

Time Management for Effective Non-Executive Directors

by Kai Taraporevala

The need for a time management framework for Non-Executive Directors

Non-Executive Directors (“NEDs”) face many challenges:

- Regulatory compliances and responsibilities have multiplied and are often onerous
- Audit and accounting issues are more complex
- Human resource selection, mentoring and remuneration require hard and soft skills
- Technology and risks are tougher to assess, quantify and advise on

There are many other items NEDs need to spend time on, including:

- Key issues regarding the company’s strategy and operations, where senior management need wise guidance in a highly competitive world
- Evaluation and mentoring of CEOs and top management to help them avoid errors and foster entrepreneurial and effective leadership

With so much to do what key activities should NEDs focus on and how should NEDs manage their time?

Key activities depend on what stage of development a company is presently at (start up, high growth etc.) as well as on what corporate activities a company may be involved in (acquisitions, capital raising). In nearly all cases the time commitment from NEDs has substantially increased. To be effective NEDs need a framework for the best management of their time.

It is surprising how many NEDs are reactive, placing sole responsibility for time management on the Chairman and otherwise allowing the CEO and executive management to decide which activities require an NED’s presence.

While a Chairman is important in the conduct of board meetings and Management is closer to and should be on top of all critical issues regarding a company, board effectiveness is the responsibility of every Director. It is thus up to all NEDs to proactively focus on how they and their board spend their time and what activities NEDs should call for and participate in.

A well thought through time management process provides a framework which NEDs can use to:

- Identify key areas to focus on
- Plan and set aside sufficient time for key activities
- Ensure that essential activities are carried out

The net result is an increased chance of having more effective NEDs and boards.

A 10-point time management framework

The following 10-Point framework has been put together based on my personal experience, discussions with NEDs, CEOs and investors in a number of countries in Asia, Europe and the US, and a survey of available literature on effective boards.

Corporate governance is sometimes viewed differently in different countries and certain aspects described as “Western” or “Asian”. In my experience and study of boards I have found that effective boards in any geography have much more in common than is otherwise acknowledged.

Following the advice in this note results in NEDs spending a large amount of time and effort on boards. Only large companies with genuinely enlightened management and boards will be prepared to pay NEDs enough to make it worthwhile. However, smaller companies with the intent and desire to excel can also attract high calibre NEDs even though the immediate remuneration might be lower than what is usually charged. An exciting vision and a sincere management team play an important part in convincing high calibre NEDs to come on board.

Not all the suggestions in this note need to be followed although with some variations most of the activities described have meaning across a range of companies. NEDs on the boards of unlisted companies would not need to communicate and interact with shareholders. Although in family owned companies it is as important for directors to meet with all key family members as it is for directors on listed boards to meet shareholders.

The important point is that NEDs might do well in examining all the options provided in this note and should then pursue sincerely those that apply best to the company and situation on hand.

As Leo Tolstoy wrote, “Happy families are alike; every unhappy family is unhappy in its own way”. The 10 key points presented here attempt to distil those common characteristics that can help NEDs be effective on nearly all types of boards.

The 10 key points for effective NED time management are:

1. Understanding your role, the CEO and company power structures
2. Preparing – Three aspects to a meaningful Induction Program
3. Training
4. Additional meetings with management and shareholders
5. Meetings with outside experts on strategy
6. Holding separate board meetings and off-site visits for one-off and extraordinary items
7. Obtaining board papers in advance and conducting pre-board discussions on the agenda and time allocation
8. Planning a time buffer – preparing for contingencies
9. Physically attending board and shareholder meetings
10. Always keeping corporate governance and the big picture in mind

1. Understanding the CEO, company power structures and your role

In order to carry out their responsibilities, NEDs have several roles to fulfil and must interact with a range of parties. The first step is understanding the CEO and the company power structure.

Understanding the CEO and Company Power Structures

CEOs and management are caught up in the daily rough and tumble of leading and managing the company. Also, CEOs do not always understand how best to get the most value out of their boards. To positively influence the CEO and management, NEDs must forge a relationship of trust and mutual respect with them. This allows for frank advice and at times dissenting views.

