

SOE Board Talk

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

Thank you for recent feedback on Board Talk and keep it coming!

This week we discuss issues around the composition of the Board.

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

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What Composition makes a Good Board?

The SOE Act requires there to be at least 3 and not more than 9 directors. Regardless, of individual competence, to select a board where there is a dominance of like-minded people will encourage group-think and stifle objectivity and creative thinking, resulting in weaker governance of the SOE. Having a mix of directors, each with the key competencies and the core competencies between them, is a good start. If there is a good mix based on gender, age and background as well, then the prospects for varied and alternative views increase.

Once the broad individual characteristics are determined, specific professional expertise may be considered. A board with a reasonable mix of relevant professional training or experience will be useful:

- Accountant
- Lawyer
- HR
- Marketing
- Industry specific
- General business

The business issues, strategic direction, skills and abilities of other directors, succession planning, type of SOE, strengths and weaknesses of management, industry type, competition matters etc. all effect the skills and experience required for any board. The list above describes some of the more usual attributes sought, but skills such as community awareness and communication skills are also relevant.

Beyond issues of diversity, individual competence and professional expertise, soft skills

SOE Board Talk

composition is also relevant, including a spread of individuals that embrace the team-building/mentoring trait; strategic thinking/big picture trait; analytical/detail trait; and the challenger/questioner traits.

There is no ideal board structure or composition. Efforts should be directed towards achieving a balanced board, i.e. a mix of skills, experience, diversity of personalities and opinions, aiming for most of the core competencies to be addressed. Directors should be persons who will assist the SOE achieve its primary objectives. These objectives are clearly defined in the SOE Act. The evaluation of potential directors for independence should focus on personality characteristics rather than a mechanistic comparison between a candidate's CV and checklist definitions. Private sector experience is very useful if demonstrating an understanding of up-to-date business practices.

Ideally, director appointments should be structured so as to preserve, as best as possible, continuity on the board. Board compositions of 7 directors, with a term of three years should ideally be managed so as to rotate/appoint a new director evenly throughout the term, with two new directors being appointed each year. A staggered appointment process should ensure that directors' terms do not all expire at the same time ensuring better continuity planning.

Section 619 provides that SOE directors be appointed for a term of up to 3 years but may be reappointed in accordance with the Act.

Good practice warrants that on the expiry of a director's term a selection process is undertaken rather than any automatic reappointment. If the director whose term is expiring is judged, based on the selection criteria, to be the best candidate then the reappointment is justified.

Types of Director

It is desirable that there are some non-executive directors (NEDs) involved on SOE boards. A challenge in small states, is whether there are sufficient personnel of suitable skills and qualifications with the time available to sit on SOE boards. Although some individuals in the private sector may semi-retire and become directors on several boards and in doing so, develop significant time commitments and monetary benefits; it is not encouraged for SOEs that individuals become too specialist as SOE NED's, in the interest of maintaining objectivity and a roster of fresh ideas. However, capacity may be a constraint and generally, SOEs may benefit from the wisdom of an experienced NED within RMI.

The preference reflects the greater likelihood of NEDs having the combined attributes and experience with an objective outlook in addressing the SOE issues. It must always be remembered that boards can hire external expertise if and as deemed necessary, to

SOE Board Talk

advise on specific matters or to be engaged so as to build some understanding and relationship with the SOE and to be consulted on specific matters from time to time.

There are different types of director as follows:

- Executive: a director who is also an employee,
- Non-Executive: has no executive position with the company,
- Independent, i.e. Independent of management, and free from any relationship that could materially interfere with the director's independent judgement,
- Public officials: although technically non-executive, Ministers and public officials are usually appointed in their official capacity.
- Alternate Director: a person who can attend meetings and vote in the absence of a director.

Care is needed when appointing alternate directors as their legal responsibilities can be confused. Also, to be effective an alternate director really needs to read all board papers, even for meetings he/she does not attend. Having an alternate can be as costly as having an additional full director. Alternates are often used when there is a major corporate shareholder who wants the ability to send a nominee or alternate director if the appointed director is not available for a particular meeting.

Also, the requirement (and composition) of Board committees should not influence selection to the Board, since a board committee can engage and co-opt non-directors as required.

A candidate who is nominated for an SOE directorship should consider the time commitment required and the legal and governance responsibilities involved in such an appointment.

It is expected that a prospective candidate will undertake some personal 'due diligence', even if in a simple manner.

Next week we continue the theme of composition of boards by looking at some core competencies for effective boards

Best wishes for this week in the boardroom

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