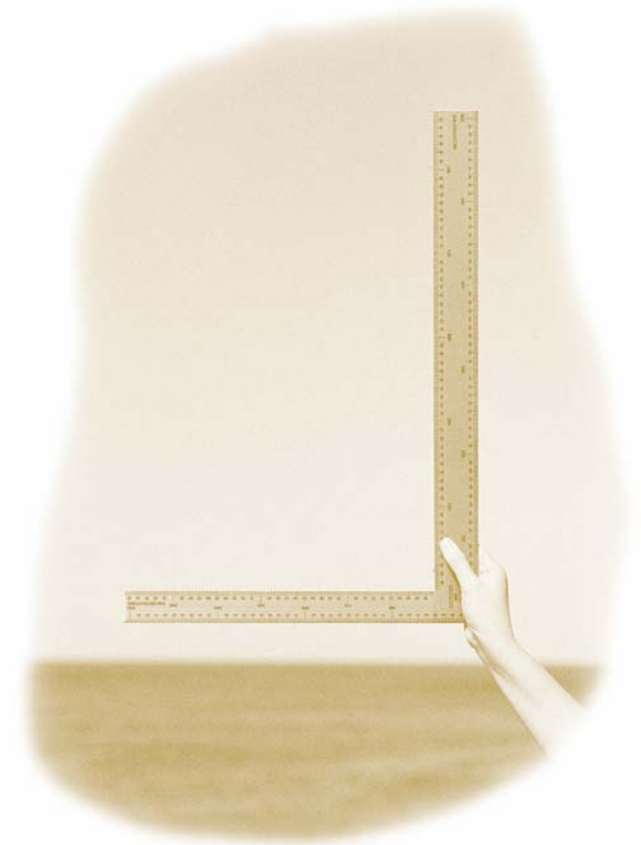


Board Performance Reviews: Current and developing practices

Lynn Ralph

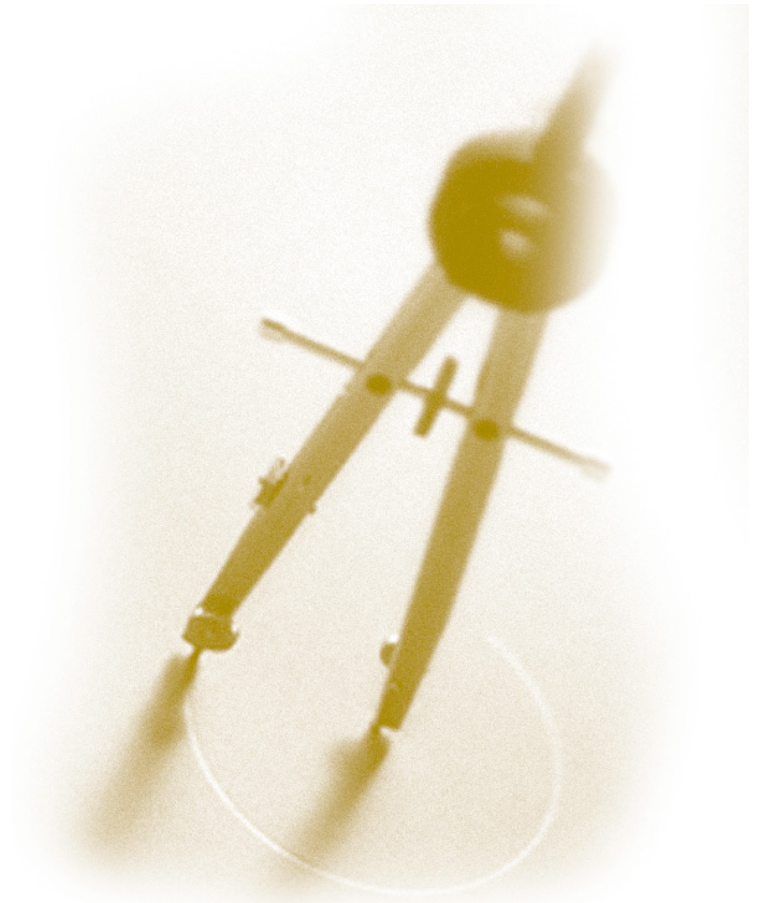
Managing Director, Cameron Ralph Pty Ltd

2007



Today's topics

- ◆ A history lesson
- ◆ What drives good board performance
- ◆ Why do a review?
- ◆ What's available / How to conduct a review
- ◆ Assessing individual directors
- ◆ What to avoid
- ◆ Benefits of a review



As Justice Neville Owen said

‘By and large the people who were involved were not inherently bad or in some way set upon being part of a corporate disaster. HIH is a reminder, if one is needed, that a drastic fall from corporate grace can occur if those in charge lose their way.’

