

Removing Friction from your Board Meetings



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Introduction

Boards achieve their aims through meetings and making appropriate timely decisions which are then implemented and supported. This sounds simple yet can become complicated.

Good boards manage this complexity by:

- **Setting and enforcing standards for board and director conduct**

- **Getting the right board composition**

- **Developing a comprehensive annual agenda**

- **Building effective meeting agendas**

- **Managing constructive discussion**

- **Documenting agreed decisions and outcomes**

Of course, without friction, there can be no traction. Boards need to keep themselves sufficiently diverse that they generate useful friction from the ‘rub’ of differing perspectives without allowing the friction to become so high that prevents any progress. To draw an analogy – “You don’t want so little friction that you are running on ice or so much that you are running through treacle; just the right amount to generate effective progress towards your mission”.

Below are some ideas that have been tested in practice and found to assist in raising performance and reducing friction.



Setting Standards for Director Conduct



The simple act of requiring a consent to act form from all applicants for a seat on your board and then supplying a detailed letter of appointment to the successful candidates can avert friction before it starts. Going further with codes of conduct and policies that include the board will make it clear to aspiring board members that this is a board where good conduct is the norm.

Being a director imposes serious obligations upon the individuals who take on the role. In many countries, including Australia, it is required that all directors consent to these obligations before joining a board. Obtaining this consent in writing and remitting a copy to the corporate regulator is a good and normal board practice.

Many directors are appointed to boards and have little formal training in the director role and/or the duties that will be expected. It is okay to have a minimal consent form that simply records the details of the company and individual and the date upon which consent is given. That date must be before the start date. To remove friction from your meetings, it is better, however, to use the consent form to establish expectations and request prompt reporting of important events. The consent to act form can then indicate minimum or aspirational standards of behaviour, legally required notices, conditions necessary for enacting or commencing the appointment, and any other matter that the board wishes to add.



There are often legal requirements to include in the consent to act form; check with the corporate regulator in your jurisdiction before issuing or accepting a consent form to be sure that you have included everything you need. A relatively recent requirement in Australia is the Director Identification Number or DIN.

If your company is collecting nominations for board service to be voted upon by the members at an AGM or EGM include a statement that the consent to act is conditional upon a successful election and that date from which directorship will start.



Always include a statement that the prospective director accepts to be bound by the code of conduct. It may be difficult to enforce but does provide a clear indication that the prospective director knew of the existence of the code prior to joining the board. Read your company's constitution and bylaws and decide if you wish to highlight any requirements to your prospective directors.

If your company is listed or has tradeable shares consider inserting a statement about the requirements for directors' share trades (permissible trading windows, possession of inside information, notification of trades to the company secretary for disclosure, etc.).

It is required practice to maintain a directors' register with contact details consider including a statement about notifying the company should address or other contact details change so it is a good idea to include that in your consent to act form also.

These may seem like small 'technical' or legal issues; if a board is under scrutiny from a regulator for a breach of such simple rules, it is amazing how quickly meetings can degenerate into an unpleasant and ineffective series of arguments and disagreements rather than decisions and shared perspectives.

Another useful tool for setting and enforcing standards is the legal 'letter of appointment'. Like the consent to act form, it can be a great tool for establishing an early appreciation of expected behaviours.



Getting behaviour expectations right before a director starts on the board is important. Only shareholders can appoint or remove directors. Most shareholders lack the time, knowledge, and ability to work together that is required to run a good process to find and appointment directors.

Many boards adopt the process of appointing directors to a 'casual vacancy' so that they serve on the board for a short period of time before the AGM at which their appointments are offered to the shareholders for ratification. This is very useful if there are concerns about how a director might behave. It is much easier to simply let the casual vacancy expire and recommend a different candidate to the AGM than it is to remove a director in mid-term. And, of course, nobody wants to be on a board with a director who misbehaves for the full three years of that director's term.

Prior to the new director commencing service on a board it is good practice to set out the duties and any additional expectations that the company has of its directors in a written agreement. The newly appointed director should sign and return a copy of the agreement to indicate understanding and acceptance of the expected standards of conduct.