The first step here is for NEDs to understand in some detail the CEO along with the existing power structures in the company. In family owned or controlled companies or in companies with dominant ex CEOs who are still involved, CEOs may not be fully in charge of major decisions. Understanding these power structures and politics helps NEDs determine what type of support the CEO and top management most need. NEDs need to understand the strengths and weaknesses of the CEO and try to focus in on those areas where there are gaps and address them. This is also relevant to emotional and behavioural attributes of the CEO. Being aware of these CEO needs and characteristics will help NEDs develop their relationship with the CEO in a more deliberate and successful manner.

In most cases and in most business matters, the CEO and management are likely to have far more detailed and up-to-date knowledge than NEDs. Where NEDs can often add the most value is in framing and asking the right questions, generating ideas and being able to "see the wood for the trees". NEDs are therefore more able to take a holistic view that management should be encouraged to consider. Of course, NEDs also need to be able to dig into detail and critically analyse information when it's relevant (such as reviewing quarterly numbers in a board package or discussing issues with respect to a specific M&A transaction) but this should be done in specific areas of critical importance. NEDs should also appreciate that often there is more than one way of doing things successfully.

"There is no such thing as good news or bad news, it's all news and we need to know about it quickly and deal with it accordingly" is good advice. Trust allows for a focus on accurate and timely information flow between management and the board versus only delivering what people might want to hear. Understanding the CEO helps build trust and allows effective NEDs to identify and resolve key issues before they cause major problems.

Understanding your roles

Keeping the above in mind, NEDs need to interact with the CEO and management in different ways at different times in a Company's development. Ram Charan, Dennis Carey, and Michael Useem, in their book "Boards That Lead: When to Take Charge, When to Partner, and When to Stay Out of the Way" discusses a range of situations that require NEDs to play different oversight and advisory roles.

- In a start-up or when developing strategy or demarcating risk, mentoring and partnering the CEO and management may be of greatest importance.
- During periods of smooth sailing and steady growth as well as in non-strategic decisions and operations a NED should "stay out of the way".
- In the selection of a new Chairman or CEO, and in relation to ethics as well as when there is a crisis, NEDs may have to take charge.

Thus, NEDs should have clarity as to which role will be of greatest value and importance at different times in the company's development. This forms the foundation on which a time management framework can successfully be used.

2. Preparing – Three aspects to a meaningful Induction Program

- i. Company and Culture. The induction program should be appropriately detailed and should provide NEDs with knowledge about the company, its culture and key personnel. It should involve detailed presentations and visits to key offices, including meetings with a range of managers and employees.
- ii. Strategy: Industry and Competition. NEDs should understand the details of the industry and sector in which the Company operates. This can be accomplished by meetings with analysts and industry experts. Such a review provides NEDs them with fresh insights on strategies, an analysis of which is then vital while advising on the Company's business plans.
- iii. The board. The third part of induction involves existing NEDs providing their own views to new NEDs. This provides new NEDs with an opportunity to know existing Directors better as well as obtain, early on, the perspectives of the board.

3. Training

NEDs should take training and enhancement of their knowledge and skills as seriously as management. An important example is that all Directors sign off on annual accounts, yet some NEDs are not that financially literate as they should be. Similarly, in a range of issues such as technology, risk or personnel evaluation and HR, board members need to have a good grasp of the key issues and then the desire and drive to learn more.

Training for Non-Executive board members can and should be individually planned. The costs can sometimes be shared amongst all the Companies on whose boards a Director serves. This is an ongoing process and, in annual board member reviews, training should be a major item for discussion. There are always areas in which NEDs need help and training. Learning never ends.

Training is included as part of time management because it is an activity that should take up a reasonable amount of a Non-Executive Director's time each year. Also, if well trained, time can be saved during the process of board deliberations as Directors understand faster and with greater insight the issues on hand.

In addition to specific knowledge and regulatory items, training should include "soft skills". For example, NEDs are entitled to expect good chairmanship, which is a valuable and rare skill. Although it helps to have a confident strong personality, chairing a meeting is not instinctive and is a discipline which can be taught in training.

