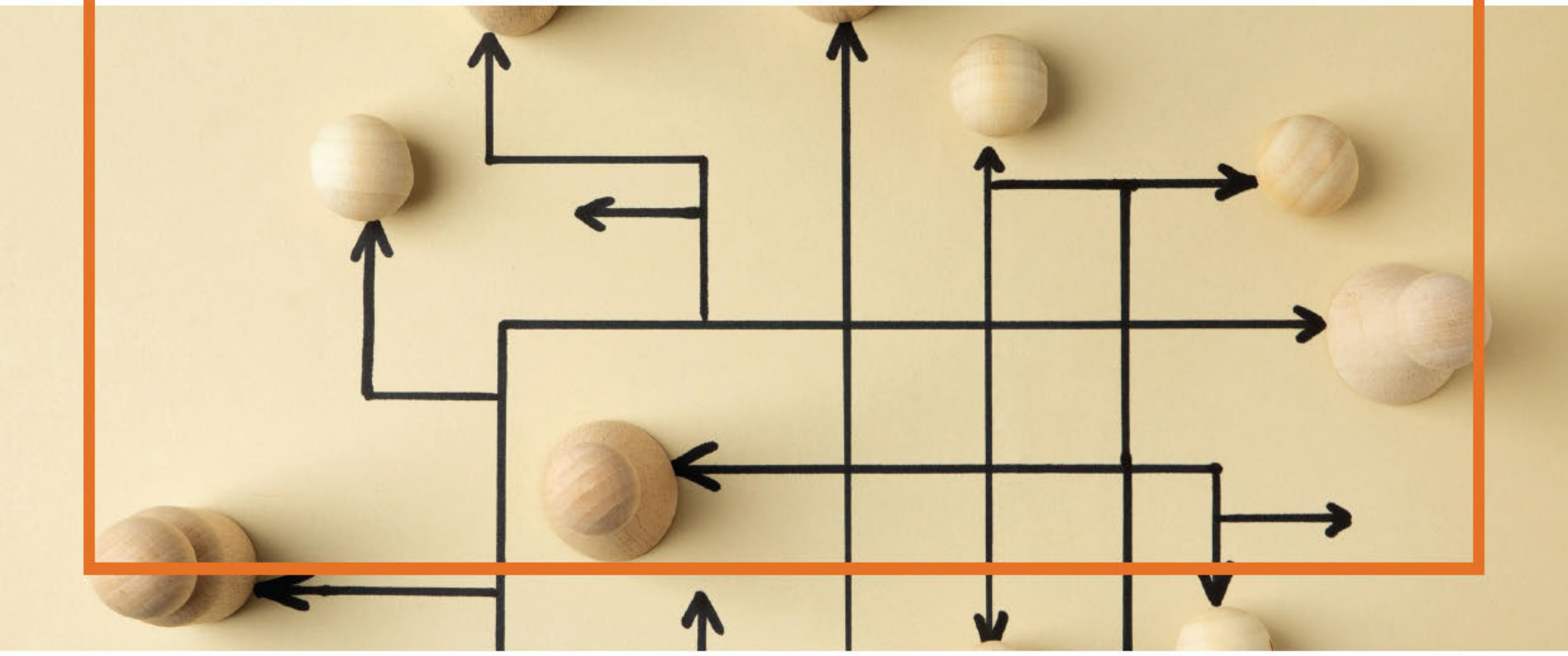
Decision making and strategic oversight



Management decision making

Often, the founder of a startup or SME tends to be the sole decision maker; an entrepreneurial owner operator who does the day-to-day alongside everything else. As the company evolves, it's important that the decision-making style does too. The company needs a team of talented and knowledgeable professionals to work together collaboratively on company decision-making and to provide guidance to the executive team.

A board of directors is the governing body of a company, and its aim is to set and achieve the company's strategy, oversee management, and protect the interests of shareholders and stakeholders, alongside their statutory duties to promote the success of the company and to exercise reasonable care, skill and diligence whilst doing so.

The board of directors is usually supported by an executive committee, consisting of the Chief Executive Officer (CEO)/founder, Chief Financial Officer (CFO) and other key executive positions within the company. The executive committee are given responsibilities to act on behalf of the board, within the powers delegated to them, and they report on operational matters to the board, thereby enabling more effective decision making.

As the business grows, the board may decide to delegate some responsibilities to specific committees to consider issues such as audit, risk and remuneration.

Delegated authorities are simple. Who can do what, how and how much?

