

Inducting directors: How new directors can hit the ground running

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If no clear directorial induction is offered to a new director, then many accept this blissful state of directorial ignorance, unwisely.

Bob Garratt¹

The Companies Act 1993 requires directors to exercise due care and diligence in undertaking their roles. Nevertheless, an area where many boards fail is in properly inducting new directors to enable them to exercise their duty of care and participate fully in board activities at the earliest opportunity. That director induction is an overlooked board process is often due to the assumption that new board members who have already been on a board will already “know the ropes”, while those without any previous experience can “learn on the job”.

Of those organisations that do induct their directors, many believe that induction can be achieved in a single short session explaining everything the organisation has done, is doing and is going to do in the future along with a tour of the head office. While such an overview of the organisation is vital, much of this information should have been provided before the new member joined the board, as part of the director’s due diligence.

Rather than being seen as a one-off event, the induction process should be spread over a longer period of time. To help new board members hit the ground running, the process can, in fact, take from a few months to as long as six months for a more complex organisation with, for example, multiple business units or overseas operations. The process should, at the very least, involve:

- Meeting with the chairperson;
- Meeting with fellow directors;
- Meeting the CEO and other key executives;
- Visits to operational sites, if practicable;
- Product/service familiarisation;
- Industry/competitor familiarisation;
- Review of:
 - Constitution of the company;
 - Strategic plan;
 - Codes of conduct, board protocols and policies including the board charter.

Table 1 provides a menu of the activities recommended to form part of any director induction program as well as the purpose behind them.

Table 1: Induction activities

Activity	Purpose
Meeting with the chair	<ul style="list-style-type: none"> • Explain organisation's governance framework • Discuss the role of a director at the organisation and the specific expectations of the board • Overview strategic direction and key initiatives
Site visit to head office to meet with the CEO	<ul style="list-style-type: none"> • Overview the role of the CEO in governance framework • Detail organisation's strategic direction and initiatives, SWOT and key issues as well as summarise operations • Introduce key members of the management team
Meeting with the full board and company secretary* <i>* Where appointed</i>	<ul style="list-style-type: none"> • Introduce directors and company secretary and discuss their roles in governance • Discuss current directors' experiences and impressions of the position and its responsibilities • Question and answer session
Attending an introductory governance course	<ul style="list-style-type: none"> • Undertake professional development to understand the practical implications of the role (for experienced directors this might be a "refresher" course)
Meeting with allocated "mentor" director(s)	<ul style="list-style-type: none"> • Discuss approach to board process and involvement • Ongoing discussions on "how" to be a director • Available to answer the "dumb" questions
Meeting with CFO	<ul style="list-style-type: none"> • Discuss organisation's financial structure and reporting format • Review current performance and key items • Overview of D&O insurance policy

Tailoring the induction program

Failure to provide proper induction or orientation programs to new employees can prove costly at any level of an organisation. For example, not properly inducting senior executives means that they must fend for themselves, sometimes with disastrous results and statistics reveal that between 40 per cent and 50 per cent of newly recruited executives fail.² An effective senior executive induction process can, however, make it possible to develop an effective executive in a short time and increase the chances of executive success.

While the board should have a generic director induction at its disposal, it may be necessary to design specific induction training for some individual new directors. Becoming a director of any organisation is a more than just a change in responsibility; it will require a change in behaviour and identity, whether the move is from being from being an outsider to the organisation to being a company director or from being a manager to a company director. A well-tailored induction program will make the transition much easier for both executive and non-executive directors.

In speaking about director induction programs, it is generally assumed that the new directors in need of induction are non-executives, which may not always be the case. While executive directors will not need to be briefed about the company to the same extent as non-executive directors, they will still need to know about boardroom norms and behaviours and what is expected of them as directors; in particular, the delineation between the role of management and the role of the board. It is often

difficult for a senior executive, whose job it is to run the business, to adjust to being a director, given that the job of a director is to monitor management and to ensure that the business is running well. To ensure an executive director can fully appreciate that governing requires a different approach from managing, he or she may benefit greatly from undertaking corporate governance education as part of the induction process, or even as part of their management role so they understand the role of directors and can better support the board.

Prior to appointment, potential non-executive directors should, of course, have carried out their own due diligence on the organisation and the board to ensure they have the necessary skills, knowledge, experience and the time to fulfil their duties. If necessary, they should also have been given the option of seeking further clarification. Upon appointment, the director should receive a formal letter of appointment that details:

- Terms of appointment;
- Expectations of the board;
- Remuneration;
- Board policy on rotation or retirement ;
- Access to information;
- Authority to engage outside specialists for advice;
- Indemnity and insurance arrangements; and
- Induction training and continuing education arrangements.

Table 2 provides a sample agenda for a two-day induction program, which includes the involvement of the board as a whole. The two-day program illustrated in Table 2 goes beyond the basics of orientation and gets into director education, which can be of benefit to the whole board. Prior to the session, directors could be asked to identify special education needs that would help a new director and themselves to carry out their duties efficiently and effectively. For example, the program could include a professional development session conducted by an external facilitator on topics that all directors could find useful such as:

- Developing/updating the external environmental analysis;
- Developing consensus and teamwork;
- Problem solving and developing policy; and
- Successful meeting management.

