

## SOE Board Talk

Iakwe aolep,

SOE Board Talk is an SOEMU initiative to engage with SOE boards and share important information and developments on SOE reform.

Please feel free to comment and provide feedback on SOE Board Talk and to share your director experiences. Remember, the SOEMU team [Assistant Secretary Ywao, Anari and Augustine] are here to help on all matters SOE!

This week we continue the discussion on board meetings and focus on the board papers and agenda in preparation for the meeting.

Please contact SOEMU if there are any concerns or clarifications needed.

2<sup>nd</sup> Floor Finance Building  
Ph. 625 8311

### **Board papers must be:**

- Timely – issued at least 7 working days before the meeting,
- Sufficient – balance between too much or too little information. This is always a challenge. Directors should give management feedback on what they consider the right balance between too little and too much. Remember, board meetings belong to the directors – not to management. The content, format and timing of meetings should be set by the board – not dictated to by management,
- Accurate – dates, financial information, factually based,
- Up to date – contain the latest information. The financial reports should be current to the month preceding the meeting. In other words, if the meeting is in May, the financial reports should include financial reports for April, including profit and loss, summary balance sheet, budget year to date and for the month compared with forecast, budget forecast to the end of the year and expected variances. All major variances from the business plan should be reported,
- No surprises – if a major event occurs between board meetings, then management should alert the board (after consultation with the chair) immediately.
- Follow a logical and consistent format
  - Content of paper
  - Executive summary: summary of paper and recommendations.
  - Purpose of paper – why is the board being asked to consider this matter?
  - Background: is this paper linked to something else, a prior discussion/decision?
  - Board discussion to date on this matter or related matter (if any)

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- Content of paper: the main content of the paper, which should be organized logically and contain sufficient information for the board to make a decision.
- Further issues for the board to consider, if any
- Recommendations, request. Some recommendations will require action, some will be for noting.

### Agenda

Ideally, board agendas should stipulate

- The strategic topics to address in that meeting,
- How each topic is to be addressed i.e., make a decision, assign more research, and
- Indicative times to address each topic.

Without the careful design of and adherence to an agenda, board meetings can result in prolonged confusion and the frustration of members, which then negatively impacts on the overall effective governance of the SOE.

- The meeting Agenda is set by the chairperson with input from CEO. The chair should regularly check with the board to ensure that the agenda covers the necessary items and that sufficient time is allowed for discussions,
- Every director has a right to ask for an item to be added to the agenda,
- Order of items should allow adequate discussion time on each item. Often major items are left to the end of the agenda and then discussion is curtailed due to time pressures. If something is important, move it up the agenda to ensure adequate discussion time is allowed. Chair's and/or CEOs have been known to deliberately place important or contentious items at the end of the agenda to limit discussion time and hard questions,
- Although it is common for board meetings to run to a timetable, it is important that overall time allocated is sufficient. Directors should be remunerated, and, both legally and morally should commit sufficient time and effort to the meetings and to the responsibilities vested with them. Thus, "time's up" is hardly satisfactory,
- Most agendas cover set regular items, such as review of operations report, financial reports etc., but the board should feel free to adjust as necessary,
  - CEO's operational report
  - Financial Report
    - Profit & Loss – showing actual for the month, budget year to date, budget full year, same period last year to date, budget for the month
    - Balance sheet – Opening balance sheet (beginning of year), year to date, budget to date and compare to same period prior year

