Nominating Committee work on a job profile for a Chair that never gets done.
- ✓ The Chairperson focuses on finding and managing the CEO.

✓ The Chairperson carelessly sets the agenda.

Appendix B

A Condensed List of Possible Self Treatments

1. Analyze how time has been spent.
2. Ask others about how they would like to spend their time.
3. Begin each meeting with a purpose.
4. Demand that no one provide materials longer than a few pages.
5. Encourage each member to speak out.
6. Focus on the important numbers.
7. Use a dashboard.
8. Use a two by two matrix.
9. Set out a year agenda.
10. Make meetings interesting and learn something new every time you come together.
11. Post and remind Directors of attendance rates.
12. Engage Directors by asking for their input.
13. Pay by attendance.
14. Remind Directors that D&O liability insurance typically does not cover negligence, and absence from a Board meeting is strong evidence of negligence.
15. Leave those long and contentious discussions in committees.

16. Remember the power of bonding.
17. Engage Directors and have each of them put in their agenda item, to become a mentor to one of the senior members of management or the children of those members.
18. Review the Directors' performance once a year.
19. Expand the Board's network.
20. Consider introducing an Enterprise Risk Management (ERM) system.
21. Learn to be a customer again.
22. Test the assumptions on your risk models regularly.
23. Articulate a value statement.
24. Remind everyone that the Board's decision is final.
25. Create and publish a decision-making authority matrix.
26. Use a scoring system and a decision tree.
27. Delay is an option, but give a firm date when a decision has to be made.
28. Agree to disagree.
29. Take a 15-minute break.
30. Set up a proper debating procedure.
31. Change the physical surroundings.
32. Watch the flame attentively and raise or lower the heat once a quarter.
33. Set up an Advisory Board or a task force.
34. Invite everyone to speak for at least two minutes, uninterrupted.
35. Remind everyone of the Board's oversight role.
36. Ensure the Chair stays independent and avoids peer pressure.

37. Bring in more Independent Non-Executive Directors (INEDs).
38. Remember the importance of play.
39. Set up a Nomination Task Force or an Ad Hoc Nominating Committee.
40. Prepare and operate a Director's Orientation Program.
41. Give the new Director a mentor.
42. Encourage the Director to join and learn from other Boards.
43. Ask your insurance broker or risk manager to present the company's risk registry to the new Director.
44. Have a frank discussion with the other Directors in a separate meeting to define the roles of this new Director.
45. Install a performance appraisal process for Directors or have them involved in setting and refining the evaluation criteria of Board performance.
46. Ask the new Director to submit a list of questions to the Chair before each meeting.
47. Run a scenario workshop once a year or ask the new Director to lead a round-table discussion for fellow Directors and managers.
48. Ask them to become more than they can be.
49. Select the relevant topics and issues for discussion.
50. Chair the Board meetings and the Annual General Meetings.
51. Bring in and harmonize a group of intelligent, and cynical, competent, and committed (in time and interest) Directors that have to work with one another, respecting and questioning the powerful CEO.
52. Bring the best out of everyone as each member brings a special gift.

53. Mentor the CEO and spend time in understanding and listening to the challenges being faced by the CEO.
54. Manage the allocation of time and attention. A Chair **is likely to be the one who spends the most time on the organization compared with other Non-Executive members**.
55. Compensate the members well and in a fair manner.
56. Evaluate the performance of the Board.
57. Understand and question the business model.
58. Groom your successors.

Further References

Barney, Jay B (1990), "The Debate between Traditional Management Theory and Organizational Economics – substantive differences or inter group conflict?"; *The Academy of Management Review*, July., Vol. 15 No. 3

Berle, A and G. Means (1932), *The Modern Corporation and Private Property*; Macmillan, New York

Bleicher, K and H. Paul (1986), "Corporate Governance Systems in a Multinational Environment – who knows best?"; *Management International Review*; Vol. 26 No. 3, 1986 (Summary in Corporate Governance Update; Corporate Governance – an international review; Vol. 1 No. April 1993)

Cadbury, Sir Adrian (chairman) (1992); *Report of the Committee on the Financial Aspects of Corporate Governance*; Gee and Co., London

Coase, Ronald H (1937), *The Nature of the Firm; Economica N.S.4, 1937*; reprinted in Stigler, G.J. and K.E. Boulding (eds.); *Readings in Price Theory*, Irwin, Homewood III, 1952

Cochran, Philip L. and Steven L. Wartick(1988); *Corporate Governance – a review of the literature; Financial Executives Research Foundation*, Morristown, New Jersey

Cottrell, P.L (1980), *Industrial Finance 1830-1914*; Methuen

Demb, Ada and Fred. Neubauer (1992), *The Corporate Board – confronting the paradoxes*; Oxford University Press, New York

Demsetz, Harold (1988), *"The Theory of the Firm revisited";* Journal of Law, Economics and Organization; Spring

Deyo, F.C (1983), *Chinese management practices and work commitment in a comparative perspective*; In Gosling and