Among the benefits of a one or two day workshop devoted to director induction is that the new director will be able to debrief with other directors, which also helps build board relationships.

Table 2: Sample induction program agenda

INDUCTION PROGRAM – DAY 1
<p>9am – Overview of How the Company Operates</p> <ul style="list-style-type: none"> ▪ Overview of: <ul style="list-style-type: none"> - mission, vision and values (Chair) - organisation structure (CEO) - mode of operation (CEO) - corporate strategy (CEO) - portfolio of investments (CFO) - business and management systems (CEO) <p>Lunch – with Board and Senior Management</p> <p>2pm – Governance Expectations</p> <ul style="list-style-type: none"> ▪ Role of the board (Chair) <p>3pm – Working as an Effective Board</p> <ul style="list-style-type: none"> ▪ Group dynamics exercises (External facilitator) <p>Evening – Dinner for Board³</p>
INDUCTION PROGRAM – DAY 2
<p>9am – Corporate Governance Workshop facilitated by External Facilitator</p> <p>Key objectives are to:</p> <ul style="list-style-type: none"> ▪ Develop an understanding of corporate governance principles and requirements ▪ Discuss common corporate governance problems ▪ Understand board strategies for managing corporate governance including: <ul style="list-style-type: none"> - Board charter - Code of conduct - Board meetings - Roles of the board and management - Role of the chair <p>Lunch – Board</p> <p>2pm – Board Discussion of:</p> <ul style="list-style-type: none"> ▪ Critical issues to be addressed in the coming year ▪ Board operations ▪ Role of directors in board committees ▪ Evaluation of the induction program <p>4pm – Induction Program Concludes</p>

The role of the chair

Director induction is the responsibility of the chairperson assisted by the company secretary. The chairperson's close involvement in director induction and ongoing director development can do much to build directors' knowledge and ensure the board has an appropriate mix of skills and experience. Ideally, the board will have in place an induction and director development policy.

It is up to the chairperson to create an atmosphere conducive to effective decision making. Therefore, the chair should communicate what he or she expects of new directors during meetings as well as outside the boardroom. Setting a climate of

respect and civility in the boardroom is vital to the conduct of meetings and there should always be a shared expectation among directors that they will behave politely to each other and to management. Clearly articulating the board's expectations of a new director's behaviour in the boardroom from the outset will allow the director to fit into the boardroom and organisational culture much more easily. For example, alerting a new director to what is acceptable in terms of language – the more earthy language that may be acceptable among the directors of some companies may not be considered appropriate in the boardrooms of other organisations.

There are numerous topics the chair may wish to discuss with the new board member including:

- Any special contribution the new director may be expected to make;
- The role of personal development;
- Board relationships/dynamics;
- How board effectiveness is assessed;
- What feedback directors receive on their performance; and
- Time commitments.

It is recommended that the chairperson have this discussion prior to a formal induction session with the full board. The chair should be prepared to answer any questions the new board member may have.

The role of the company secretary

Where Companies have appointed a Company Secretary they will be the source of much of the material provided to a new director and will likely be charged with arranging any site visits and/or induction sessions. The objective of any director induction program is to have the director as informed as possible in the shortest time; however, this does not mean swamping new directors with reading material or activities. Therefore, a part of the company secretary's role will be to draw up a list of essential information to be provided to the new board member at various stages of the appointment process including the director's due diligence and letter of appointment. A more comprehensive list of relevant information can also be provided to the new director, who can then be provided with the information as the induction program progresses or upon request, if the director wishes to receive it earlier.

The information recommended for inclusion in the induction pack provided by the company secretary after consultation with the chair is listed in Table 3.⁴

Table 3: Information requirements

Information conveyed to the new director
<p>Should include:</p> <ul style="list-style-type: none"> • Details of the roles and responsibilities with an outline of the qualities required to be a successful director; • Formal policies on director appointment as well as conduct and contribution expectations; • Details of all relevant legal requirements including: <ul style="list-style-type: none"> - Company law; - NZX requirements; and - Other major statutory bodies. • Company constitution; • A copy of the board charter; • Committee terms of reference; • Guidelines on how the board processes function; • Minutes from previous board meetings (for the last 6 months); • Annual board calendar; • Details of past, recent and likely future developments relating to the board including anticipated regulatory changes; • Background information on and contact information for key people in the organisation including an outline of their roles and capabilities; • An analysis of the organisation including: <ul style="list-style-type: none"> - Core competencies of the organisation; - An industry background briefing; - A recent competitor analysis; - Details of past financial performance; - Current financial structure; - Any other important operating information; and • A synopsis of current strategic directions, including a copy of the current strategic plan. <p>May include:</p> <ul style="list-style-type: none"> • Broader information such as relevant articles on corporate governance issues (e.g. the role of a director, how boards work, risk management, committee structures, financial controls); and • Other relevant materials that will help in understanding the organisation's context.