For boards where directors are appointed by an authority external to the board (such as a government Minister or Department) who would naturally be the person that writes the letter of appointment, this board's 'letter of appointment' can be modified into a 'letter of expectations' that directors can sign and return after appointment to the board.



Getting Composition right for your board

Board composition has come to be one of the most contentious issues in governance. This prominence has been driven largely by claims that boards are inherently self selecting and that this excludes dissenting views from independent thinkers as well as ‘minorities’ and women¹. In the listing process it is common for brokers to ‘suggest’ potential future board members who are known to the broker and who may have been on several boards as they progressed to become listed. These directors may add value or they may just be an addition to the numbers.



In designing the composition of a board a number of factors should be considered. The size of the board must be optimised so that it complies with the legislation and/or constitution, is affordable, is not too big to operate effectively, and contains most (if not all) of the skills required to guide the organisation as it embarks on its strategy. It should also contain directors who are diverse enough to contribute different views to the board and yet bound by norms of behaviour that encourage the generation of constructive discussions to reach consensus decisions.

¹. At 53% of the population it is incorrect to classify women as a true ‘minority’.



Carter McNamara² identifies four potential philosophical bases for board composition, each of which is compatible with a skills based board:

- **Functional:** Boards staffed primarily with members who have the skills and knowledge to address current strategic priorities such as staffing, programs, planning, finances, etc. This approach provides a board that is capable of adding value through close supervision and leadership of the management team. It can have the drawback of increased likelihood that members will rely upon each others' expertise rather than making full and independent analysis of matters brought to the board.
- **Diverse:** Boards staffed primarily with members that represent a variety of different cultures, values, opinions and perspectives. This approach provides a board that is capable of holistic decision-making and unlikely to exclude, forget, or discriminate against certain groups of people or issues. Governments often use this approach in combination with the others to assist with societal objectives such as the inclusion of minorities or the advancement of people from certain sectors. It can have the drawback of taking time to reach decisions because of the large data sets that are analysed and can tend towards a lack of unity or collegiality among board members.
- **Representative:** Boards staffed primarily with members who represent the major constituents of the organisation, especially trading partners, staff and shareholders. This approach provides board members who are able to accurately assess the impact of the board upon its stakeholders. It can have the drawback of exposing members to lobbying from their constituents and creates conflicts of interest that must be managed. Care must be taken to ensure that directors are correctly identified as either executive, non-executive but not independent, or independent non-executives.
- **Passion:** Boards staffed primarily with people who have a strong passion for the mission of the organisation. This approach provides members who will give unstintingly of their time and effort and who will often investigate issues and create innovative solutions because they will not accept the status quo. It can have the drawback of 'exciting' meetings in which passionate expositions are the normal interaction and is often more prone to leaks, conflicts and impasses than the functional boards.

It is not necessary to use only one philosophical approach and often at the beginning of the process the conversation about board composition will range across 'who has the hard skills', 'what about an aboriginal or female member?', 'can we get someone from the industry group?', and 'how about X, he/she is so passionate about this it would be a shame to pass up on the opportunity to harness that?'

1. Carter McNamara, Field Guide to Developing, Operating and Restoring your Nonprofit Board, Authenticity Consulting, 2008.



The important thing to keep in mind is that the board must operate as a team and contain all the skills and experience required to govern the organisation whilst having sufficient diversity that friction between different ideas generates valuable insights and having norms of behaviour that prevent friction from becoming too great.

Sometimes ‘friction’, in the form of bad behaviour, results from a lack of understanding of the role and how to fulfil it. Never assume that someone knows how to be a director. Never assume that they know how your board works best, or even what skills, knowledge, and abilities your board wants from them. An effective board is only as good as its weakest director; a good induction process is essential to help new directors get up to speed quickly and start making their contribution.

Every board is unique and so is every different director that may join your board. It follows, as a logical progression, that every induction program should also be unique. Build the program based on the specific needs and desires of your board, company and new director. Make sure that norms of behaviour and the code of conduct are included in the induction.

