



# SETSCoP Governance Training

Tone from the top – the culture and mechanics of Boards

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# SETSCoP Governance Training

- Webinar 1 – What is a Board ?
- Webinar 2 – What is the role of a Director?
- **Webinar 3 – Tone from the top – the culture and mechanics of Boards**



Before we begin...some clarity



We will simplify the interchangeable terms

*Board and Management Committee* = Board

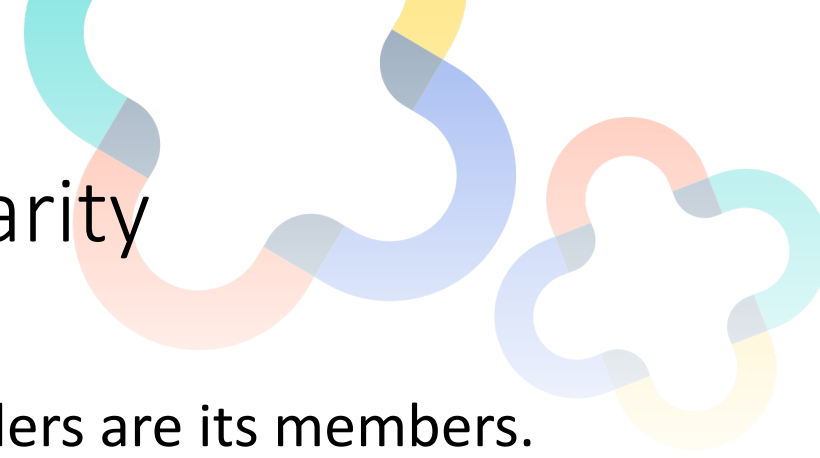
*Directors and Committee Members* = Directors

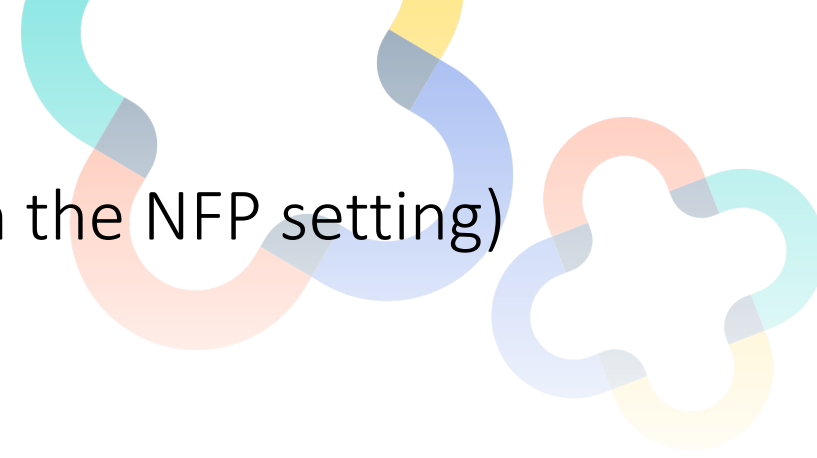
We will discuss this later...some more clarity

The NFP equivalent of the commercial company's shareholders are its members.

- NFP organisations cannot be owned
- They don't have shareholders (owners)
- They have members

From a governance perspective members play the role of shareholders





# Setting the tone from the top? – (specifically, in the NFP setting)

- ✓ Creating a constructive Board culture
- ✓ The Board's role in creating the organisational culture
- ✓ Board's relationship with management – delegations & limits of authority
- ✓ Running effective Board meetings
  - The Board charter
  - The Board calendar
  - The agenda
  - The Board papers
  - The minutes
  - Using committees
- ✓ Evaluating the Board's performance

\* New SETSCoP Business Guides on Board Meeting effectiveness and Meeting Mechanics

# What do Boards do at Board meetings?

- We have discussed over the last three webinars a lot about duties, responsibilities, liabilities, rules, regulations, functions, laws, accountabilities.
- After all this is said and done, at the heart of effective governance is Board's must.....

