



## PRINCIPLE 4

# Board effectiveness

The board is run effectively and its performance is periodically evaluated

- 4.1 Board meetings are chaired effectively and provide opportunity for all directors to contribute
- 4.2 Directors seek and are provided with the information they need to fulfil their responsibilities
- 4.3 Directors are appropriately inducted and undertake ongoing education to fulfil their responsibilities
- 4.4 The board's performance, as well as the performance of its chair and other directors, is periodically evaluated
- 4.5 The relationship between the board and management is effective

For a board to be effective it must take a thoughtful, disciplined and professional approach to its work. This can be done through careful forward planning of board business, efficient operation of board meetings, regular performance assessments and effective chair arrangements. This is true not only for the board, but also for its committees.

### Board agendas

An agenda is a document that sets out what business will be considered at a meeting. It lists the matters being addressed, the order in which they will be discussed and how much time is allocated for each. Agendas help directors to prepare for meetings and align their focus to the work of the board. They also assist the chair in ensuring that issues are dealt with in an appropriate order and depth during the meeting.

Board agendas are usually prepared by the chair with the assistance from the CEO or company secretary. It is a good idea for the chair to invite directors to contribute to the formulation of the agenda, however, generally the chair has final say on the agenda. That said, directors should always have opportunity to raise issues for the attention of the board at meetings. This is usually done through a standing agenda item of ‘other business.’

Effective agendas will specify the expected outcome of each item before the board. The agenda should indicate whether each item is for decision, for discussion, to be noted or presented as information only. It is helpful if agendas indicate this as some matters cannot be deferred and directors should come prepared to act.

### Board meetings

For the most part, the work of a board is conducted through meetings. Boards can only exercise their authority as a group, and so meetings provide the opportunity for directors to gather, deliberate and exercise their authority.

How meetings happen will vary between organisations. Within any limits set by the law and by their governing documents, boards can generally determine for themselves how they meet including with what frequency, by what method (in person or electronically) and at what time.

An organisation’s governing documents and any laws that apply to it may set out requirements about how meetings are held. For example, there may be requirements about:

- When and how directors must be notified of a board meeting;
- How many directors must be present for a meeting to be valid (quorum);
- Whether meetings must be held in person or electronically;
- How decisions are made at meetings (for example, by poll or by show of hands);
- How decisions can be made without a board meeting (usually in writing following a particular process, which may be necessary for urgent matters);
- How many meetings must be held in a year; and
- Any minimum attendance requirements for directors

It is a good idea for the requirements around how a board conducts its meetings to be set out in a policy document.



*Many laws now are ‘technology neutral’ meaning that they do not specify or require the use of a particular technology. However, it is a good idea to check your governing documents and any laws that apply to your organisation about how meetings must be held.*

### Making decisions

The most important function of a board meeting is to make decisions. This is how the board exercises its authority.

An organisation’s governing documents and any laws that apply to it may set out requirements about how decisions must be made. For example, under the Corporations Act, decisions can only be made when supported by a majority of directors unless otherwise specified in an organisation’s governing documents.

Many boards, particularly NFP boards, aim to make decisions by consensus (by general agreement). This means that through discussion a board aims to make a decision that has the broad support of most, if not all, directors. However, once a decision has been made, all directors (even those who may not have agreed with the decision) will be held responsible for it.

### Board minutes

Board minutes are used to record the activities and decisions of a board. They are not a transcript of every word that was said during a meeting or a record of directors’ individual contributions.



*An organisation's governing documents and any laws that apply to it may set out requirements about how minutes must be recorded, for how long they must be stored and to whom they must be made available.*

If possible, it is a good idea for the minutes to be taken by someone who is not participating in the meeting so that those people participating can focus on the meeting. Often the minutes will be taken by the company secretary. The person who takes the minutes should be someone who is trusted to hear confidential information about the board's business.

The board should approve the minutes of each meeting to confirm that they are an accurate record of their work. It is a good idea for draft minutes to be circulated to the board soon after a meeting while the business of the meeting is still fresh in directors' minds and then approved before or at the next meeting.

The amount of detail included in the minutes will vary between organisations. Generally, minutes will include matters such as:

- What meeting was held, where and when;
- The names of attendees and any apologies;
- Any conflicts of interest declared;
- Matters discussed at the meeting; and
- Any decisions made by the board.

