



RSM Bird Cameron
Chartered Accountants

Women on Boards Lunch

Synopsis: what drives good board performance?

Speaker: Julie Garland McLellan

Julie Garland McLellan is one of Australia's most renowned boardroom experts. As a company director she has served on boards including Melbourne University Engineering Foundation, Melbourne Chamber of Mines, Melbourne Water Corporation, Victorian Energy Networks Corporation, City West Water, Victorian Minerals and Energy Council, Bounty Mining, Kyoto Energy, Gamesa Energy Australia, Wind Hydrogen, Kimbriki Environmental Enterprises, Hats Holdings, National Speakers Association of Australia and Hassall & Associates. Julie is a qualified professional speaker who combines practical experience with deep subject matter expertise.

She is the author of *Presenting to Boards; Practical Skills for Corporate Presentations, Dilemmas, Dilemmas; practical case studies for company directors and All Above Board: Great Governance for the Government Sector*. Julie is a frequent contributor to governance conferences and publications. Her newsletter *The Director's Dilemma* is read in 32 different countries around the world. Julie is also one of the Australian Institute of Company Directors' accredited facilitators and has written and presented many of their courses.

Acknowledged by her audiences as an insightful and motivating speaker she brings highly professional content with an engaging manner to her presentations. She leaves her audiences with practical skills that will enhance their abilities immediately making a noticeable difference in performance.

Julie has a degree in Civil Engineering, an executive MBA, a graduate diploma in applied finance and investment, a diploma of company directorship and an advanced diploma in company directorship.

Introduction

Much has been written and said about high performing boards but little is known about how to build these in practice. The facets of good governance that are frequently measured seem to bear little correlation with good performance in practice. Independent oversight is often fraught with danger as information asymmetry reduces the effectiveness of non-executive structures. Industry expertise can lead to conflicts between management and governance when setting strategic goals and implementing plans.

Executive directors can provide immediate insights and responses to issues as they arise but can also entrench inflexible attitudes (or simply empty the shareholders' cookie jar). Tenure and succession are subject to arbitrary rules of thumb. Boards are required to be professional and expert yet to represent the community at large and shareholders and customers in particular. The courts are increasingly punitive and the press increasingly inquisitive but there are still few hard and fast rules that will guarantee success: it is a matter of each board making the best decisions for its businesses and shareholders at each particular point in time.

Discussion

Julie Garland McLellan shared with the table her insights on good board performance, based on her extensive experience in the boardroom.

How do we measure good board performance?

Ms Garland McLellan began by discussing the signs of good board performance, expressing that a common misconception is that the board is generally seen as performing well when the company is doing well, when this may not always be the case - the company and the board should have separate performance indicators. That being said, when the company is seen to be doing certain things well, that can be a sign of good board performance.

Ms Garland McLellan sees the board as custodians of strategy, whose prerogative it is not to be in control of operations, but who need to set a clear and implementable strategy and delegate to management to implement this strategy. They need to carry on a solid working relationship with the CEO and senior management, and make good strategic choices which position the company for long term prosperity.

One challenge they face in doing this is the climate in which they operate today, where there is an unprecedented rate of change. The 10 most popular careers today did not exist 10 years ago. While conventions remain in place to handle the rapidly changing environment, the boards that perform better seem to be the ones that break the rules.

Behaviour in the boardroom

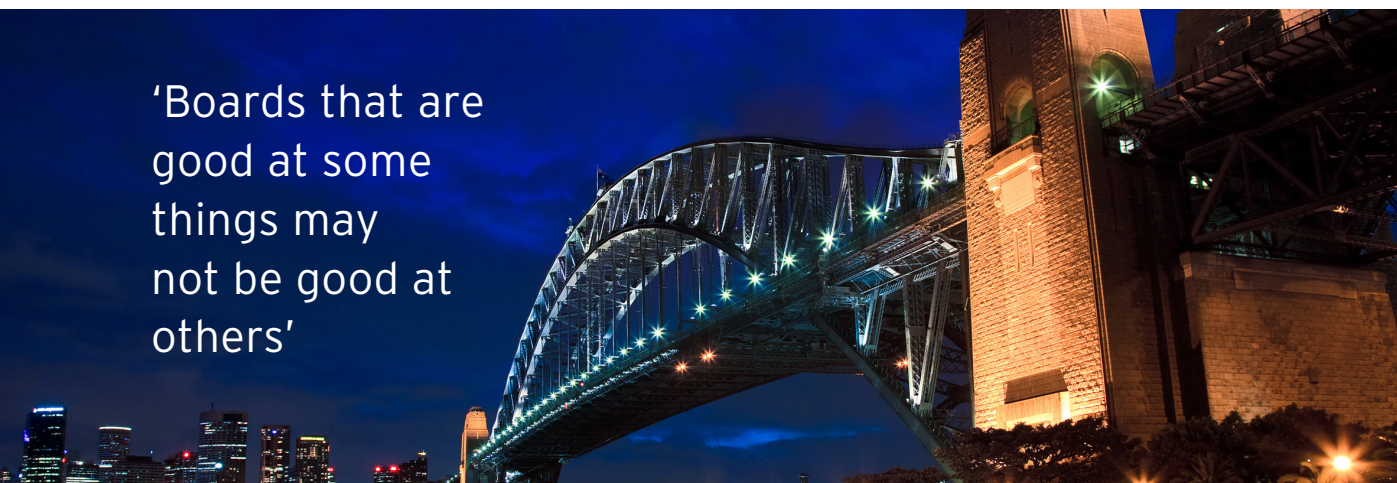
Ms Garland McLellan expressed a need for a high quality of discussion at the boardroom table, saying directors need to be able to disagree without being disagreeable, and confront without being too confronting. There is a need for good, cohesive and collegiate relationships among board members, as these boardroom conversations have a big impact and their existence is often a reliable proxy for measuring the performance of the board.