**Make decisions!**





# The quality of decision-making

- Growing complexity means that a 'one-size-fits-all' approach to how Boards operate no longer produces good decision-making.
- Boards must develop structures, processes and practices that fit their organisation's: needs at its point in the organisation's life, the NFP sector it operates in, its culture, its purpose.
- A focus on tight rules and procedures in the Board operation only, may work against the need for strong open debate around big issues which is critical for the quality the decisions the Boards have to make.
- It is a balancing act:

Individual & independent thought vs. effectiveness as a group vs. duties & responsibilities

- Ethical decisions are the basis of good decision-making that delivers sustainable success into the future.



# Tips for building effective Boards...

1. Create a climate of trust and openness through sharing difficult information and engaging in spirited give-and-take debates.
2. Foster a culture of open disagreement through the encouragement of argument and probing of silent board members.
3. Utilise a fluid portfolio of roles so that directors do not get typecast into positions.
4. Ensure individual accountability by requiring directors to inform the rest of the board about strategic and operational issues facing the company.
5. Evaluate the board's performance.



# Effective Boards require a constructive Board culture



These include:

- The effectiveness of the culture is shaped by:
  - The Chair's approach: participative, autocratic, consultative?
  - Openness of discussion at board meetings: does the Chair encourage constructive debate?
  - How Directors perceive their role: team member or individual task oriented?
  - Director's behaviour: how they speak and interact with each other?
    - Can be challenging; other Directors cannot remove other Directors from a Board.
  - Group dynamics:
    - Positive impacts: self awareness and awareness of how others respond, levels of “vulnerability based trust”, provides checks and balances as to individual biases
    - Negative impacts: group think, cliques and factions



# Vulnerability-based trust

Patrick Lencioni (*The Five Dysfunctions of a Team*)

- Confidence among Boards members that their peers' intentions are good, and that there is no reason to be protective or careful around the group.
- In essence, Board members must get comfortable being vulnerable with one another.

If Boards can master vulnerability-based trust, then they will: engage in productive debate, make good decisions, hold each other accountable and achieve results.

Vulnerability-based trust overcomes the emotion of fear. Such as fear of:

- looking ignorant;
- being seen as intrusive;
- being negative;
- looking incompetent;
- avoiding conflict.

# Setting the 'tone from the top'

- Management will be observing the Board's behaviours, how it conducts itself, how it makes decisions.
- Management will take from what it sees as the Board's priorities and standards this will flow to the wider organisation.
  - For example, if the Board takes WHS seriously then this will flow down to the organisation and develop WHS as a element of the culture.
- This is known as 'setting the tone' from the top.
- An effective Board agrees on protocols and standards of behaviour within discussion and in decision-making.
- A good chair will ensure these standards are met.



# Organisational culture – the role of Boards & Directors



- Organisational culture = ‘the way we do things around here’.
- Boards must support values and value creation through what they do and how they do it, not just in what they say.
- ‘Lead by example’, is the core of building culture.
- What organisation’s celebrate is important.

# Organisational culture – the role of Boards & Directors

- The Board must consider the ethical elements in its decision-making , doing the right thing as opposed to just doing things right.
- There are no simple answers to ethical aspects in decision-making.
- Boards that fail to address ethical dimensions are not fulfilling their governance responsibilities.
- Culture and ethics are coming under increasing levels or scrutiny within corporate governance.



# Organisational cultural standards



- There are elements to the organisation that can only supported through the development of the culture. These elements include:
  - ✓ Risk and compliance culture
  - ✓ Quality and WHS culture
  - ✓ A culture of integrity
  - ✓ Culture that rewards performance
- Culture cannot be delegated to management.
- The culture needs to be assessed and monitored by the Board.
  - This is always difficult.
  - Focus on non-financial measurements.
  - Relies on an openness and level of transparency between the Board and management.
- It should be an agenda item.



# The relationship with management...

- The relationship between the Board and management is critical for good governance.
- Greyness as to the roles of each will cause problems.
- Solving this must start with an open discussion between the Board and the CEO as to the role of each.
- The Board delegates some of its powers to management
- For **clarity** all Boards should have a 'Delegations of Authority Policy'.
- It usually comprises a 'Limits of Authority' table or matrix.
- These documents also form the basis of audits when examining the strength of internal controls.

	Senior Manager	CEO	Board
Capital Expenditure budgeted	<\$10,000	>\$10,000 to <\$100,000	>\$100,000
Capital Expenditure Unbudgeted	NA	<\$10,000	>\$10,000

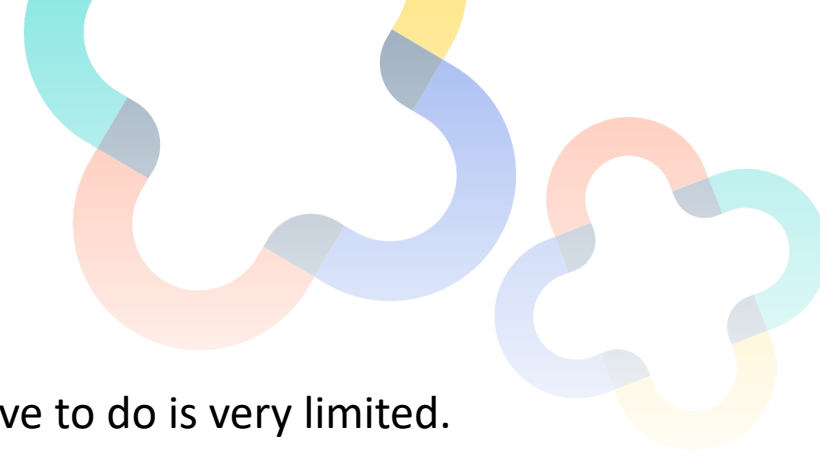
# Types of decisions found in the DOA policy



- Operating expenses can then be broken down further, such as:
  - Marketing and advertising
  - Travel
  - Conferences
  - Freight
  - Utilities
  - Donations
- Capital expenses, often broken down by type:
  - Property
  - Plant & equipment
  - Motor Vehicles
  - IT
- Engagement of consultants, sometimes by type:
  - HR/IR
  - Recruitment
  - IT
  - Management
- Staff hiring & firing, by type and level
  - CEO
  - Managers
  - Direct labour
  - Indirect labour
  - Contract
- Entering into leases
  - Property
  - Motor Vehicles
  - Plant & equipment
- Staff remuneration
- Stock purchasing
- Lending and borrowing
- Customer credit limits
- Engagement of lawyers
- Writing off of assets
- Writing off of bad debts




# Effective Board meetings



- Unlike management Boards the time Boards have to do all the things they have to do is very limited.
- Board processes around meetings need to be efficient.
- A lot of this responsibility is in the hands of the Chair and the Company Secretary.
- However, it can only be effective with discipline and commitment from ALL directors.
  - Read the Board papers well in advance.
  - Participate in the meetings, be present.
  - Make enquiries.
  - Participate within the agreed behaviours.
- It is important that way meetings are conducted is defined by the Board.
  - They can be very formal or somewhat informal.
  - They should/could include any cultural elements.
  - Focus may be different depending on the organisation; e.g. future oriented, compliance focused. (At all times it cannot lose sight of its monitoring and compliance responsibilities).
- There are a number of supporting structures that aid in making meetings effective and assist in the Board fulfilling its responsibilities.

# The Board charter or (Principles of Operation)



- Documents the aspects of the Board that sit outside the legal requirements.
- It is not a legal document but an important one that defines the roles and behaviours.
- The process of developing a charter is the opportunity to discuss and agree with clarity how the Board will operate, how the Board members will work together.
- It usually includes a 'Code of Conduct' which may define such aspects such as:
  - Address issues not personalities.
  - Everyone arrive on time with mobile phones turned off.
  - Matters discussed should not be those that should be addressed in management meetings.
  - Keep to the point, do not go off topic or be ambiguous.
  - Assume everyone has read the Board papers.
  - Avoid the use of technical terms that others may not understand.
  - Be positive and constructive , not negative and destructive.
  - Not be discouraged from presenting a contrary view.
  - Listen attentively.
  - Use the meeting to present superior intellect or knowledge.



