

The Highly Effective Board: Elevating Best Board Practices

July 20, 2016

Presented By: Diane Miller

CalPERS Vision

A trusted leader respected by our members and stakeholders
for our integrity, innovation and service

CalPERS Mission

Provide responsible and efficient stewardship of the System to
deliver promised retirement and health benefits, while promoting
wellness and retirement security for
members and beneficiaries

CalPERS Core Values

Quality | Respect | Accountability | Integrity | Openness | Balance

Agenda

- Creating a Successful Board and Management Relationship
- