

# Corporate Governance

## *The Board and Performance*

November 7, 2007

# Corporate Governance ?

Integrated part of the  
management system ?



Illustration of  
"Corporate  
Admin" ?



*Corporate  
Governance*



Set of rules  
dictated by  
external regulation ?



Something else ?

# Corporate Governance Framework

Doing the right things ... for the shareholders



**ERNST & YOUNG**

Quality In Everything We Do

# The purpose of the Board (of Directors)

” Competitive advantage without demanding owners and capable and active Board (appointed by owners) is rare and short-lived phenomenon ”

*Boardman website*

” The Board’s primary purpose seems to be effectively making decision-making slower ”

*Martti Häikiö at HKKK (spring 2007)*

# The purpose of the Board (cont'd)

Search	# of hits
Board + control	246 000 000
Board + performance	196 000 000
Board + benefit	78 700 000
Board + shareholder value	1 960 000

Source: Google 5.11.2007

# The evolution of the Board



CEO Jack



Jack's wife



Jack's  
tennis pal



Jack's  
neighbour

- Non-executive Directors (NED's)
- Focus on independence
- Executives (and CEO's) off the Board, CEO's presence rights
- Committees (nomination, compensation, audit, risk, disclosure)
- Search of efficiency

# Board performance

→ Disconnected boards: how to identify teams setting up to fail

## A Competitive Board

Competition between a chairman and CEO can create two subgroups who treat each other with hostility and distrust (eg chairman may not challenge poor performance, CEO may not impart essential information). Personal and professional relationships become damaged.

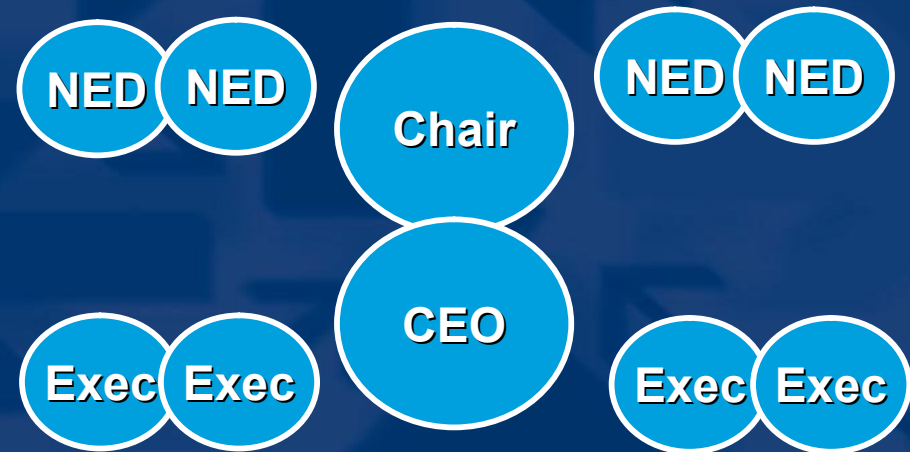


# Board performance (continued)

→ Disconnected boards: how to identify teams setting up to fail

## A Personal Board

Danger from too close a relationship between the chairman and the CEO, with too much being decided without reference to the full board. Board meetings become less relevant and other directors become relatively powerless.

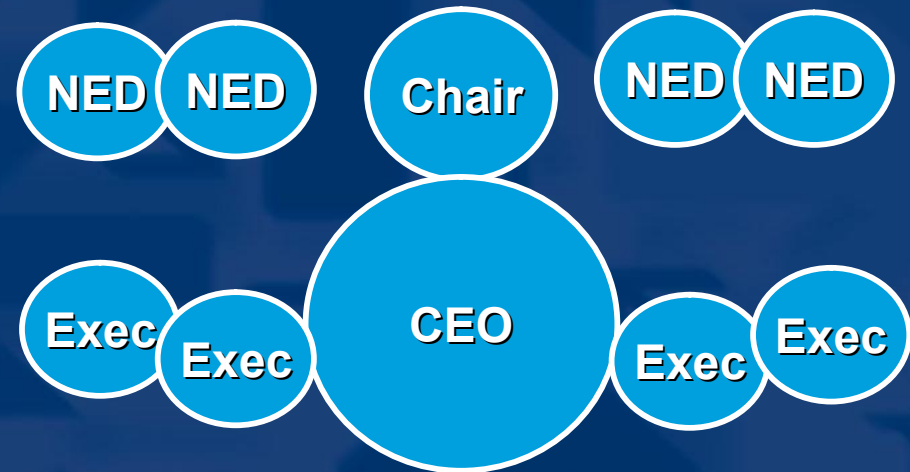


# Board performance (continued)

→ Disconnected boards: how to identify teams setting up to fail

## A 'Captured' Board

When a chairman is effectively disengaged or too busy to devote sufficient time to the role, there is the danger that too much power will lie in the hands of the CEO, allowing him (and possibly his team) to dominate meetings.