All effective groups have rules that members agree to be bound by. A board is no different. Most organisations will have a constitution or enabling legislative document that sets out how they are to operate and what are the rights and duties of the board, shareholders, and management. That document is slow to change and usually refers to matters that can be precisely specified; it doesn’t allow for aspirations about directors will behave or relate to each other and the company, nor is it within the board’s control. Changing the constitution requires the consent of shareholders or members, changing enabling legislation will require the will of parliament. This renders any change process fraught, complex, and slow.



For effective self-governance, boards create their own charter or code of conduct. This document can explain the board's philosophy about what matters are delegated to management, how, and under what circumstances. It can also set out:

- **how directors are expected to behave, their roles, rights and powers**

- **how directors can bring matters to the attention of management and the board**

- **the expected level of diligence in preparing for meetings and agreeing minutes**

- **the structures and roles of board committees, taskforces and any director portfolio interests**

- **the process for organising and running board meetings**

- **how disputes and disagreements will be handled**

- **the decision-making philosophy and practices**

- **the roles and expectations in developing, approving, and monitoring implementation of, strategy**

- **performance review, ongoing training, and development, and performance improvement**

- **skills matrices, succession and progression planning, and director tenure**

- **how shareholder and stakeholder interests will be sought, promoted and represented**

Whenever the composition of the board or shareholder register changes it is a good idea to review the board charter. The review should consider the ongoing relevance of all provisions and the desire of the board to operate in accord with the charter.

The charter must be a living document that changes with the board to ensure that all directors, and any outside parties, can see how the board is involved in the governance of the business. Referring to the code of conduct or charter when discussions get 'passionate' is a helpful practice that can often rein in unwanted behaviours.

Developing supportive agendas

People are more likely to behave appropriately when they feel that what they do is impactful. The key document for developing impact is the strategic plan. This, as everyone knows, should then cascade down into the business and operational plans so that staff are inspired and understand what they need to collaborate to achieve.



For the board, there is often no formal document that breaks down the strategic plan to provide the meaning behind the day-to-day (or meeting-to-meeting) activities. To help fill this void it is useful to create an annual agenda that maps the cycle of board activities back to the strategy and also, for efficiency, to the key compliance requirements.

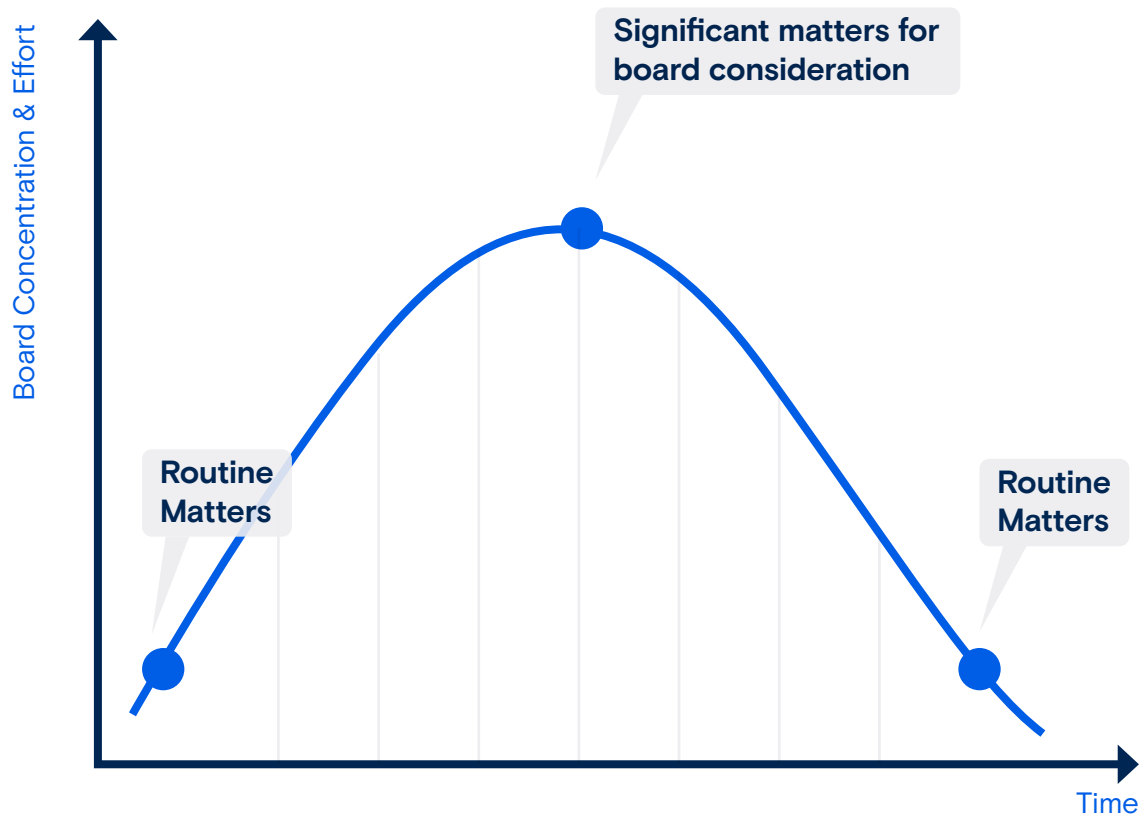
When a board is comfortable that all the required actions are included in an annual plan the individual directors find it easier to accommodate – with good grace – those elements of board service that are less aligned to their personal preferences and areas of focus.