Decide which issues should be reserved for the board's decision and identify the particular matters suitable for delegation to board committees. These areas should be formalised in the company's governance documentation. Remember that each committee considers matters within its delegation and reports to the board with its findings and recommendations, but the board retains responsibility for any final decisions.

Board effectiveness and Composition

Effectiveness

An effective board is one which has an appropriate combination of skills, backgrounds, experience, and knowledge that promotes accountability and incorporates objective thought, which in turn provides constructive challenge to achieve effective decision making. What is deemed appropriate depends on the size and nature of the organisation, but generally a company needs a diverse mixture of talent that can work well as a team towards achieving the company's vision in strategy whilst enhancing shareholder value. Collectively, the board will need experience in key areas such as its industry sector, geographical and market knowledge, subject matter and technical expertise in fields, as well as a range of soft skills and a diversity of views and perspectives.

Most companies use a skills matrix to identify strengths and weaknesses of its current board, which can be used as a basis for future recruitment and succession planning. The matrix will highlight each director's proficiency in specified skills, knowledge, competencies, and aptitudes as determined by the organisation. Gaps in these areas should be filled through director training or recruitment. Companies should give consideration not just to their current requirements but also to what expertise it will require in the future to fulfil its longer term strategic objectives.

What do I need to do?

The board and individual directors should have their performance and effectiveness reviewed on an annual basis. This can be done in house, however an externally facilitated evaluation conducted every three years is seen as best practice practice and is recommended. Where a chair is appointed, they are responsible for the overall effectiveness of the board and should ensure that any recommendations arising from the board performance review are acted on.

Size and Composition

The size and composition of the board will vary company to company, and it depends on what stage the company is at in its development. For example, a large, unlisted company may require more directors on its board due to the complexities of its business, compared to a smaller organisation. The general rule of thumb for a size of a board is that it 'should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption and should not be so large as to be unwieldly.'

The board should try to determine its optimal size, based on the requirements for balanced decision-making, its current composition, diversity and the need to service committees. Additionally, it should determine its ability to hold productive, constructive discussions and make prompt rational decisions that enhance shareholder value and are in the best interests of the company. Somewhere between 5 and 12 directors appears to be usual for many companies, and usually at least 50% of the board are independent non-executive directors.

The board's composition should promote diversity. Not just of ethnicity and gender, but of skills, backgrounds, experience, knowledge, and personality. A diverse board has a positive effect on the quality of decision-making by reducing the risk of group think, and the directors are more likely to make good decisions and maximise opportunities for the company's success if the right skillsets and perspectives are present in the boardroom.

What do I need to do?

Consider the size and composition of the board on a regular basis as part of the annual board performance review. Company's should expect the size and composition of its board to change alongside the scale and complexity of its operations. Consider allowing minority shareholders to appoint a shareholder representative as a director, to represent their interests on the board.

Succession planning

Part of good governance is ensuring that the company can sustain its operations for the long-term. Key personnel and directors will not be in post forever, so there needs to a succession plan in place for their replacement, unexpected or not.

Succession planning is the process of identifying and developing people within an organisation to fill key positions in the future or to replace key persons in the event of sudden absence. This ensures the continuity of the business and promotes the sustainability of its operations into the future whilst providing resilience in an emergency.

What do I need to do?

You need to have a robust, documented succession plan for key personnel within the business (including yourself if you are the owner). This will naturally include all board, committee and executive level positions, but may also include some middle management or other roles within the organisation.

First, identify those individuals within the organisation whose work is business-critical, and provide some depth to their role. Are there any other staff members who could take over at last minute?

Think: If this person, or these people, are unexpectedly unable to perform his or her duties, what impact will this have on business continuity? Document these observations and develop emergency interim plans for each key position.

Plan ahead. Each key position within the company needs at least a second string. Identify potential succession candidates, provide them with the training necessary to fulfil the role, and develop them to enable them to takeover if the unexpected happens.

Do not procrastinate. Waiting too long to develop the succession planning process is a recipe for disaster. It's generally considered that homegrown candidates are the best succession candidates – identify and develop them early to maximise their potential or risk losing talented staff for lack of career prospects.

Use the succession plan as an opportunity to diversify the skillset of the board and executive team. Plan alongside the board and executive skills matrix – think, what expertise are we lacking? What characteristics would strengthen our operations? Don't try to clone people – different is good, and different skills and talents are needed as the organisation grows.

Succession planning should be a regular agenda item for board meetings and the plan should be reviewed regularly and updated when necessary.