What is board effectiveness?

Fulfill duties
under law

+

Add value to
the organisation

Minimising “*governance risk*”:

the risk that decisions/ actions taken (or omitted) by the board results in significant negative impact on stakeholder value.

What goes wrong with boards?

- ◆ People
 - knowledge levels, lack of commitment to values
 - Lack of integrity, courage, diligence, self-awareness

- ◆ Behaviours
 - Toxic group behaviours, eg group think, denial, politics, excessive politeness
 - Greed, cronyism
 - Power imbalance – dominant individual(s)

- ◆ Processes
 - Poor decision making
 - Lack of clarity of roles between board and management

Why assess the board

- ◆ Ensure quality decision-making by board
- ◆ Set an example of a performance/learning culture
- ◆ Maximise use of board talent / succession planning
- ◆ Create a framework for future improvement
- ◆ Improve information flows between board and mgmt
- ◆ Enhance relationships between board (and management)
- ◆ Flush out 'sensitive' issues
- ◆ Enhance reputation and transparency with stakeholders
- ◆ Funding or other legal requirement

What goes wrong with boards?

- ◆ People
 - Knowledge levels; lack of understanding/commitment to values
 - Lack of integrity, courage, diligence, social skills, etc.....

- ◆ Behaviour (individual or group behaviours)
 - A myriad of toxic group behaviours including: denial, escalation, group think, politics
 - Greed, cronyism, denial

- ◆ Processes
 - Making poor decisions / escalation
 - Failing to monitor / learn from past mistakes
 - Lack of clarity of roles between mgmt and board

The current 'fix'

- ◆ Independent directors
- ◆ Independent auditors
- ◆ Increase transparency of governance practices
- ◆ Making management (not just board) liable
- ◆ Responsible owners holding for long term
- ◆ Given the regulator more powers
- ◆ Shareholder non-binding votes
- ◆ Improving scope and quality of financial disclosure, including valuing options
- ◆ Focus on business ethics

Key components for effective boards



Key components of an effective board



PEOPLE

Business acumen, courage, integrity, diligence, independence of thought, wise use of social skills



