

Board function and materials for Board decision-making

FAMILY GOVERNANCE ASSOCIATES

TABLE OF CONTENTS

- Board Role and Responsibilities (p.3-9)
- Function of Board Materials (p.10-11)
- What to include in Board information package (p.12-19)

Board Role

- Providing leadership
 - Appointing senior management
- Setting strategy
- Securing/allocating resources to implement strategy
 - Human
 - Financial
- Monitoring company and management performance
 - Adjustments to strategy/resource allocation
 - Reward outperformance/Address underperformance
- Setting company's values, policies and standards
- Being accountable to shareholders and stakeholders
 - Keeping company within law and regulations
 - Communicating with shareholders and stakeholders

Setting Strategy

- Review and evaluate present and future opportunities, threats, risks in the external environment and current/future strengths, weaknesses and risks
- Determine strategic options, select those to be pursued and form the corporate strategy
- Determine the business strategies and plans that underpin corporate strategy

Securing/Allocating resources for implementation of strategy

- Decide on resources needed to implement the corporate strategy
- Ensure the company's organizational structure and capability are appropriate for implementing the chosen strategy(ies)
- Assess availability of existing resources and allocate the appropriate resources to support the implementation of chosen strategy(ies)
 - Human resources
 - Financial resources
- Secure any incremental resources needed to ensure implementation of chosen strategy(ies)
 - Human resources
 - Financial resources

Monitoring company's and management performance

- Monitor company and management performance against targets/goals
 - Establish in-line, out/under performance
- Reward outperformance
- Address underperformance
 - Consider if adjustments to targets/goals appropriate
 - External / Internal factors
 - Consider if adjustments to strategy and/or resources allocated appropriate
 - Consider and address leadership issues if appropriate/necessary

Setting company's values, policies and standards

- Formulate governance and ethics codes and ensure they are followed
- Determine company policies and ensure they are practiced as intended
- Support and work with internal audit function to ensure appropriate oversight
- Supervise and ensure appropriate risk management processes in place and functioning to protect the company's position

Being accountable to shareholders and stakeholders

- Approve accounts and other regulatory submissions
- Report to shareholders and other stakeholders (e.g.regulatory bodies)
- Ensure compliance with legal and regulatory requirements
 - Environmental regulations
 - Health & Safety regulations
- Communicate pro-actively and promote goodwill towards company from stakeholders

By law, in UK, Directors' Duties include

- Act within powers in accordance with the company's constitution and for the purpose they were granted these powers
- Promote the success of the company
- Exercise independent judgment
- Exercise reasonable care, skill and diligence
- Avoid conflicts of interest
- Decline any benefits from third parties
- Declare any interest in a proposed transaction or arrangement

Function of the Board information pack



- Board information pack is equivalent to compass for monitoring adherence to and progress relative to plan/ strategy

Board information materials

- **Relevant**
- **Informative**
- **Clear**
- **Concise**

⇒ **RICC** as acronym for board materials

Individual Board meetings through the year
may have specific focus

ILLUSTRATIVE

- Q1 = Accounts from last year and Appraisal matters
- Q2 = Risk Management and Human resources
- Q3 = Markets, Competition and Strategy
- Q4 = Budgeting for next year including Capital expenditure plan

Information for each Board meeting

- Affirmation of continued adherence to regulatory and legal requirements or report of non-compliance
 - Once non-compliance identified, provide information in subsequent meeting(s) on how it has been/is being addressed until back into compliance
- Affirmation of absence of any health & safety issue arising between board meetings or report of any incidents and how they were dealt with
- Financial and Operational Key Performance Indicators (“KPIs”) as agreed between Board and management
- Narrative on Financial and Operational KPIs as agreed between Board and management
- Comparison of performance along different metrics with budget/plan and any revisions recommended to plan(s) and reasons for revisions
- Operations update
- Market and competition summary

Information for meeting focused on accounts and CEO appraisal

- Financial statements
- Commentary on financial statements
 - Sales growth
 - Profitability (Gross Margin, Operating Profit, EBITDA, Net Income)
 - Cashflow (Operating, Investment, Financing)
 - Leverage
- Tax compliance and planning
- Financial and Operational performance relative to plan
- Delivery/adherence to and/or deviation from agreed strategy and priorities/goals

Information for meeting focused on risk management and human resources

- Risk management
 - Risk mapping through risk management matrix or similar tool
 - Risk mitigation measures taken
 - Risk mitigation measures and action plan recommended for Board decision/direction
 - Cost Vs Benefit analysis
 - Industry and competitor practice
 - Impact on competitive position
- Human resources development plan
 - Senior management development plan
 - Succession planning at senior levels
 - Recruitment & training priorities and budget(s)

Information for meeting focused on markets, competition and strategy

- Market trends
 - **PESTEL** analysis (**P**olitical, **E**conomic, **S**ocial, **T**echnology, **E**nvironmental, **L**egal)
- Competitor profiles and benchmarking
 - Existing competitors' market positioning
 - New entrants
- Company **SWOT** (**S**trengths, **W**eaknesses, **O**pportunities and **T**hreats)
- Strategic options
 - Advantages/Disadvantages
 - Resources required Vs available resources
- Implications and interdependence of strategic choices
- Recommendations on strategies and targets

Information for meeting focused on budgets

- Key financial targets and ratios
 - Growth
 - Profitability
 - Cashflow / Liquidity
 - Leverage
- Key operational targets and ratios
 - Capacity utilization
 - Raw materials utilization
 - Production line(s) performance
 - Warehouse/Distribution wastage
- Procurement of raw materials
 - Sources and pricing
- Product Mix targets
- Market mix targets
- Pricing targets

Information for meeting focused on capital expenditure planning

- Regulatory capex
 - Environmental, health & safety
- Maintenance capex
- Growth related capex
 - New products, New production lines
 - Anticipated Bottlenecks
 - Timing of and conditions giving rise to bottleneck
- Analysis and benchmarking of solutions available
 - Technical feasibility, advantages/disadvantages
 - Human resources implications/requirements
 - Financial attractiveness (ROI, NPV, IRR)
 - Financing options / possibilities
- Recommendations

Board materials function

- Means of communication
 - Provide information
 - On performance including follow-up on past actions agreed
 - Market/competition
 - Provide analyses
 - Outline and assess options
 - Make recommendations to the Board
 - “we recommend we do X and not Y”
 - Make requests from the Board
 - “we need ABC resources to deliver XYZ targets”
- ⇒ Improve understanding of Board members
- ⇒ Create common understanding between board and management
- ⇒ Facilitate decision-making