# The Board calendar

- A calendar should be set up annually that is used to plan for key compliance dates etc.
- It allows Directors to suitably plan in advance for maximum attendance.
- Usually developed by the Chair and the Company Secretary.
- Includes:
  - Board meetings & committee meeting dates
  - Budget approval date
  - Risk appetite review
  - Strategic planning dates
  - AGM date.
  - Annual reporting dates.
  - External audit timetable.



# The agenda

- The agenda usually is completed in collaboration between the Chair, the CEO and the Company Secretary.
- It should ensure the Board is strategic rather than operational.
- It should contain at the start, an opportunity for declarations of conflicts of interest to be made.
- Its should also include WHS as an agenda item.
- It should separate into:
  1. 'Matters for Discussion' – review of the management proposal to merge with ACME Settlement.
  2. 'Matters for Decisions' – the appointment of a new auditor.
  3. 'Matters for Noting' - correspondence received from Mrs Smith thanking us for our support.
- Could conclude with a meeting evaluation.



# The Board papers

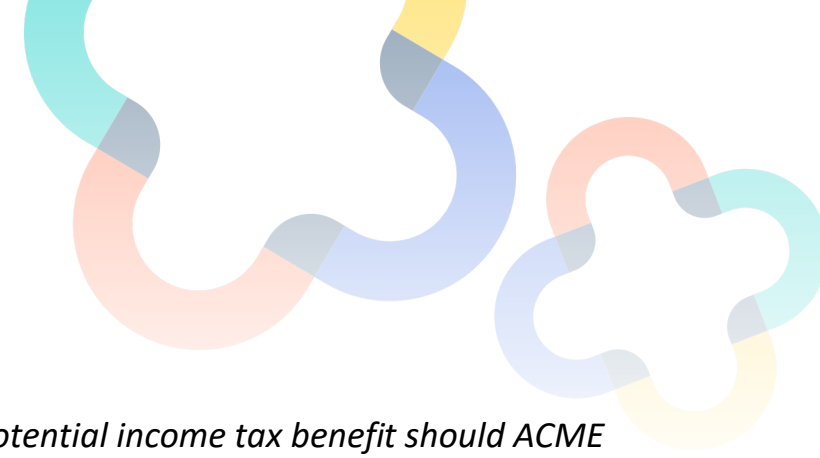
- Critical for success
- Circulated in advance usually with the agenda and aligned to the agenda.
- Directors must read prior to the meeting and prepare questions.
- It is unacceptable to blind side the Board with the distribution of unannounced papers at a Board meeting.
- The Board must define the format of Board papers.
  - What is the acceptable format?
  - What type of information?
  - How much information?
  - When should they be distributed?
- They must be aligned to the strategic plan and the budget.



# The minutes

- Permanent and official record of the decisions taken by the Board.
- They record who, when and what.
- Range of views of how detailed these should be
  - Some (many lawyers) say minutes should be seconds!
  - Some say they should be detailed to assist in proving Directors have carried out their duties and responsibilities.
- Each Board has to find its own balance between confidentiality and disclosure.
- Generally minutes should contain:
  - The organisation's name
  - Type of meeting (Directors, Committee)
  - Date, time and place.
  - Chair name.
  - Attendees.
  - Invited guests.
  - Apologies.
  - Minutes of the previous meeting.
  - Proceedings and resolutions made.
  - Abstentions from voting.
  - Appointments made.
  - COI declarations and when Directors left and entered the room.
  - Closing time
  - Chair's signature.

# The minutes – an example



*Jane declared her interest in having previously made donations to ACME Settlement Limited and her potential income tax benefit should ACME achieve Deductible Gift Recipient (DGR) status from the ACNC and ATO.*

*After making the declaration Jane left the room at 10:30am.*

*Phil also declared a similar conflict and left the room at 10:31*

*The Board having established the remaining six Directors present were not conflicted then discussed whether Jane and Phil had a Material Personal Interest.*

