

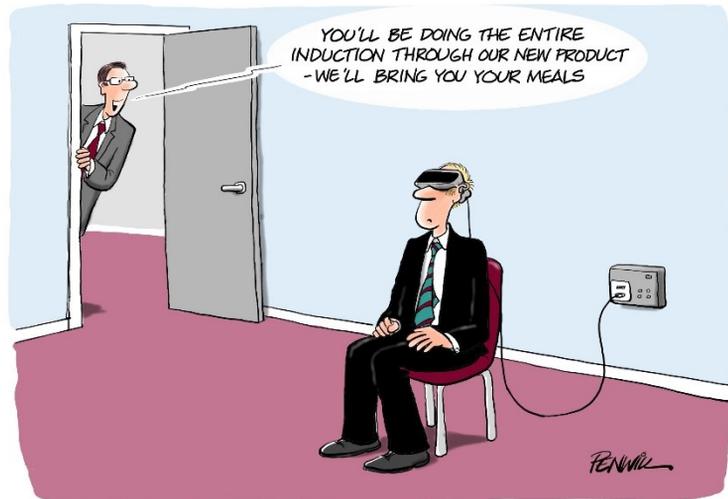


September 2015

Induction

Everyone accepts it's a good thing that needs to get done. New non-executives invariably express a willingness to do it. And you're supposed to report on how it's done. But how often does good intent around induction get turned into an effective process? We see some very good examples – and quite a few where the report card reads "could do better".

Getting it right matters: helping a new director get up to speed as quickly as possible, making them feel welcome and able to contribute early on, and getting the relationships with executives off on a good footing are just some of the reasons why it makes sense to invest the time in getting it right. So what works well – and not so well?



Good practices to consider...

The Chairman should take a personal interest in it, encouraging and guiding the new director. It's the chairman's board and he or she already has a lot invested in the future success of the new NED – and a lot to offer to the induction, both from their wide knowledge of the company and its people, and from their own experience of taking on new NED roles.

Get feedback on how it's been for others. Ask about the timing, pace, volume, structure, focus, content...and encourage them to be honest and not just polite because they are new.

Find out how they like to learn. We all do it in different ways, and a new joiner could well have specific ideas as to what they want to focus on and what will work well. Some will tackle paper-based information first, others will want to get out into the operations – others to talk to people.

Things to avoid...

Leaving it to the Company Secretary. No matter how good they are, Company Secretaries are not best placed to act as mentors to new NEDs – but guidance and encouragement from the Chairman are of real value to helping the newbie get started and build up confidence in the role, even if the Co Sec is instrumental in making the induction actually happen. Or even worse, leaving it all to the new NEDs to decide for themselves what they need to know, before they know enough to make the best choices.

Waiting for the next board effectiveness review to ask – or not asking at all. It's not unusual during a board review to find we're the first to ask about the induction experience. If it's not gone so well, by then it's usually too late to do much about it and often the details have become a bit vague. Ask while it's still fresh.

The Company Secretary assuming that they know what's wanted – or simply rolling out what's worked for others in the past.

Good practices to consider...

Keep the volume of paper down. That might mean some initial investment of time from the company secretarial team to provide high level summaries, or at least some signposting. It also means recognising that paper will only provide a foundation for learning that needs to be built on in other ways.

Help them meet the people in charge – and ahead of the meeting provide an “annotated agenda” of a few topics that will stimulate discussion. Getting executives to be enthusiastic about their area of responsibility is the quickest – and most interesting – way to build a picture. And good exchanges and first impressions will help set the tone for a sound relationship for the future.

Provide the person the director is meeting with some background on their experience and skill set. That should mean a more interesting and worthwhile discussion, and could help the executive understand better how to support the director in future – and how they might benefit from the NED's experience.

Help them meet the people who are NOT in charge. That means getting out into the business and on to the “shop floor”. Even where there are no obvious operations facilities as such, get them out on to the trading floor or into the branches... and best unaccompanied by senior management.

Get them away from home base. They will have plenty of opportunity in future to hear the business described by head office – having encountered the business in its various aspects, including different locations, will help them to understand what they hear.

Think about the possibility of helping them understand the main “work flows” from beginning to end. In a manufacturing environment that means following the production process through from order (or maybe design) to delivery and servicing. But it works well in many other areas too – from example, marketing and originating a loan product, or making a trade.

Remember the bit in the Code Provisions about taking the opportunities to meet major shareholders. You don't have to do it of course – and actually making it happen is easier said than done if you can't secure the time from the shareholders. But it's well worth hearing from the horse's mouth about external perceptions and concerns.

Things to avoid...

Providing a fat file of company documents, terms of reference, the annual report, past minutes, a few meaty board papers... We've seen induction folders that are intimidating in size and a tedious introduction to the business. It certainly is unlikely to be effective in bringing the business alive for the newcomer.

Simply setting up a schedule of meetings and leaving the newbie to get on with it. They're no doubt capable of holding a discussion – but will they get out of it as much as they should? It might not have much focus – and if the conversation drifts (possibly quite pleasantly but that's not the point) it will be a lost opportunity – or worse, might even be seen by either or both as a bit of a waste of time... not a good start.

Just assuming people know why the new director has been appointed and what they're expected to bring to the party.

Restricting the exposure to the senior management team. Yes, time will be a factor but it's important that the new NED has an opportunity to get a feel for the organisational environment.

Arranging visits to “the usual places”, chosen because they are conveniently located or particularly interesting to see.

Just assuming that they know how something gets from A to B: they may well not be an industry expert and could be learning from a fairly low level. And providing it on paper – much better to have them walked through the process by those responsible for it at different stages. That brings it alive and gives the director a strong exposure to the people and products.

Adopting a very internal-looking focus and neglecting the knowledge and different perspectives that can be drawn on – especially when the new NED has the legitimate excuse of meeting some of the major investors.

Good practices to consider...

Put in place a "reinforcement loop". Once the agreed programme has been completed, help the director circle back – closing meetings with the senior executives, the Company Secretary, maybe the Head of Audit or the Chief Risk Officer... so that they can ask questions which hadn't occurred to them when they first started.

Don't stop when the initial programme is completed! NEDs all benefit from periodic informal contact with the business. So let the induction programme be simply the first, most intensive, stage of a continuing programme.

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Things to avoid...

Letting it drift to an undefined conclusion. That's particularly a risk when scheduling difficulties have meant that some meetings haven't happened – or it's all become so extended that it peters out in a lack of enthusiasm on all sides. Induction can take a while, if it's extensive and properly planned, but it needs to have a clear beginning and end if the focus and momentum is to be maintained.

Assuming that when the induction process is complete the job's done.

If you have any questions on the issues covered here, please contact Richard Sheath at richard.sheath@independentaudit.com

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