Lim (editors) The Chinese in South East Asia Vol. II, Maruzen Asia

Donaldson, L and J.H. Davis (1992), *"Stewardship Theory or Agency Theory – CEO governance and shareholder returns";* Australian Journal of Management; Vol. 16 No. 1

Donaldson, Lex (1990), *"The Ethereal Hand – organizational economics and management theory";* The Academy of Management Review; July., Vol. 15 No. 3

Fama, Eugene and Michael Jensen (1983), *"Separation of Ownership and Control";* Journal of Law and Economics; June., Vol. 26

Fayol, Heri (1916), *General and Industrial Management, Pitman, 1949.* Translated by Constance Storrs from the original Administration Industrielle et Generale

Greenbury, Sir Richard (1995), Greenbury Report

Hampel, Sir Ronald (1998), *Committee on Corporate Governance-Final Report*, Jan

Handy, Charles (1993), *"What is a company for?";* Corporate Governance – an international review; January., Vol. 1 No. 1

Hesterly, William S., Julia Liebeskind and Todd R. Zenger (1990), *"Organizational Economics – an impending revolution in Organization Theory?";* The Academy of Management Review; July., Vol. 15 No. 3

Hilmer, Frederick G (chairman)(1993), *Strictly Ballroom – improving governance to enrich company performance; a study facilitated by The Sydney Institute*; Information Australia, Melbourne, VIC, Australia

Hofstede, G (1980), *Culture's Consequences*; Sage, New York

Hsu, F.L.K (1981), *Americans and Chinese - passages to differences*; University of Hawaii Press

Jensen, Michael (1986), *“Agency Costs of Free Cash Flow”, Corporate Finance and Takeovers;* American Economic Review; May., No.76

Jensen, Michael and William Meckling (1976), *“Theory of the Firm – managerial behavior, agency costs and ownership structure”;* Journal of Financial Economics; October., No. ¾

Lufkin, Joseph C.F and David Gallagher (1990), “*International Corporate Governance*”; Euromoney Books, London

Macfarlane, Alan (1978), *The origins of English individualism;* Basil Blackwell; Oxford

Millstein, Ira M. and Salem M. Katsh (1981), *The Limits of Corporate Power – existing constraints on the exercise of corporate discretion*; Collier-Macmillan, New York

Mintzberg, Henry (1983), *Power In and Around Organizations*; Prentice-Hall, Englewood Cliffs, NJ

Mintzberg, Henry (1984), *“Who Should Control the Corporation?”;* California Management Review, Fall,Vol. XXVII

Monks, Robert A.G. and Nell Minow (1991), *Power and Accountability;* HarperCollins; New York

Nader, Ralph and Mark Green (1980), *The Case for a corporate Democracy Act of 1980; Public Citizens Congress Watch;* et al, Washington

Ohmae, Kenichi (1986), *The Mind of the Strategist*; Penguin, London

Patterson, D.Jeanne (1998)*, “The Link Between Corporate Governance and Performance”;* The Conference Board, Report 1215-98-RR

Pfeffer, Jeffrey (1992), *Managing with Power - politics and influence in organizations*; Harvard business School Press, Boston, Mass

Pound, John (1992), *The Promise of the Governed Corporation*, Harvard Business School Press

Redding, G and G. Wong (1986), *"The Psychology of Chinese Organizational behavior"; in Bond (editor); The Psychology of Chinese people*; Oxford University Press

Spencer, Anne (1983), *On the Edge of the Organization – the role of the outside director*; Wiley, London

The Accounting Standards Steering Committee (1975), *The Corporate Report – a discussion paper published for comment*; Moorgate Place, London

Tricker, Bob (1994), *"Corporate Governance- An International Review"*; pp.482-3

Tricker, R.I (1984), *Corporate Governance*; Gower, Aldershot, England

Tricker, R.I (1990), *Corporate Governance – a ripple on the cultural reflection*; in Capitalism in Contrasting Cultures; Clegg, Stewart R and S. Gordon Redding assisted by Monica Cartner; Walter de Gruyter, Berlin

Tricker, R.I (1990); *"The Corporate Concept – redesigning a successful system";* Human Systems Management, Vol. 9 No. 2

Tricker, R.I (1994), *"Case 2.3: The Kowloon –Canton Railway Corporation"*; International Corporate Governance

Tricker, R.I and Wong, Thomas (1987), *"Evidence to the Securities Review Committee" (the Davison Report);* Hong Kong, December

Watanabe, Shigeru and Isao Yamamoto (1993), *"Corporate Governance in Japan – ways to improve low profitability"*; Corporate Governance – an international review; October., Vol. 1 No. 4

Weaver,P.H (1988), *The Suicidal Corporation: How Big Business Fails America,* New York: Simon and Schuster

Wedderburn, Lord (1985), *"The Legal Development of Corporate Responsibility"*; in Hopt K. and G. Teubner (eds.);

Corporate Governance and Directors' Liability; Walter de Gruyter, Berlin

Williamson, Oliver (1988), *"Corporate Finance and Corporate Governance";* Journal of Finance; July., Vol. XLI1/3

Williamson, Oliver (1988), *"The Logic of Economic Organization";* Journal of Law, Economics and Organization; Spring., No. 4