It then remains to build engaging agendas for each individual board meeting that link back to the annual agenda and hence the strategy.

In addition to being clearly linked to the strategy the agendas should take into consideration board's likely energy and ability to focus. Nobody can behave well and contribute fully to a difficult or challenging discussion when they are tired, uncomfortable and distracted.



In his book, *Running Board Meetings: How to get the most from them*, P Dunne³, suggests that the meetings begin with routine matters, similar to a warm-up exercise before a sporting activity, then to move on to the significant matters for board consideration, before closing again with more routine matters, which might be likened to a warm down. The process can be illustrated as shown in figure 1 below.



If the board is planning on a discussion that has a high likelihood of generating friction it is best placed in the centre of the agenda when there is more energy available for constructive consideration of unfamiliar ideas. If possible, bracket the difficult conversations with matters upon which the board is strongly aligned. It helps to establish the feeling of the board as a 'team' before the challenging conversation and also to re-establish that feeling after it.

3. Dunne, P, *Running Board Meetings: How to get the most from them*, 2nd edn, Kogan Page, London, 1999.

Managing constructive discussion

Nothing taxes a chair quite so heavily as the need to conduct effective conversations when there are differing views and also differing conversational styles and behavioural preferences among the directors.

It may help lighten the load if the whole board undertakes a styles or preferences analysis and each director considers his or her preferences and, more important, how to modify these to suit the preferences of his or her colleagues.

The most frequently cited preference is the tendency to be introverted or extroverted. However, these are not the only ones and if techniques designed to ensure balanced participation from (and respectful listening to) directors at either end of the spectrum are failing it might help to consider also:

- **future v. historical focus**

- **abstract/ conceptual v. concrete/practical**

- **big picture/strategic v. small picture/detailed**

- **people v. task**

- **fast v. slow**

- **cautious v. audacious**

- **internally focused v. externally focused**

- **production v. sales**

Every board needs contributions from each end of each spectrum. Directors need to hear, and accommodate in their decisions, the risks that are apparent to others. In an ideal world directors would all receive training in active and respectful listening as well as presenting their thoughts succinctly and politely. In practice, few directors have any such training and must pick up the skills as they practice the art of directorship.



There are techniques which chairs can use for stimulating thought on each spectrum.

Some of the most common tools are:

- **Asking each director in turn for their thoughts**, this is great for getting everyone to speak to a proposal and to ensure that nobody feels they have been left out of decision-making. It is poor for time management and, if the table is always circumnavigated in the same direction, can lead to early contributions influencing later ones.
- **'Hatting'** asking the board to wear different 'thinking hats' and comment from that perspective on the issue under discussion. The most common 'hats' are the Edward de Bono thinking hats but you can substitute any 'hats' that suit your board's purpose such as Shareholder/Customer/Supplier/Employee/Host community or Regulator/shareholder/stakeholder to stimulate thinking from different perspectives.
- **Opportunities and Risks** asking each director to contribute an opportunity or risk that they perceive from the topic under consideration.
- **Surprises, delights and concerns** this is a similar model to the opportunities and risks and can extend thinking if the board is getting bogged down by encouraging the directors to look for novel elements in the proposal.
- **Debating** setting up a 'for' team and an 'against' team to debate the issue. This can be excellent for engaging the competitive spirits in the boardroom in a constructive fashion but is divisive if used too often or if the teams are not varied each time the technique is used.
- **The ladder of inference** this is a conceptual model that looks at how humans progress from selecting what data they consider, through analysing and attaching meaning, to forming beliefs and taking action. As a general rule, if your board is bogged down with unhelpful friction, the solution is to go back down the ladder by at least two rungs and establish what the board can agree upon before stepping carefully back up towards the required decision. The ladder is illustrated in figure two below.