Minutes are one way that a board can demonstrate its accountability for its decisions. For significant decisions, it is a good idea to briefly outline any factors that were considered in decision and the amount of time allocated for discussion. This can help to establish that directors have exercised proper care and diligence in the exercise of their authority.

It is important to note that minutes can be used as evidence in legal proceedings and as such it is important to take care in the preparation of board minutes.

## Board papers

Directors are responsible for ensuring they have access to the information they need to make their decisions. This is part of their duty to act with care in diligence which is discussed in greater detail in *Principle 2: Roles and responsibilities*. One of the ways they do this is through requesting and receiving information in the form of board papers.

Board papers are usually prepared by people who are not directors, but who understand the board's needs such as the CEO or company secretary. Information in board papers should be consistent, coherent and complete. Board papers are part of the official records of the company and should be maintained in accordance with any requirements regarding recordkeeping that may be set out in an organisation's governing documents or under the law.

It is the responsibility of directors to read and understand the information contained in board papers. If directors feel they need more information to perform their roles, it is their responsibility to seek it out. To do this, it may be necessary to consult with an organisation's staff and directors should do this by working with and through the CEO.

*"The more things that you read, the more things you will know.*

*The more that you learn, the more places you'll go."*

Dr Seuss

In some circumstances, directors may also need to access the independent advice of external experts such as legal practitioners, for example in relation to the exercise of their legal duties.

## Planning board business

A well-planned meeting schedule helps identify the key issues for the board's attention and helps directors address issues in a timely and logical manner.

Many organisations use a 'board calendar' which assigns important and recurring governance matters to scheduled meetings in a single document. Board calendars help directors to govern effectively by aligning the focus of the board to its priorities and obligations for the year. Board calendars can also help prevent items from being overlooked and assist directors to take a more long-term view of their work.

One way to develop a board calendar is to list the key issues that a board will need to consider throughout the year and allocate them to a particular meeting. The example below demonstrates how this can be done with regard to the board's focus on finance matters.

**Figure 4: Example board calendar – finance matters**

	J	F	M	A	M	J	J	A	S	O	N	D
<b>Finance</b>												
Budget review and approval					✓							
Review of annual financial report								✓				
Management accounts review	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Investment strategy review		✓							✓			

### Inducting board members

Directors have all the responsibilities that come with their roles from the moment they are appointed. As such, it is important that they are prepared to fulfil their responsibilities. A thorough induction process can assist with this.

It is a good idea for new directors to receive a letter of appointment that sets out what their responsibilities are and any other information relevant to their appointment. This letter should also outline the process for induction.

The induction process should be tailored to reflect the circumstances of the organisation as well as the skills and experience of the new director. Generally, induction processes will include:

- Providing information such as the governing documents, board charter, the strategic plan, recent board papers and minutes, board policy handbook, and the board calendar;
- Introduction to key individuals including the CEO and senior staff, the chair and other board directors;
- Establishing a mentoring relationship with a more experienced director; and
- Providing briefing and training to familiarise new directors with the organisation and their responsibilities as directors, including regarding key organisational risks.

After a board member has been inducted, seeking their feedback about the process is a good way to identify any additional learning needs, and to improve the process for future inductees.

### Chairing board meetings

The role of the chair is critical in supporting effective meetings. Outside the boardroom, the chair plays an important role in setting the board’s agenda and in ensuring that board members have access to the information they need to fulfil their responsibilities. Inside the boardroom the chair facilitates discussion so that all agenda items are dealt with appropriately.

The chair also plays an important role in setting the tone for the board and aligning discussions to the organisation’s purpose. Board meetings should be collegiate, and the chair facilitates this by setting the example of behaviour and by providing clarity of purpose to decision-making. The chair should provide opportunity for all directors to be heard, and facilitate and enforce respectful conduct between directors.

### Board-management relations

An effective relationship between the board and management contributes significantly to the effective operation of the organisation. Although management reports to the board, it is important that the relationship between the two is based on mutual trust and respect.

Management and the board must work together as a team to achieve the organisation's purpose. For this relationship to be effective, each must understand and respect the role of the other. Directors must be prepared to seek and accept management's advice, but to do so in a way that is constructively critical and challenging without undermining trust or being unduly interfering.

This can be a challenging dynamic and while it is a good idea to record how this relationship is managed in a policy document such as a board charter, its impact is felt in the translation of these principles into practice in the boardroom.