Mentoring

A new director may not feel comfortable voicing any confusion he or she may feel to the chair, so to further enhance the induction process, it is recommended that a new board member be mentored by an incumbent director or directors. While the new director can listen attentively at management presentations and read all the

information they are given on such things as meeting procedures and processes, there are also unwritten board norms and behaviours that can best be communicated by a fellow director. The mentor can fill in any information gaps and be available to answer the “dumb” questions a new director may hesitate to ask the chairperson or to raise in a board meeting. Mentoring can also help new director get to know other board members more quickly.

The mentor can then provide feedback to the chairperson on the board’s induction process to address any information gaps or other areas that may have been overlooked, which will be of benefit to future board members.

Continuing improvement

Director induction should be seen as the first step of the board’s continuing improvement. Investing in board development strengthens the board and individual directors. There are two ways to improve the performance of directors, education and development. Education aims to produce competence in a particular area. Directors need education to ensure they achieve competence in specific areas of knowledge, for example, enhancing their financial knowledge to be better able to understand the work of the audit committee. Development focuses on the person rather than the job and its primary function is to promote self-awareness, for example, attending an emotional intelligence course could improve board dynamics by making directors aware of each other’s behavioural type.

It is good practice for boards to arrange to keep their members up to date with changes in governance, technologies, markets, products, and so on, through:

- Ongoing education;
- Site visits;⁵
- Seminars; and
- Courses.

The chair should maintain an oversight on the processes of induction and education/development and may well have to take initiatives in this area. Although, in the case of executive directors, it is generally the CEO who draws up personal development plans for his or her direct reports with input from the chair on their development requirements as a board member. Director development is best tied to the evaluation of the individual director’s performance.

Board evaluation

Board evaluations, if conducted properly, can contribute significantly to performance improvements on three levels – the organisational, board and individual director level. Boards who commit to a regular evaluation process find benefits across these levels in terms of improved leadership, greater clarity of roles and responsibilities, improved teamwork, greater accountability, better decision making, improved communication and more efficient board operations.⁶

Regular board assessment can not only help to ensure that board members are on the same page and that there is agreement about the organisation’s strategic direction, it can also help to identify ongoing opportunities for additional board education. For example, if an issue arises that some directors may not fully understand, but about which they are reluctant to ask questions, they can use the board evaluation process to raise the matter or ask for additional education on the topic.

A board performance evaluation is an important step for a board interested in transitioning to a higher level of performance. While informal board and individual director evaluations may be appropriate in some circumstances, the discipline of a formal assessment is generally a better option – this does not mean the organisation must go to the expense of engaging a consultant to conduct the evaluation each year.

Boards now have a number of options available to them including confidential online questionnaires or developing their own questionnaire through to having an external facilitator conduct a workshop to discuss the findings from the survey. The main benefit in having an external facilitator for all or part of a board evaluation is in having someone capable of understanding your governance issues without already having formed an opinion – an external facilitator is a neutral third party who can ask the difficult questions that an internal party may not be prepared to ask.

Conclusion

It is important for a board to establish a system of induction that familiarises the new director with both the duties of the position and the operations of the organisation. The time of induction is also a good opportunity to encourage director development and introduce the idea of performance evaluation as part of normal board process. The chair and company secretary both have a role to play in the induction process.

As part of the induction process, directors will need to be made aware of their responsibilities in three key areas: corporate governance, the structure and culture of the organisation, and the personal qualities they are expected to bring to the job. In terms of corporate governance, directors need to be informed of their full legal, fiduciary, ethical and financial responsibilities, the workings of the board, including any appropriate codes of practice, the purpose of and process for board meetings, financial reports and accounting requirements as well as current thinking on leading practice. In terms of familiarising themselves with the structure and culture of the organisation, new directors will need to be informed about the constitution, environmental context, strengths and weaknesses, vision and strategy, and the perceptions and aspirations of its stakeholders. It is also helpful for directors if clear expectations in terms of personal qualities and performance standards are established from the start.

Notes

1. Garratt, B., 'The real role of corporate directors: balancing prudence with progress', *Journal of Business Strategy*, 2005, 26(6), pp. 30-36.
2. Harvard Davis, S., 'Should a 60 per cent success rate be acceptable?', *Industrial and Commercial Training*, 2005, 37(7), pp. 331-335.
3. The induction program could continue after dinner with a facilitated workshop to reduce the program to one day.
4. Kiel, G. C. & Nicholson, G. J., *Boards that work: A new guide for directors*, McGraw-Hill, Sydney, 2003.
5. Directors need to have "ground rules" established for any site visits so as not to step into the role of management, in particular the CEO. On this, see Nadler, D. A., Behan, B. A. & Nadler, M. B. (eds), *Building better boards: A blueprint for effective governance*, Jossey-Bass, San Francisco, 2006, pp. 44-45.
6. Kiel, G. C., Nicholson, G. J. & Barclay, M. A., *Board, director and CEO evaluation*, McGraw-Hill, Sydney, 2005.