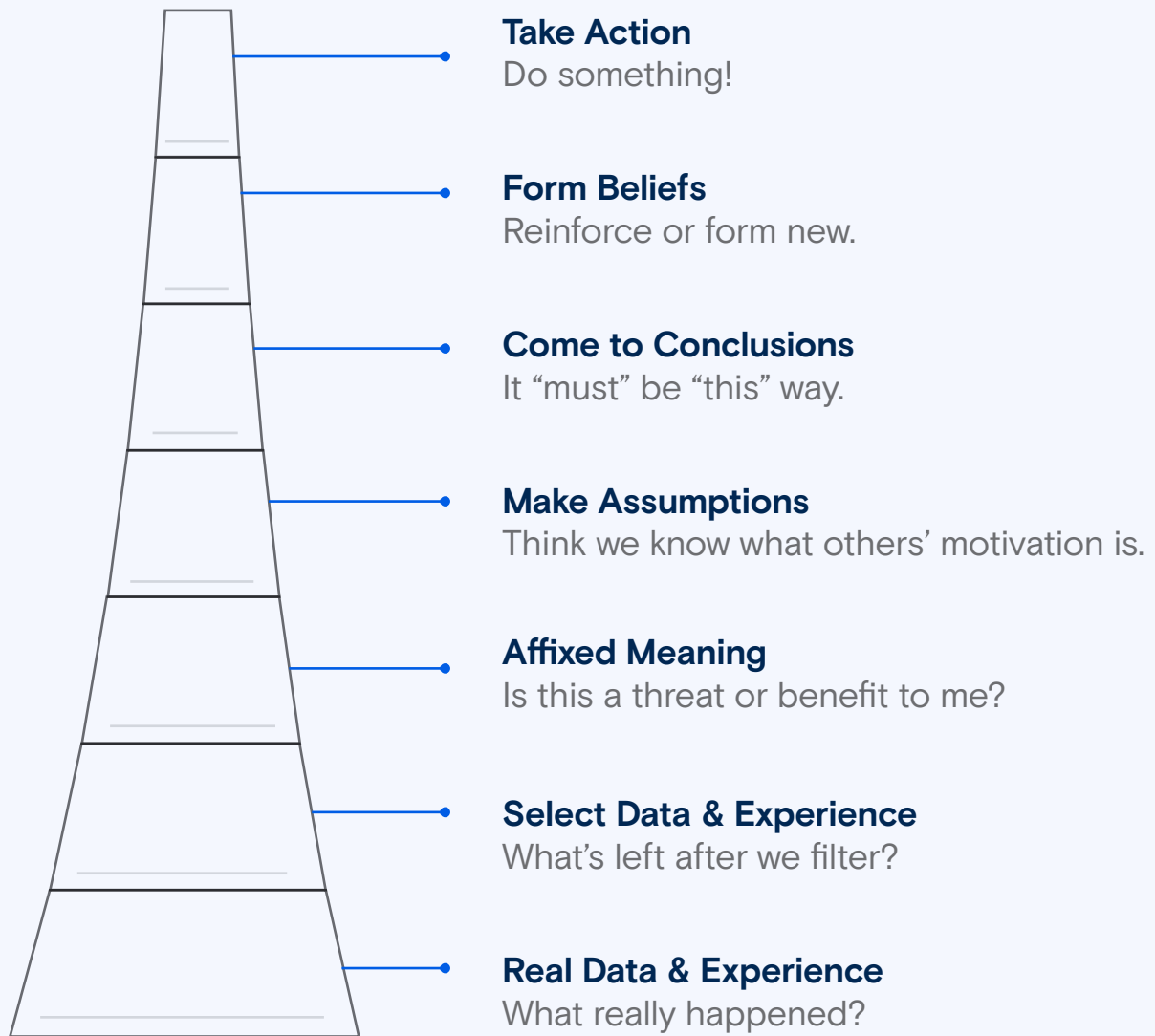


Figure 2 The ladder of Inference

The tools listed above are excellent for getting a board out of its familiar conversation pattern and into a new one. They need to be supported by the behavioural expectations considered earlier in this paper and a strong chair who will intervene if any director starts to behave inappropriately toward any other. They will work best if the board has a diverse composition and if the agenda has sufficient time to make the exercise meaningful.

If your board has attempted all of the above and is still degenerating into unhelpful friction, then you may need to consider changing the environment to interrupt the established patterns of behaviour. Do this by hosting a site visit, attending a board development and training session, meeting in a different venue (especially a social one if there is scope for that), or changing the seating plan for a different dynamic in the conversation.

Documenting agreed decisions and outcomes

Friction is often exacerbated by uncertainty. Having clear records about what the board has considered, agreed, and decided will reduce uncertainty and hence friction.

Boards operate through meetings. To be effective, each meeting should have an agenda, papers with information about the matters to be decided and reported at the meeting, and minutes to record the decisions and proceedings. Best practice boards will also have an annual agenda (or every second year, as the Corporations Act requires for some organisations) setting out the forward plan of the board's work. This forward plan is then scheduled across the planned meetings for that ensuing one or two years.

Sometimes boards need to revisit a topic or decision. Having good papers and minutes stored in an easily retrievable format is essential. Ideally the storage should be secure and permanent with off-site back up and appropriate fire protection if using physical paper copies. Again, being able to help directors get up to speed with decisions made by the board, prior to their joining or in their absence, will reduce questioning and the perceptions that decisions are being re-prosecuted or judged.

At other times boards may be called upon to produce their records in a legal proceeding. If the records demonstrate that the board considered their decisions

diligently and based those decisions on reasonable information that was available at the time, those records can be of immeasurable help in keeping directors safe. If the records do not demonstrate diligence, the board may be in grave danger. Refusing to provide the records is not an option. Failure to produce adequate records is an offense under the Corporations Act of Australia and in most jurisdictions around the world.