Because directors do not have individual executive authority within an organisation, their interactions with management should generally be channelled through the chair and CEO. It is not the role of individual directors to supervise or direct the work of staff or volunteers. It is a good idea for board members to keep the CEO informed about any relevant interactions they have with management as a courtesy.

### Chair-CEO relations

The relationship between the chair and the CEO is critical to the effective operation of the board and, by extension, the organisation. The chair represents the board to the CEO and acts as a conduit for communication between the board and CEO between board meetings.

It is a good idea for the chair and the CEO to meet on a regular basis outside board meetings to develop this relationship and to provide opportunity for frank and open discussions. Often the chair will act as a mentor and sounding board for the CEO, working closely together to align the activities of board and management.

The chair will also generally take responsibility for leading the process around CEO remuneration, performance and succession planning. It is also common for the chair to lead the process for CEO appointment and, if necessary, disciplinary action or dismissal.

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### Reviewing the performance of the board

The board should work to continuously improve the way it fulfils its responsibilities. To enable this, it is common for boards to undertake formal performance reviews which help to identify gaps in the governance framework and opportunities to develop. The aim of this exercise is to evaluate the effectiveness of the board and may include a focus on the board, its committees, individual directors, the chair or a combination of these.

How an evaluation is done and with what frequency is a matter for the board to consider, but it is a good idea to have a formal process that outlines how these are to be undertaken. Board evaluations may be done either internally or by use of an external consultant. It is common for boards to undertake an internally-managed board review on an annual basis and an externally facilitated review every few years.

The chair generally has responsibility for overseeing the process of board evaluation, often with the assistance of a committee.



## QUESTIONS FOR DIRECTORS



**HOW WELL PREPARED ARE NEW DIRECTORS TO TAKE ON THEIR RESPONSIBILITIES?**



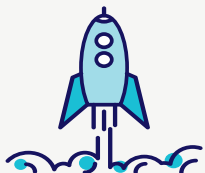
**DO DIRECTORS HAVE ACCESS TO THE INFORMATION THEY NEED TO MAKE INFORMED DECISIONS?**



**IS THERE A TONE OF RESPECT AND COLLEGIALITY IN BOARD MEETINGS?**



**DO DIRECTORS UNDERSTAND THE DELINEATION BETWEEN THE ROLES OF BOARD AND MANAGEMENT?**



**WHAT STEPS IS THE BOARD TAKING, OR SHOULD THE BOARD BE TAKING, TO IMPROVE ITS PERFORMANCE?**



## CASE STUDIES

### HelpfulCare

The chair of HelpfulCare is elected every year by the board following the annual general meeting. Their appointment is at the discretion of the board.

The nominations committee oversees a formal induction process for new directors. This involves a dedicated training program accompanied by specific information about the organisation's governance such as the constitution and board handbook. As part of this process, directors meet with the chair and the CEO, and are provided with opportunities for further meetings as required.

The board has a budget for learning and development and all directors are required to assess their training needs every year and undertake any identified training with the approval of the board.

The board engages an external consultant to undertake an annual board review and its individual directors, and the chair receive 360-degree appraisals every two years. This process provides management with the opportunity to provide feedback about the board, which is reviewed by the governance committee and summarised for the board with recommendations for development.

The chair meets regularly with the CEO and works closely with them on the development of the agenda and board papers. Board papers must be approved by the chair before they are circulated to directors. They must be circulated two weeks prior to a scheduled meeting. The board meets eight times a year for a half day meeting.

### The Friendlies

The president of the Friendlies is directly elected by the members every two years. The immediate past president remains a member of the Friendlies' board for one year to support the incoming chair and to mentor new directors at the board's discretion.

New directors are provided with relevant governance policies as well as copies of recent board papers. Every second meeting a board member prepares and presents on a topic relevant to the meeting as part of a self-directed training program, and every two years the board receives a formal refresher session on their directors' duties from a community legal service.

Every two years the board establishes an ad hoc committee to undertake a board review. They design and deliver a survey and report the results to board members. As part of the review they ask questions about the performance of the chair, and individual directors are given the opportunity to self-evaluate and compare this evaluation against their peers in an anonymous way.

The chair and the coordinator meet regularly and always in the week before the board meeting to develop the agenda and to review any reports that go to the board. Directors often contribute to the development of board papers.