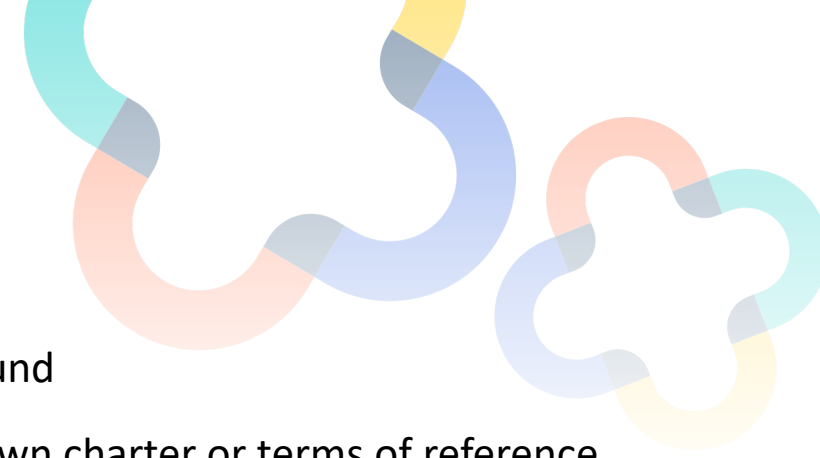
*The Board made the following determination:*

- That Jane and Phil had a Material Personal Interest.*
- That this MPI was not inconsistent with the purpose and goals of ACME.*
- That any tax benefit as result of ACME achieving DGR status would be available to all current and future donors.*
- That Jane and Phil could participate in the DGR application discussion but not vote or be in the room at the time a vote was to be taken on the DGR proposal.*

*Jane and Phil returned to the room and re-joined the meeting at 11:00am.*

# Use of committees

- Boards can use committees to become more effective. They spread the work around
- Need to establish ground rules. (They cannot become mini Boards). Needs their own charter or terms of reference.
- They can be setup to ongoing or temporary.
- Usually make recommendations to the Board.
- Directors are not relieved of their responsibilities as to Duty and Care by solely relying on a committee.
- Each committee should have its own minutes which are submitted in the Board papers for the Board meeting.
- Some common committees
  - Risk and audit (sometime finance, risk and audit)
  - WHS
  - Clinical governance.
  - Remuneration





# Evaluating Board performance

- Boards should evaluate their performance and assess their culture.
- This evaluation should be completed annually.
- It should examine two dimensions:
  1. Collective Boardroom conduct
  2. Individual Director conduct
- Board culture red flags
  - ▶ Excessive collegiality especially between the Chair and the CEO (a loss of objectivity).
  - ▶ Too distant a relationship with the CEO.
  - ▶ Short termism.
  - ▶ Tolerance of small breaches of the rules
  - ▶ Complacency
  - ▶ Risk reaction
  - ▶ Uneven influence of the risk areas
  - ▶ Group think
  - ▶ Insufficient constructive challenging
  - ▶ A board room that feels too comfortable
  - ▶ Management driving the priorities.
- Progress should be against some agreed KPIs.





# The next webinar (10<sup>th</sup> May) ...

## Finance for non-financial directors

Here we discuss...

A broad understanding of accounting and finance  
Demystify some the terminology

Future webinars will focus on Director skills:

- The legal issues in governance 25<sup>th</sup> May
- Strategy & Risk 7<sup>th</sup> June

# Further information...

**Australian Institute of Company Directors (AICD)**

[www.aicd.companydirectors.com.au](http://www.aicd.companydirectors.com.au)

**Governance Institute of Australia**

[www.governanceinstitute.com.au](http://www.governanceinstitute.com.au)

**SETSCoP Business Guides Governance Series**

<https://setscop.org.au/resource-type/governance-of-not-for-profits/>

**Australian Charities and Not-for-profit Commission (ACNC)**

[www.acnc.gov.au](http://www.acnc.gov.au)

Your local state government office

- Victoria – Consumer Affairs Victoria
- Queensland – Office of Fair Trading
- New South Wales – NSW Fair Trading
- South Australia – Family and Community
- Tasmania – Consumer Building and Occupational Services
- West Australia – Consumer Protection
- Australian Capital Territory – Access Canberra
- Northern Territory – Licensing NT



# Questions?