GROUP DYNAMICS

Relationships between board, and between board and management

Key components of an effective board



The right amount, about the right things

INFORMATION



Agenda setting, problem scoping, decision criteria, alternatives, risk analysis

DECISION PROCESSES



Overseeing implementation, assessment of board and senior management, learning

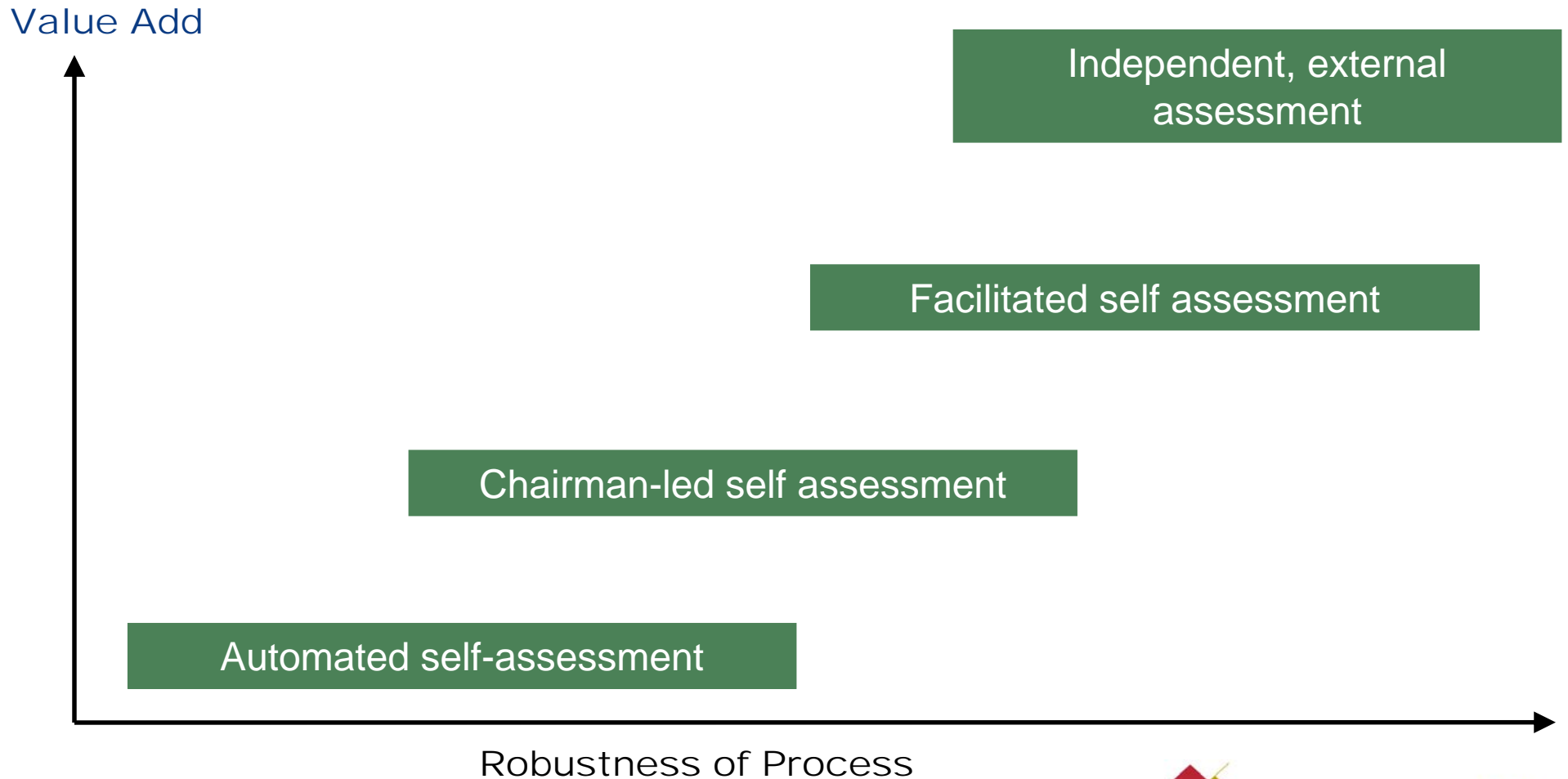
MONITORING

Why do a performance review?

- ◆ The board is an 'asset':
 - Monitor output (quality of decisions / advice, etc)
 - Maximise capacity utilisation
 - Undergo regular maintenance
 - Upgrade, when necessary
- ◆ Maximise use of board talent / succession planning
- ◆ Set an example of a performance/learning culture
- ◆ Enhance your reputation with owners / stakeholders
- ◆ Funding or other legal requirement
- ◆ Future-proofing
- ◆ Sleep at night



Ways of conducting a review



Options for consideration

- ◆ **Who should be involved?**
 - just the board
 - management
 - other key stakeholders / investors

- ◆ **Methodology**
 - Process, process, process!
 - Internal / external
 - Questionnaires, interviews, group discussion
 - Degree of confidentiality
 - Reporting & follow up
 - Frequency

- ◆ **Role of the Chairman**

- ◆ **Role of the Company Secretary**

Vendor

Institutional Shareholder Services

Updated May 3, 2005

Rating

Index
57.9

Industry ranking
96.7

TSG outperformed 57.9% of companies in the S&P 500 Index and 96.7% of companies in the software & services group

