

# PRACTICE NOTES

King III Chapter 2

Director Induction

March 2011

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## Director induction

### Introduction

Principle 2.20 -The induction of and ongoing training and development of directors should be conducted through a formal process. The board should establish a formal induction programme to familiarise incoming directors with the company's operations.

### Target audience

This practice note provides guidance to the board and company secretary on the induction of new directors.

### Objectives:

The objectives of an induction programme are to:

- Familiarise incoming directors with their rights, duties and functions;
- Ensure that new directors attain a level of understanding of the business, operations and industry;
- Maximise the level and degree of new directors' contribution to the board;
- Ensure that new directors make informed decisions on matters concerning the company.

### The process

The board is responsible for ensuring that a policy and programme is in place for the induction of new directors. The policy should cover the objectives as well as the process and who is responsible for implementing the process.

The company secretary should assist the board in carrying out the induction process according to the induction policy set by the board.

The induction process can be carried out internally or by external service providers, depending on the needs of the organization, as well as the resources available within the organization. It should be carried out as soon as possible after appointment of a new director, and prior to that director attending his first board meeting.

In addition to having an induction pack, which will be quite voluminous and will contain all of the necessary documents that the director is required to acquaint himself with, usual practice is to have a PowerPoint presentation covering the salient points.

Note that some of the information below may have already been provided during the director's due diligence process prior to appointment, or along with the appointment letter. Whilst duplication should be avoided, care should be taken to provide any updates/reminders that may be necessary.

**What should be covered:**

## The role of the director

- An introduction to the role and legal responsibilities of a director, including common law fiduciary duties as well as other responsibilities – this can be covered in the form of a document in the induction pack and/or a presentation summarizing the salient points;
- Any special role or responsibilities the director will have (eg if non-executive directors hold separate meetings);
- The process for and policies on other interests (eg restrictions on taking up other directorships) and declaration of interests (eg declaration of shareholdings);
- Where and how to get advice if the director has any concerns regarding his role and responsibilities;
- Corporate governance guidelines and policies (eg King III, board and committee charters, internal policies, company governance manual, if any);
- Board and committee charters/terms of reference;
- What board committees exist, if any, and which the director will sit on;
- Personal liability of directors (instances where directors can incur personal liability), and Directors & Officers insurance, if any, that covers this (terms and conditions of the insurance policy, what is covered, and particularly what is excluded from the cover).

## Operation of the board

- The legislative requirements for appointment and removal of directors (as per the Companies Act, the company's Memorandum of Incorporation (MOI) as well as the board charter);
- The company's MOI or equivalent, and what it says about the operation of the board;
- The composition of the existing board in terms of skills and qualifications as well as split between executive and non-executive (a short CV of the existing board members provided in the induction pack);
- Corporate governance issues (e.g. succession planning on the board and board committees, separation of chief executive and chairman, independence of chairman – and if not, whether a lead independent director has been appointed);
- Board committees and what responsibilities have been delegated to them (this can be covered by including all board committee charters in the induction pack)
- Responsibilities delegated to the company secretary (e.g. company administrative duties, which can be found in the company secretaries employment contract or job description);
- Delegation of authority framework;
- Group governance framework;
- Board's right to independent professional advice (e.g. how to go about this, who can the director approach, are there internal and external sources, are there any limits where the chairperson's approval is required);
- Board procedures (e.g. circulation of documents prior to meetings, where meetings are held, how update between meetings is obtained);

- Frequency of board meetings, meetings currently scheduled and directors powers to call additional meetings;
- Agenda for the next board meeting;
- Minutes of the previous several meetings (and of any committees on which the director will sit);
- Details of key issues that occupied the board for the previous 12 months;
- Details (e.g. brief CV and contact details) of other directors, and which committees they are on;
- Details (e.g. name, contact details, duties, and qualifications) of company secretary (if the company has one - if the company does not, then contact details of the person who fills this administrative role for the board).

#### Business background

- The company's group structure (holding company/(s), subsidiaries, associates, joint ventures, branches, if any);
- Group arrangements and combined governance models (if any);
- The external environment in which the business operates (information on sector/industry, trends, benchmarks, competitors)
- Major events over the last few years (which can be found in previous annual reports);
- Company mission, vision, strategy, values and current business plan;
- Major elements of the company's business (e.g. key customers and markets, contracts, suppliers);
- Key stakeholders and how they are managed;
- Current performance of the business (e.g. financial position, budgets and management accounts, key performance indicators);
- Any significant litigation the company is involved in or may become involved in (and the potential liability that could result);
- Previous annual reports and accounts (and any interim reports);
- Any other significant reports (e.g. corporate social responsibility reports);
- Any supporting material (e.g. marketing brochures, press releases).

#### Running the business

- Key individuals other than the board (senior executives -their roles and contact details);
- Professional advisers (who they are, what they are used for and how they work with the board);
- The process for making key decisions (investment, strategy, compliance);
- Key policies and procedures (e.g. code of conduct, health and safety; environmental management; disaster recovery; dividend policy);

#### Shares and shareholders

- Documents relating to any general meetings over past three years (e.g. minutes, resolutions);
- Investor relations policy and responsibilities;
- Policy on directors' share ownership and share dealings; disclosure of price sensitive information.

#### Practical issues

- Premises layout and facilities (e.g. toilets, parking);
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- Useful people and contact details (e.g. personal assistants to the executives);
- Any support services (e.g. secretarial);
- Issue of company phone number, email address;
- What expenses can be reclaimed and the procedure;
- Protocol, procedures and dress code for board meetings, general meetings and other functions.

#### Executive role

- Any additional information required if the director will also be taking up a new executive role (e.g. key duties, personnel etc).

#### **Conclusion**

It is recommended that induction policies and programmes need to be reviewed to ensure that they are complete and meet the necessary objectives.

#### Resources:

- Andrew Jackson Legal Factfile, New director induction Checklist