4. Additional meetings with management and shareholders

With Management

In addition to regular board meetings, NEDs should set into their calendars one to three meetings each year with different managers in different locations of the Company. Ideally these meetings would have only two NEDs present together so that as a team, the NEDs can collectively cover a wider range and the meetings become more conversations rather than a formal board review.

The advantage of such meetings is that they foster better:

- Understanding of the people, their activities and challenges in different parts of the Company
- Mentoring of the CEO and senior management. The CEO can obtain a vital additional perspective about his top team and operations from trusted partners such as his NEDs.

With Shareholders

Interaction between the board and shareholders varies greatly between public and private companies. In private companies, especially with private equity investors, the interaction can be intense and detailed. In public companies, in addition to shareholder meetings, the senior NED or Non Executive Chairman should communicate with shareholders once or twice a year. In public companies this has to be pursued in close coordination and agreement of the CEO and might best be done at investor meets 6 months after (prior to) the annual shareholder meeting.

In this manner, the lead independent director or Non Executive Chairman can both explain important board decisions and also hear directly from a range of shareholders about shareholders' concerns and views. Great care must be taken on not selectively disclosing any new information. Risks associated with this are dealt with by publishing on the Company web site transcripts of such meetings.

5. Meetings with outside experts on strategy

NEDs and boards can often get caught up in their own Company's affairs and begin to lose a wider perspective. To help all Directors get fresh ideas and keep a pulse on how others view the company and the industry, the NEDs should ask for at least two board meetings to include outside experts to give the board presentations on the industry or subjects related to the Company's strategy. These "experts" should not only be consultants. These experts should include entrepreneurs, writers, journalists and academics from a wide variety of fields.

Dominic Barton and Mark Wiseman quote Sir David Walker, one time Chairman of Barclays and a noted authority of corporate governance as saying "The first question I would ask boards is whether they are spending enough time and effort assessing the organization's long term strategy. If they are honest, the answer will almost always be no." Another perceptive Director once asked "Why do start-ups have opportunities incumbents do not see?" There may be many answers to this question but a possible reason is that companies get arrogant and are therefore unable to see change occurring in their industries.

A separate, once a year board meeting devoted just to strategy should also be considered.

6. Holding separate board meetings and off-site visits for one-off and extraordinary items

For major one-off or extraordinary items, such as an acquisition or divestiture of a unit, boards should be urged to hold a separate meeting. For example, during an acquisition process, board deliberations and presentations by advisors and management views often take up all the time. Other essential ongoing issues are then check boxed away before the board meeting is closed. A board meeting dedicated to such one-off items is thus essential, so that during the regular board meeting, the NEDs, in particular, have enough time to focus and deliberate on other important items of business.

An additional meeting could also take the form of an off-site or a longer visit. This is especially important when exploring large and important new markets. In their article "Where boards Fall Short" Dominic Barton and Mark Wiseman describe how Interbrew invited the entire board to join the executive team on a weeklong trip to China in the early 1990s. The "intent was to have directors learn as much as possible about the country and the market."

7. Obtaining board papers in advance and conducting pre-board discussions on the agenda and time allocation

NEDs should insist that the CEO arranges for the Company Secretary to send board papers to the Directors at least one week in advance. Board papers should be well presented and comprehensible, and not so long as to be unreadable. Compliance, and possible director liabilities mean that directors must read what is in the board papers. It is no defence for directors to say that they don't have time to read everything. The consequence is that board papers need to be assembled with thought and care. The Chairman, or Directors by rotation could be assigned the responsibility to work on this with management.

Providing the board papers a week ahead also allows the board members to ask for any necessary additional material to be prepared and to informally discuss issues with management or other board members. Reasons sometimes provided by management for not sending board papers in advance include; wanting to give the latest information to not providing confidential, price sensitive information on financial performance in advance. These reasons are not valid and getting board papers in a timely manner is essential for proper, reasoned discussions.