Example of external governance ratings

Sabre Corp Annual Report

The Corporate Library

Updated May 2, 2005

Overall Board Effectiveness

B

Overall rating

B

Board Composition

C

CEO Compensation

B

Shareholder Responsiveness

B

Litigation and Regulatory Problems

B

Takeover Defenses

D

Accounting

C

Strategic Decisionmaking

B

Analyst Adjustment

B

Best Practices Compliance Score

93%

GovernanceMetrics International

Updated January 14, 2005

Overall Rating

Global Rating

8.0

Home Market

8.0

Board Accountability

8.0

7.5

Financial Disclosure and Internal Controls

9.0

8.5

Shareholder Rights

8.5

8.5

Remuneration

6.5

6.5

Market for Control

7.0

8.0

Corporate Behavior

6.5

7.0

Example of Independent Review

Excerpt from Westfield Holdings Annual Report 2004

In December 2003, Cameron Ralph Pty Ltd completed a comprehensive, independent assessment of the Board of Westfield Holdings Limited.

Cameron Ralph Pty Ltd rated the Board of Westfield Holdings Limited as SUPERIOR(2003). The Westfield Holdings Limited Board demonstrates superior capabilities across all of the critical elements of board effectiveness*. There is a very low risk of governance negatively impacting on shareholder value.

The Cameron Ralph assessment noted the unique context for Westfield Holdings as a very large listed company with strong founding family presence and a highly focused and vertically integrated business operating on a global scale.

Areas in which the board demonstrated greatest strengths included:

- Evidence of effective use of the strong mix of skills present on board;
- Despite the length of tenure of many directors, evidence of sustained diligence and highly independent thought and action;
- Evidence of non-executive Directors' strong influence and, at times, substantial impact on management proposals;
- Highly successful group dynamic that allows vigorous debate and disagreement, yet fosters respect and trust;
- High standard of board information, bolstered by early airing of ideas and issues, and frequent information updates;
- Disciplined decision processes which focus on the big issues and apply relevant criteria consistently;
- Close monitoring of business key performance indicators and implementation of major decisions.

Areas in which Cameron Ralph made recommendations for improvement included:

- The newly formed Nominations Committee to address board succession;
- Appointment of an additional independent Director to the Board;
- Appointment of a non-executive Director as Chair of the Remuneration Committee;
- Improvement to monitoring and performance evaluation processes;
- Strengthening reporting from committees to the Board;
- Adoption of a more formal and robust risk-management framework, including the appointment of an additional non-executive Director to the Audit and Compliance Committee.

The Board of Westfield has accepted the recommendations and agreed to implement them over the coming 12 months.

Assessing individual directors

Pros:

- ◆ Opportunity to deal with problem director
- ◆ Maximise everyone's contribution
- ◆ Formal basis for dealing with re-appointment (or not)
- ◆ Developing ongoing training for directors

- ◆ Confidentiality essential

Cons:

- ◆ Board accountable as whole
- ◆ Performance review models designed for mgmt not applicable
- ◆ Who's the boss?
- ◆ Fragile board ecology
- ◆ Loosely defined roles with lots of overlap
- ◆ 360° feedback problematic
- ◆ Who tells the chair ??

What to avoid

- ◆ Superficial 'tick-a-box' compliance with codes/guidelines
- ◆ Reviewing structure, rather than people, behaviour, conduct
- ◆ Doing a 'self-assessment' without full self awareness
- ◆ Upsetting the 'ecological balance'
 - Destroying what the board does well!
 - Unleashing toxic issues
- ◆ Using a model designed for management
- ◆ Insufficient investment of time and/or money
- ◆ Embarking on a review without thinking through the process



The benefits of a review

- ◆ Plan a program of improvement
- ◆ Improve information flow and relationships between management and board
- ◆ Shape board succession plan
- ◆ Minimise costs of capital, borrowing, D&O, improve credit rating
- ◆ Promote transparency by publishing the results
- ◆ Enhance relationships between board (and management)
- ◆ Flush out and deal with 'sensitive' issues

Justice Neville Owen sums it up

“For me, the key to good corporate governance lies in substance, not form.

It is about the way the directors of a company create and develop a model to fit the circumstances of that company and then test it periodically for its practical effectiveness.”



Thank you for your time!

For more information about improving board performance

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