Good documentation is essential to assist boards in gaining confidence that they have applied the friction in their board meetings to gaining traction on the issues that the board needs to deal with.

A frictionless board would be like running on ice – exhausting, slow and hazardous. A board with too much friction would be like running through tar – exhausting, slow and hazardous. Consider the techniques and ideas discussed above to help your board get the right amount of the right kind of friction to give traction with your strategic issues.



About Julie Garland McLellan



Julie Garland McLellan helps directors to deliver governance that adds value without increasing cost.

As an experienced board director with current directorships, an international expert on corporate governance, and a corporate governance advisor to mid and small-cap boards, Julie champions the cause of directors required to shoulder enormous responsibility on a shoestring budget. Government sector, mid/small cap, and not-for-profit boards need tailored solutions, not cut down versions of programs designed to fit large listed boards.

Julie uses her real-life experience and deep knowledge of corporate governance to show boards with limited resources how to be more effective through practical governance innovation and know-how. She is the author of the Directors' Dilemma Newsletter and five practical books that show how directors can respond to real-life situations with effective leadership.

Engage Julie to energise your conference with an interactive real-life case study, to facilitate your board workshop, or drive improved board and director performance by an insightful review.

Her ultimate objective is to empower directors to add value. Your board and company will gain insights and the skills to make a real difference.

About BoardPro



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BoardPro is like magic - it tackles the practical needs of SMB and NFP boards like no other platform does. BoardPro guides you step-by-step through meeting workflows, automating the tasks that steal your time. Imagine recording a decision in your meeting minutes, and having BoardPro automatically add it to your decision register? BoardPro even handles late board reports with ease, taking away hours of manual re-work that often goes unnoticed.

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