

CGMA TOOLS

How to improve your
board's effectiveness:
Tool two - The Board
Mandate

THE BOARD MANDATE

This is a tool that has been developed by the Tomorrow's Good Governance Forum, set up by Tomorrow's Company, of which CIMA is a member. The forum was launched in March 2010 in response to questions raised about the effectiveness of corporate governance in light of the global financial crisis.

A mandate basically forms a working charter and has the potential to help boards navigate their way through increasingly choppy waters by facilitating more effective strategic engagement: primarily between executive management and non-executive directors to improve board effectiveness.

A mandate assists in this strategic process by capturing the essence of the character and distinctiveness of the company in terms of: its essential purpose; its aspirations; the values by which it intends to operate; its attitudes to integrity, risk, safety and the environment; its culture; its value proposition to investors; and plans for development. It is a living statement about what the company stands for and how it wishes to be known to all its stakeholders.

To create a mandate requires deep and comprehensive discussion by the board, and provides a lens through which the board can probe the future route for creating value and sustaining performance. Much of the information included in a mandate may exist in other forms, such as mission statements and strategic plans, but the mandate has a different focus. The test of success is that if each member of the board can describe what is distinctive about the company in broadly the same way, then the mandate has been embedded successfully.

Once the mandate has been developed, it can be used as a framework against which to judge transformational business decisions such as whether to enter a new geographical market or to make a major acquisition. A functioning mandate adds the greatest value if it underpins all boardroom conversations, strategic choices, operational and execution processes, systems and people development, and frames all external communications. It should certainly feature prominently in the board information pack. This is because it defines the broad principles

and parameters of the future direction within which the board seeks to operate, potential misalignment should automatically trigger a requirement for close inspection and constructive but critical challenge. The mandate should help the board be more effective by providing 'tramlines' and reference points so that the board understands when it is going outside these tracks when making a challenging decision. It is important to emphasise that a mandate cannot guarantee success. It will certainly not prevent bad judgment occurring or 'irrational exuberance' which underpin many corporate failures, but it should represent a kind of 'pause' button around which boards can take stock, without being hostile to innovation.

Some board members may feel that they already know what their board stands for. They could be right. The acid test is if each of the board members can consistently articulate all that a mandate would contain without thinking about it and if it is an active part of the decision-making process, and shared with external parties, then the board does indeed have a mandate. Evidence suggests though that many boards do struggle in this regard. One leading governance expert has claimed that he has never been in a boardroom where the answers to such questions as 'what is the purpose of the company?' and 'what are the three main values that drive the business?' are the same from each respondent! Likewise, a chairman of a number of UK and US companies has indicated that in all his board appointments, he had never been provided with a succinct overview of what the company was about and was of the view that it would make key board tasks, such as recruiting new chief executives much more straightforward and effective. In his view, it may well be true that the mandate does already exist, but you basically have to hunt and find it!

THE MANDATE TOOLKIT¹

To help with the process of developing the mandate the following tool kit provides an agenda for board discussions, some of which are shown below. These are not questions to create a mandate, rather, they are the type of questions that the board should consider and discuss from which a mandate might be created. Board conversations should include:

Who are we and what do we stand for?

- What is special and distinctive about us?
- What is the primary purpose of this company?

Notes/additional questions

What values, reputation and culture do we want?

- What are the core values to which we aspire?
- How do these translate into our actions?
- How do we define the culture of the company?
- What are the issues on which we won't negotiate/compromise?

Notes/additional questions

How do we create a successful and sustainable organisation?

- What is our core business model? What are our main products/services? How do we make money from them?
- Can we describe our value chain?
- What is our approach to our value chain? Which parts do we focus on?
- What are the characteristics of the markets in which we operate?
- What is it about us that makes these markets a good fit?
- What are the core criteria that must be met for us before we will enter a new market?
- What is our approach to sustainability? In what way do we aim to add value to the society/ies in which we operate?
- Have sustainability issues relevant to the business of the company been identified and are they incorporated into our long-term strategy?
- Do we make an honest assessment of how we remove value from society? And what is our approach to dealing with the 'downsides'?

Notes/additional questions

What relationships do we have with our stakeholders?

- Who are the major stakeholders and how do we balance their needs?
- What is our fundamental approach to our relationships with immediate suppliers/customers?

Notes/additional questions

What is our appetite for risk?

- What are the five major challenges and/or opportunities that could make or break the company?
- What is our distinctive approach to risk and opportunity across the company compared to peers and competitors?
- In which areas does the company seek to be a leader and/or undertake innovative risky ventures and where is it content to play safe?
- What technological, social and political changes and discontinuities might the company face?

Notes/additional questions

How do we develop our business?

- What is our approach to renewal and/or growth?
- What is our approach to talent?
- How do we preserve and create our corporate memory so that we learn from mistakes effectively?
- How do we generate and discuss options and turn the best into concrete actions?
- What are the key criteria on which we make decisions?
- What does our future blueprint look like?

Notes/additional questions

Footnotes

- ¹ The full tool kit is available in, *The Case for the Board Mandate*. To read see <http://www.cimaglobal.com/Thought-leadership/Tomorrows-Value-lecture-series/> or www.tomorrowscorporategovernance.com

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