

Enhancing Board Effectiveness
“A Chairman’s Perspective”

Basics for Effective Boards:

- Clarity of Purpose.
- The Right People.
- The Right Structure.
- Sound Processes.

Our Sonae Board Experience:

- How we differ from the “classic” dispersed shareholder model?
- Differentiating factors vs. typical Portuguese listed companies.
- Critical success factors driving performance of our Boards.

- Clearly define the role and goals of the Board and Board Committees.
- Ensure that the Board sets clear goals for the business, which take into account responsibilities to all stakeholders, and are aligned with creating shareholder value.
- Decide the “Level of Engagement” that the Board should be achieving:
Passive, Certifying, Engaged, Intervening, Operating
- Assess the effectiveness of the Board and take actions to continuously improve Board performance.
- Monitor the role of the Board as the business changes over time and adapt the role as required.

Basics for Effective Boards

Clarity of Purpose – Levels of Engagement



LEAST INVOLVED

MOST INVOLVED

The Passive Board

- Functions at the discretion of the CEO.
- Limits its activities and participation.
- Limits its accountability.
- Ratifies management's preferences.

The Certifying Board

- Certifies to shareholders that the CEO is doing what the board expects and that management will take corrective action when needed.
- Emphasizes the need for independent directors and meets without the CEO.
- Stays informed about current performance and designates external board members to evaluate the CEO.
- Establishes an orderly succession process.
- Is willing to change management to be credible to shareholders.

The Engaged Board

- Provides insight, advice, and support to the CEO and management team.
- Recognizes its ultimate responsibility to oversee CEO and company performance; guides *and* judges the CEO.
- Conducts useful, two-way discussions about key decisions facing the company.
- Seeks out sufficient industry and financial expertise to add value to decisions.
- Takes time to define the roles and behaviors required by the board and the boundaries of CEO and board responsibilities.

The Intervening Board

- Becomes intensely involved in decision making around key issues.
- Convenes frequent, intense meetings, often on short notice.

The Operating Board

- Makes key decisions that management then implements.
- Fills gaps in management experience.

Copyright: Extracted from Article by David A Naylor – Published in Harvard Business Review - May 2004

- Selection and nomination of new Board members is clearly critical.
- Build a balanced team with the right mix of competencies and experience to achieve both the governance and management of the business.
 - ✓ The Chairman needs the skills and experience to run the Board, support the CEO and also maintain good relationships with shareholders (based on transparency, understanding and alignment).
 - ✓ The CEO needs the skills and experience to lead the ExCom and run the business.
 - ✓ Non-Executive Directors (NEDs) need to be able and willing to challenge management.
 - ✓ Independent NEDS need to be able and ready to assert their independence in challenging management, supervising processes to manage conflicts of interest and overseeing related party transactions.

- Appoint a majority of Non-Executive Directors, including a high proportion of Independent NEDs.
- Use of Board Committees to specialise and review areas in more detail ahead of full Board meetings to improve the efficiency in Board meetings and maximise the impact of NEDs.
- Delegate the operational management to an Executive Committee (ExCom) under clearly defined terms of reference.
- Focus the Board on developing strategy that delivers long term shareholder value.
- Design incentives that align management with delivering value to shareholders.

- Establish clear processes to cover strategic planning, budgeting, investment appraisal and to manage risk.
- Comply with Corporate Governance best practice.
- Provision of clear and timely information to Board members.
- Issue minutes promptly after meetings and follow-up action points.
- ExCom to report on their activity and main decisions.
- Other Board Committees to report on their activities, conclusions and recommendations.
- Comprehensive induction processes for new Board members.
- Carry out regular assessments of Board performance and implement follow-up actions.
- The processes to decide Board remuneration should be transparent, rigorous and subject to independent scrutiny.

The active involvement or presence on the Board of reference shareholders can lead to:

- Increased agility in decision making and also the ability to take decisions “for the medium to long term”.
- Opportunity to pass personal values to the businesses and create a clear business culture (examples at Sonae: entrepreneurial spirit, respect for the environment, ethics, etc.).
- Reduced “agency” risk – less likely to have shareholders and management with different agendas.
- Increased risk of “minority shareholder” issues – reference shareholders with control are in a position to decide in their own interest rather than in interest of all shareholders (when there are conflicts of interest or when related party transactions occur).

Our Sonae Board Experience

Differentiating factors vs. typical
Portuguese listed companies



- For many years we have appointed a significant proportion of external NEDs, most of whom are independent (importance of diversity attained: academic background, areas of expertise, experience, age, nationality, etc.).
- Our Chairmen encourage NEDs to actively “participate” and “challenge”.
- Reduced number of Board meetings to 4 quarterly meetings for results reporting and 1 or 2 meetings for strategic planning and budget approval. Additional Board meetings are held when necessary. Too many meetings reduces “pool” and diversity of NEDs available.
- Established Board Committees – Board Audit & Finance Committee (BAFC) and Board Nomination & Remuneration Committee (BNRC) – to specialise and “leverage” impact.
- Use of conference calls ahead of Board Committee meetings to get early feedback and save time at main meetings.
- Carried out formal Board self-assessments and implemented follow-up actions (example: Boards now concentrate on strategy with activity reporting largely being by exchange of email between meetings).

Our Sonae Board Experience

Critical success factors driving
performance of our Boards?



- Setting a Board and business culture of ambition, entrepreneurship, transparency and open discussion.
- Recruiting excellent and assertive independent NEDs and facilitating their role (example: by holding separate meetings of NEDs).
- Achieving agility in taking Board decisions by balancing the presence or immediate access to reference shareholders with effective challenging from independent NEDs.
- Delegating operational business management to an ExCom under clear and unambiguous terms of reference.
- Setting a goal of being at the forefront of adopting Corporate Governance best practice both in Portugal and internationally.
- Taking care of minority interests by carefully managing conflicts of interest and related party transactions (example: use of BAFC and, particularly, independent NEDs).
- Regularly assessing the Board and Committees using formal processes facilitated by outside experts in organisational behaviour that cover both Board as a whole and individual contributions. Then implement follow-up actions that lead to improved Board performance.