# Board performance (continued)

→ The complementary board – a successful team

## A Complementary Board

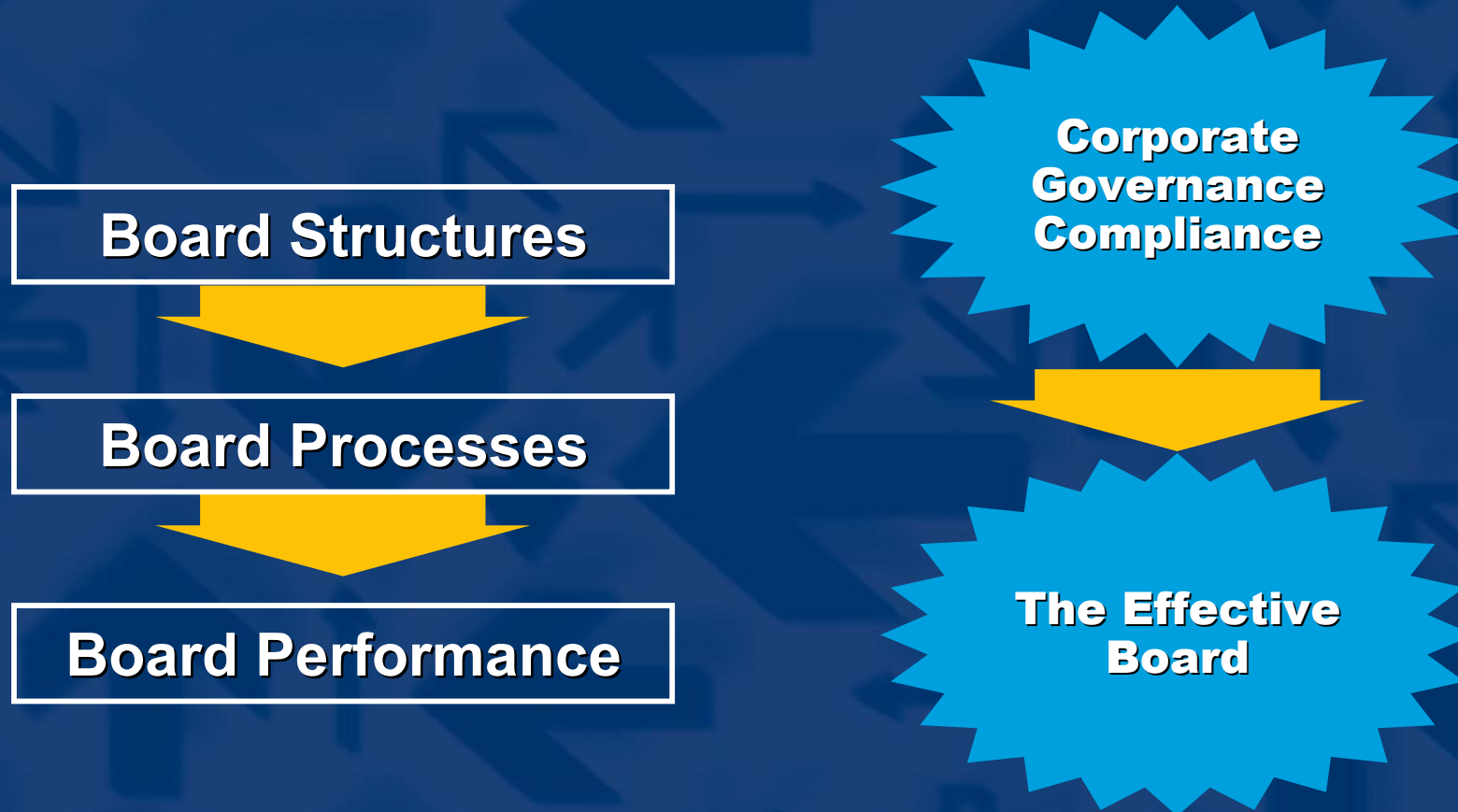
An interdependent team, with the relationship between the CEO and the chairman at the heart of the team. Trust and openness create the conditions for effectiveness; new recruits can be chosen to complement existing team members.



# Board Effectiveness

# Introduction

→ Levels of good practice to true effectiveness:



# Board processes

- Little or no regulation of board processes:
  - Management of meetings
  - Dealing with agendas
  - Induction and evaluation processes
  - Recruitment of directors
- Impact on boardroom effectiveness
  - Are board papers distributed sufficiently in advance?
  - Are meetings constructive and well-managed?
  - Are the right people around the boardroom table?