Prior to the board meeting NEDs should also discuss (via email or phone calls) with the Chairman and CEO how the Chairman intends allocating the board's discussion time. An approximate time may then usefully be shown in the board agenda. This is rarely done and usually the agenda only contains information on the matters to be discussed and not the expected time allocated to the item's discussion. Allocating time in advance to specific agenda items helps the board prioritize and focus time on the most important items.

An approach that could be used to help prioritize time spent is to use Stephen Covey's four quadrants. Covey suggests that highly effective people operate mostly in quadrant II and this also applies to effective directors.

	Urgent	Not Urgent
Important	I Deadline driven decisions such as approval of quarterly accounts, compliance certificates, any crises and pressing problems	II Budgeting, Business Plan, Succession Planning, Scheduling, Relationship building, CEO mentoring
Not Important	III Items that should and can be easily delegated such as last minute proposals on annual report fonts and cover designs	IV Trivia discussions inside the board meeting

In addition to the above, an experienced Company Secretary shared the following template on categorizing board items into four buckets:

RIN	Routine items for noting
NRIN	Non-routine items for noting
RIA	Routine items for approval
NRIA	Non-routine items for approval

Agreeing on what is routine and what requires an approval or is just for the board's information is itself a form of prioritization that may also help.

During the board meeting, it is up to the Chairman to decide how much time is spent on each item. However, NEDs are expected to have a holistic and "outside-in" perspective, and are best placed to advise on which issues are of greatest importance. In conducting the meeting the Chairman should place significant weight on the views of NEDs on whether enough time has been spent on a particular item or if more time and in-depth discussion is required. Finally though the Chairman is tasked with the responsibility of controlling the discussion flow as appropriate at these meetings. If necessary, the Chairman may need to adjourn a board for further discussion.

Good chairmanship involves, inter alia:

- having a clear agenda (and sticking to it);
- allowing (and often requiring) each party to have their say while cutting short any irrelevant, rambling discussion;
- seeking acceptable compromise where there is argument;
- then summarising and making clear the decisions reached and the next steps to be taken by whom and by when.

These steps should be covered in the minutes in detail sufficient for the Chairman and the board subsequently to hold the executive responsible to account. A well chaired board meeting is not a monologue, nor just a conversation or presentation. It has purpose and ends once it is achieved.

8. Planning a time buffer – preparing for contingencies

Keeping time for contingencies is always a good idea. Despite the best intentions, agenda items may not be completed on time or additional ideas or items come up during the board discussion. Keeping a time buffer is therefore essential and increases the chances that all required matters are dealt with during the board meeting day.

9. Physically attending board and shareholder meetings

While attendance at board meetings via video and voice calls is permitted in most jurisdictions, physical attendance allows for more informal discussions in the coffee breaks and at dinners or meetings before and after board meetings. Setting aside time to travel to and attend board meetings also demonstrates a commitment by NEDs to the responsibilities they have taken on and allows them to better focus on completing tasks on hand.

NEDs should also physically attend all shareholder meetings. After all it is the shareholders who the Non-Executives represent and such meetings are vital to hear directly about shareholder views as well as to communicate back about processes and decisions taken.

10. Always keeping corporate governance and the big picture in mind

While the above framework will help NEDs in timely management of their board activities, a key guiding principle to keep in mind comes from Stephen Covey who urges effective executives to always keep the big picture in mind, with “first things first”, i.e. seeing their activities from the perspective of their principal roles and fulfilling main objectives.

Corporate governance issues act as key “compasses” and should be used to prioritize and decide on both time management and important decisions. Directors should remember that corporate governance on boards reflects and affects how executives at all levels of the company behave.

Board Committees

Those NEDs who are members of board committees such as audit, governance, risk, nomination and remuneration, will need to think through what activities these committees need to pursue and how best to allocate time to them. Each will have its own additional time requirements and training issues that must be addressed. In particular, getting outside specialist advice is essential. A similar framework as described above could be used to increase committee effectiveness.