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- Forecast cash flow – forecast year to date, actual year to date, forecast to year end, forecast/budget for the month and actual month
- Capital Expenditure amount, project and timing
- Debtors report
- Loan facilities – maturing debt/loans and loan facilities in place to cover maturing debt
- Special papers seeking approval
  - Special projects,
  - New issues, opportunities, threats
  - Significant legal matters
- Government, stakeholder issues
- Board Committee reports
- Asset management, risk management, HR etc. reports
- Strategic Matters (not covered elsewhere) – usually there are updates to strategy and future planning issues to consider
- Other Matters should include anything that is material. If foreign currency movements and balances are material, these should be included. For energy SOEs in the Pacific, the movement in oil prices is often highly relevant.
- The meeting should commence with a confirmation of agenda, quorum, acceptance of apologies and confirmation that (conflict of) interest register is up to date for all members. This simply requires members to confirm that they have no undisclosed interests,
- Update interests register: It is useful to leave this item on the agenda for every meeting. It is not expected that directors will have an item to record at every meeting, but it acts as a reminder that the onus is on directors to have an interest recorded at the earliest opportunity. The interests register should be a formal agenda item at each meeting where directors are specifically required to certify that they have listed and caused to be recorded every interest that they have relevant to the SOE,
- Confirm prior meeting minutes. Minutes from the prior meeting should be circulated to the chair before the board meeting. Once the chair has indicated he/she is happy that the minutes cover the main items discussed and accurately record discussions and decisions, then they can be included as part of the board agenda. Each director is responsible to ensure the minutes are accurate and record all decisions. Minutes should not be a verbatim record of all discussions but should record the decisions reached and if there were any votes against the proposal. While unanimous votes are preferred, a director is entitled to have their dissent recorded,

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- Matters arising – with action list, due date and responsibility: The matters arising is a useful tool for the board to ensure that outstanding matters are actioned. The name of the person, whether board or management, responsible for the action or outstanding item should be recorded against the item.

All executive managers presenting to the board should appreciate that constructive challenge from directors is an essential aspect of good governance and a part of the broad responsibility of the board.

### **Boards will also need to consider:**

- Amending board policies and procedures,
- Training and development for board members,
- Induction of new board members,
- Board evaluations

### **Board Decision-Making**

The board must insist on receiving high-quality information sufficiently in advance so that there can be thorough consideration of the issues prior to, and informed debate and challenge at, board meetings.

High-quality information is that which is appropriate for making decisions on the issue at hand – it should be accurate, clear, comprehensive, up-to-date and timely. It should contain a summary of the contents of any paper. It should also inform the director of what is expected of him or her on that issue.

Well-informed and high-quality decision-making is a critical requirement for a board to be effective and does not happen by accident. Flawed decisions can be made despite the best of intentions, with competent individuals believing passionately that they are making a sound judgment when they are not.

Boards can minimize the risk of poor decisions by investing time in the design of their decision-making policies and processes, including consideration of the contribution of board committees.

Good decision-making capability can be facilitated by:

- High-quality board documentation,
- Obtaining expert opinions when necessary,
- Allowing time for debate and challenge, especially for complex, contentious or business-critical issues,
- Achieving timely closure, and
- Providing clarity on the actions required, and timescales and responsibilities.

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Most complex decisions depend on judgment. Effective judgment and enhanced decision making can be achieved by:

- Describing in board papers the process that has been used to arrive at and challenge the proposal; this allows directors not involved in the project to assess the appropriateness of the process prior to assessing the merits of the project,
- Where appropriate, commissioning an independent report, seeking advice from an expert, introducing a devil's advocate to provide challenge, establishing a sole purpose subcommittee, or convening additional meetings,
- Some chairpersons' favour separate discussion for each part of an important decision; for example, concept, proposal for discussion, proposal for decision, and
- Boards can benefit from reviewing past decisions, particularly ones with poor outcomes. A review should not focus on the merits of the decision itself but on the decision-making process.

Whatever methods are selected, it is imperative that boards make decisions and understand that the decision-making responsibility is an inherent responsibility of a director.

Each director has one vote for each decision with the chairperson have a casting vote [Section 623(5) SOE Act], if required. The chair should call for a vote, after due discussion and deliberations, but individual directors should indicate if they consider further information or discussion is required prior to a vote. They may abstain if they feel unprepared at the time of the vote.

Best wishes for this week in the boardroom

SOEMU