Ms Garland McLellan indicated that constructive disagreement was required in order to move forward, citing the example of Alfred P. Sloan who famously responded to his board's unanimous agreement with a large proposal by stating "If we are all in agreement on the decision - then I propose we postpone further discussion of this matter until our next meeting to give ourselves time to develop disagreement and perhaps gain some understanding of what the decision is all about."

Boards need to be able to perform under pressure and maintain good working relationships, as the opposite can lead to an underperforming board. It is a director's fiduciary duty to bring issues that arise to the board, particularly if they will impact the company; however they must be careful as this duty does not absolve them from their duty not to defame.

'Often the
measurables
don't matter, and
what matters isn't
measurable'

'Boards that are
good at some
things may
not be good at
others'



Board membership

Good boards pay attention to their composition and think deeply about whom they invite to join.

What do you look for?

In terms of the make-up of the board, Ms Garland McLellan communicated a requirement for diversity among the board, so that there are different insights and ideas presented. She also mentioned that the board must learn what each individual member is capable of - what they know and what they can take on, and make objective decisions that are not personal.

An industry specialist

It was expressed that the board needs an expert in the industry, who can bring the knowledge and experience that can be relied upon. However Ms Garland McLellan expressed that this should ideally not be the chairperson of the board; there is an inherent conflict between the role of the industry expert - with knowledge to contribute - and that of the chairman who is responsible for drawing out the contributions and insights of all members. The conflict, if not handled well, may limit discussion and constructive debate.

Some people may not be appropriate to play the industry expert on certain boards, Ms Garland McLellan says, and for that reason, the board needs to be careful about what kind of person they select. Extroverts can prove too dominant in conversation; introverts too reticent - a flexible participation style is required to make the right contributions at the right time, in the right way.

A legal expert

The board needs someone who knows the law. Ms Garland McLellan noted that corporations are legal constructs, and the board needs to know what they can and can't do in the eyes of the law. A legal expert will be able to advise on such matters, and also will understand how the different laws (i.e. state and federal laws) interact, and how they can be interpreted. They will also know when the board needs to consult with a lawyer.

Someone who understands the customer/client

Ms Garland McLellan expressed the importance of including a board member who has a strong knowledge of the customer and their behaviours, and must understand their needs and desires. They must be able to make an understanding of communications before they present it to their clients, and ensure that it makes sense to who is interpreting it.

Boards will also require a member with a strong understanding of the needs and desires of the staff, and the ability to talk to them in a useful and constructive manner.

Other important aspects of board directors include:

- Someone who can ask tough questions and be prepared for even tougher answers
- Someone with common sense (which is not common)
- Someone who understands the role of the board
- A board needs to understand what they are giving up when they don't apply the normal governance model and how to make up for this
- Boards need to be efficient and effective; in the average company, senior executives spend 30% of their time supporting the board - boards can cut down this time significantly by understanding how to be efficient and effective; executives can reduce it by becoming better at report-writing and presenting complex board-level information.
- The board must be well-balanced and not overloaded with any one skillset
- They must be able to balance impulsion and restraint

'In the average company, 30% of senior executives' time is spent supporting the board'

A guest indicated that in her experience boards sometimes struggle with their role in governance and the extent to which they involve themselves in management, and that there must be a limit to which they become involved. Ms Garland McLellan agreed, and said they while it might be common for people to compare the board's relationship with management as a 'helicopter view' overseeing the company, she sees it more as being in the 'cab of the truck', and indicated that boards need to feel some friction to be sure they have traction with their company.

Ms Garland McLellan expanded on this by saying that the extent to which the board becomes involved comes down to personal judgement, the extent to which the board becomes involved. She indicated that if the company can afford to allow management to make errors and learn from these, then they should, however if they can't afford errors, then the board should intervene.

It was then observed that when issues arise, the board needs to recognise the signs, and the ability to quantify and manage risk is important. In order to do this, as another guest expressed, it is important to have well-balanced skillsets, experience and knowledge among the board, and directors need to know when to hit the accelerator and when to brake.

A further comment was made that boards need to understand who knows the product and how it is received, with one guest saying that women have so much knowledge when it comes to consumers because they usually do most of the shopping. The general consensus was that women have much to offer boards, both as professionals and consumers and that wise boards will take up opportunities to gain valuable skillsets from either gender.

Pearls of wisdom from the table

'Different directors may be appropriate for different boards'

'Be involved'
'Be committed'

'Don't put your own reputation at risk'

'Have integrity and trust when faced with confrontations and behaviour based on power and politics'

'Have a knowledge of what is happening - especially at an executive level'

'Have integrity'

'In order to protect risk, but also innovate - make a healthy profit'

'Ask yourself what would you condone/accept/ tolerate and where would you draw the line?'

'Be aware of your obligations'

'Have a standard policy, but understand that differences in cultures, countries and politics may mean that these are altered'

'Know where you stand and be prepared to walk if the board will not let you stand there'

'If you operate in the NFP sector - don't go bankrupt!'

RSM Bird Cameron hosts Women on Boards luncheons quarterly as a forum to connect with each other and discuss matters of mutual interest. For more information about these, please contact Jane Meade: jane.meade@rsmi.com.au or join our 'Sydney Women on Boards' group on LinkedIn. To hire Julie Garland McLellan as a speaker, please contact julie@mclellan.com.au

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