What activities should NEDs not spend time on

While most of the advice given in this note talks of time scheduling and activities NEDs should pursue, there are also some activities NEDs are advised against spending time on. Two of the most important activities to avoid are:

- i. Jeffrey Sonnenfeld has noted that “a common point of breakdown occurs when political factions develop on the board.” A time management technique that can help mitigate against this is for NEDs not to meet, on board related matters, separately with each other intentionally excluding one or more other NEDs. In meeting on board matters outside the forum of the board, NEDs should be encouraged to either meet all together or circulate to all

other NEDs (and if appropriate to the full board and CEO) a summary of what was discussed. The aim is not to suppress dissent, which is vital for a healthy board, but to channel the conversation to issues and not personalities and to enhance trust between all board members and the CEO.

- ii. The relationship between NEDs on one hand and the CEO and other executive board members on the other should be based on a concept of constructive partnership. Importantly NEDs should not spend time on details or get sucked into advising and deliberating on details. Some boards get involved in discussing at length niceties and ultimately end up micro-managing the CEO and the Company.

Family controlled businesses

Realistically the individuals or family groups who control family owned listed or unlisted companies don't always welcome interventionist participation from outside directors. In such companies there is often no clear distinction between the management and the board. In many such companies corporate governance is largely form over substance where NEDs follow a tick the box mentality.

This is at the root of many of the problems that routinely beset some family owned and managed companies. The situation is however changing. Globalization has increased to such an extent that even in protected industries, companies feel the heat of competition. The result is that family owned companies are being forced to re-examine how they operate and what corporate governance processes they put in place and adhere. Much depends on the objective and vision of the family owning a significant shareholding or a majority in a company. If the intent is to become world class and compete globally then there is little choice but to get the best advice from NEDs.

Private family owned companies either have:

- i. Small "closed", but reasonably well functioning boards that need to be opened up (because of an external investment or restructuring). These boards typically consist of the CEO/Chairman (family member), a non-executive family member, a lawyer and a notary, so heavy on the legal side, but much less on strategy, finance or technology
- ii. Boards that are not "settled" due to "family governance" issues. Here there are typically too many family members, some with and some without executive power that want to have a say in what the company does. Needless to say, these family governance issues have to be sorted out as a priority. The intrepid incoming NED has to point this out fast and extensive meetings with family members is required. Tact and diplomacy are required and recommending that these issues be sorted out with the help of additional professional advisors (consultants or coaches) is a good course of action.

Initial Due Diligence

This note is focussed on time management while being a director on boards. However, given the time commitment NED's must make and the potential liability involved in being a NED, before joining the board one should carry out a detailed due diligence exercise. This involves not only a thorough review of the company's financial statements, annual reports and if available board minutes for the past 5 years but also references and meetings to better understand the company's culture and reputation. Should any issue arise there, it should be handled quickly with the Chairman or the Nomination's Committee.

Substantial time spent upfront on finding out about a company, its shareholders, board and management will go a long way in deciding whether to take up a NED position. It is useful here to keep in mind Greg McKeown's advice from his book "Essentialism: The Disciplined Pursuit of Less". McKeown advises, "Instead of starting big and then flaring out either [it's] a YEAH! Or no".

Conclusion

Dominic Barton and Mark Wiseman write, "Most governance experts would agree that public company directors need to put in more days on the job." In their article "Where boards Fall Short" they quote experts on the number of days Directors should spend on board responsibilities for "large, complex firms" who suggest a range of 24 to 54 days a year. The authors recommending that "directors dedicate at least 35 days a year to the job."

For smaller and simpler private companies the time commitment could be much lower; 10 to 12 days a year for a small foundation, endowment or professional association and 18 to 24 days a year for SMEs. While the objective is not to just clock up a certain number of days, NEDs cannot look at just 4 days in their annual calendar. To be effective on any board requires a sincere time commitment.

It should also be kept in mind that despite the best planning, sometimes meeting dates and times change. Flexibility is also required if agreed schedules have to be changed due to emergencies.

NEDs, by definition, are not full time and yet NEDs must ensure that they spend sufficient time on key activities as described in this note. This can only be effective if they plan the use of their time commitments in a thoughtful and well planned manner.

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