# Board processes (continued)

→ Best practice companies will:

→ Have formal mechanisms in place for:

→ Recruitment

→ Induction and evaluation

→ Pre-arranged schedule of board and committee meetings

→ Regular, as well as ad-hoc, agenda items

→ Have a self-assessment process for the board:

→ Facilitated through independent interview, HR function, Chairman

# Board performance

## → Individual performance — evaluation

### → Possible points of opposition to individual evaluation:

- Internal opposition — directors have displayed a reluctance to evaluate other board members for fear of harming working relationships
- Drive away new recruits — would new recruits be put off joining an ‘evaluating’ company?
- Who should do the evaluations? Is it appropriate for board members to critique peers?
- What criteria should be used? The complementary team will be a blend of skills and experience

# Board performance (continued)

- Method of evaluation
  - 360 degree feedback (?)
  - Self-assessment
- Conducting the evaluation
  - Which competencies should be tested?
    - Knowledge of the business and management
    - Initiative and judgement
    - Preparation
    - Integrity and ethical behaviour
  - Other characteristics?

# Board processes

→ Example board member evaluation form:

	<b>Weak    Acceptable    Role Model</b>								<b>Comments</b>
Works well with others	1	2	3	4	5	6	7	8	
Contributes to committee meetings	1	2	3	4	5	6	7	8	
Is well prepared	1	2	3	4	5	6	7	8	
Understands the company	1	2	3	4	5	6	7	8	
Takes a tough stand where necessary	1	2	3	4	5	6	7	8	
Communicates honestly and effectively	1	2	3	4	5	6	7	8	
Is logical and incisive	1	2	3	4	5	6	7	8	
Gets to the heart of the matter quickly	1	2	3	4	5	6	7	8	
Is creative and innovative	1	2	3	4	5	6	7	8	

...

# Board processes (continued)

## → Self-assessment example questions:

### Transparency and disclosure

- Has the board defined its role and communicated the scope to management and shareholders?
- Should the role be expanded or reduced?
- Does the board ensure consideration for shareholders, employees and customers?
- Does the board communicate effectively with shareholders?

### Structures and committees

- Are there sufficient non-executive directors?
- Are there policies in place to ensure an appropriate board size and characteristics?
- How could the composition of the board be improved?

### Processes

- Are board and committee meeting productive?
- Is the number of scheduled meetings sufficient?
- Does the agenda setting process allow for all appropriate issues to be raised?
- Do directors receive papers with sufficient time to read them before a meeting?

### Capabilities

- Are new directors provided with adequate information about the company and board?
- Do directors receive continuing education?
- Is the board effective as a team?

# Board processes (continued)

## → Self-assessment example questions:

### Capabilities

- Do directors receive training in corporate governance matters?
- Is board leadership distinct from management leadership?
- How well does the board work with the chief executive and other managers?
- Are board members knowledgeable about the company and the issues it faces?

### Behaviours

- Does the board communicate the proper ethical and legal responsibilities to its members?
- Are directors, committees and the board regularly and efficiently evaluated?
- Is the board ensuring that directors are meeting standards and expectations?
- Has the board considered benchmarks by which performance can be measured?
- Is there a process for evaluating individual behaviour at meetings?

# Conclusions – in a search of Board performance

- Systematic evaluation, self-assessment or other form, is a prerequisite for the development of the Board (and its performance)
- Balance (1) approach for conformance and performance and (2) short-term needs with long-term demands
- Execution of identified action points (arising from the evaluation) is essential

# Q & A

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**Education:**

- M.Sc. (Econ.) (TKKK, finance)
- Executive education  
Harvard Business School,  
London Business School,  
Kellogg School of  
Management

**Prior work experience**

- 2002 – Ernst & Young Oy, Advisory Services, Partner
- 2000 – 2002 Andersen, Practice leader
- 1998 – 2000 Ernst & Young Financial Consulting, Manager
- 1995 – 1998 Outokumpu Copper, Unit manager (95-97), Development manager UK (97-98)
- 1991 – 1995 Nokia Cable Industry, Manager

**Relevant experience**

- Several development projects concerning strategy, management and control in Finland, the Nordic Countries and the USA
- Clients include large listed companies and family-owned companies
- Corporate Governance experience since 2003 (developing board work and governance structures)
- 2001-2007 several speeches and seminars in Finland and abroad (strategy, governance, management systems, risk management, internal control)

**Special expertise**

- Governance
- Management systems
- Financial management
- Risk management and internal control