

Five keys to stronger board leadership

Compare the increasing statutory demands and personal liabilities now placed directly on directors against the acknowledged role of the board as a whole- that is, to govern and oversee an organisation. Directors must guide the organisation to grow and flourish, and do so with stringent care. Our five keys to stronger board leadership will help directors cut through the thorny complexity of demands to reach sustainable high performance for the organisation.

The primary reason for the board's existence is to govern the organisation. This involves the imposition of broad strategies, policies and objectives, the duty to appoint and empower key executives and to monitor, oversee and report on strategy, performance, compliance and financials. Put simply, a board's role is to focus on the 'big picture', yet directors can be found liable for specific breaches of certain statutes.

It's not surprising that many directors increasingly feel like moving targets who must guard against incoming fire from many directions. The depth and breadth of legislation that directly impacts on directors has grown significantly over the last decade with more change on the horizon. The potential of personal liability facing directors is on the rise. Directors can be held personally liable for breach of a range of duties, including directors' duties under the Corporations Act and many specific statutory duties under legislation such as taxation and workplace health and safety laws.

How can a board fulfil its obligations of strategic and cultural oversight, whilst ensuring each individual director fulfils his or her personal duties? How can a board adequately empower management to deal with the operational detail whilst ensuring each director is adequately informed and aware? What structural and cultural qualities will support an adequate balance between directors' knowledge of risk management issues without bogging the board down in operational detail?

The answers to these complex questions lie ultimately in the strength of leadership demonstrated by the board and individual directors. Boards must establish appropriate structural corporate governance as well as an appropriate corporate culture.

We offer five keys to stronger board leadership.

1. Clarity of roles and responsibilities, matched by adequate accountability

Directors must not only be clear on their own roles and responsibilities but also on the roles and responsibilities of others.

Choosing the appropriate CEO is a pivotal starting point. The CEO needs a clear role description and division of responsibilities with the board, along with adequate reporting and accountability. The board must then ensure there is adequate clarity and resourcing of all key roles. Personnel should be empowered to do their job well. Skilled personnel with clear role descriptions and strong accountability will ultimately play a crucial role in supporting and protecting the board and the organisation.

Directors cannot and should not micro-manage the business, therefore it is crucial that the directors have confidence in the skill and dedication of their executive team. Responsible personnel must report effectively to ensure the board can feel comfortable about compliance with statutory requirements.

Board committees can also provide significant support to the knowledge and operations of a board. The role of the committee and appropriate delegations and authorities must be clear and consistent with the strategic operation of the organisation. For example, the board needs to be clear and consistent on how issues with significant risk or strategic impact are dealt with in practice.

Further, the skills base and composition of the board must support the strong leadership required of the board.

2. A strong compliance framework and compliance culture

The cultural tone of an organisation is set at the top. The culture is formed when 'what we value around here' is expressed in the behaviour of leaders. It's crucial that the board establish and demonstrate a strong compliance culture. This must be supported by an adequate compliance framework that is prioritised by the board.

If directors 'allow' an offence to take place by tolerating a poor compliance culture, the organisation may be found guilty of an offence in some instances. Further, the strength of an organisation's compliance framework may be relevant to the applicable penalty determined by a court for a breach of a statutory duty.

The board must ensure that it receives adequate reporting in order to enable the directors to monitor and oversee the compliance framework and culture. Training of directors is important to ensure directors have an adequate understanding of relevant laws in order to enable them to make adequate inquiries of management. Directors must take the lead in ensuring that risk management, the compliance framework and the compliance culture remain adequate in practice. Leadership by the board must be true, both in practice and in theory, to the organisational culture the board wishes to cultivate.

3. Proactive and respectful leadership

Directors should be proactive in meeting their duties by actively monitoring compliance and due diligence programs, asking questions, being informed and holding executives accountable. Directors may need training and coaching in order to develop these skills and perform their role in a constructive fashion.

Being consistent in the manner of oversight is an important element of satisfaction of directors' duties as well as supporting harmonious and respectful relations between the board and management. Respect is a crucial

element of the leadership style required of the board, to ensure the maintenance of productive working relations as well as demonstrating the appropriate organisational culture to all staff.

4. Strong communication

Honest, open and transparent communication is a strong element of good corporate governance. This depends, in part, upon the skills base of the board as a whole. Directors' leadership and communication skills are highly relevant to ensuring that management is empowered to perform its role well and that the flow of information is meaningful and complete.

Knowing when and how to ask questions are important skills for directors. Accountability and transparency are strengthened through respectful enquiry. It's vital that the board has its own sub-culture in which the act of thoughtful questioning is seen as a valuable contribution.

The board must support development of its own and the organisation's strong communication skills.

5. Regular review and reflection

Organisations are not static and neither is the law nor relationships. For these reasons, directors must continue to question, to reflect and to develop their skill base and their ability to react to changing demands of their organisation.

Directors need to continue to:

- 'pulse check' the compliance culture;
- question whether the compliance framework is adequate in practice;
- monitor issues arising within the organisation with a view to continuously improving systems and processes; and
- supervise executives to ensure that the right people are performing in the correct roles and to board expectations.

While the stakes continue to grow in terms of the potential for director liability, the need for clear strategic vision and a performance focus continues to drive leading boards. The best directors are able to balance these competing demands by demonstrating strong leadership in compliance, strategy and performance. Directors should set, monitor and oversee compliance frameworks and cultures that support and protect the organisation and its directors. Directors must also promote the strategic direction and performance of the organisation.

Clarity, focus, commitment and communication are excellent attributes for directors as they lead in an environment of change and increasing risks. Our five keys to stronger board leadership will help directors cut through the thorny complexity of demands to reach sustainable high performance for the organisation.



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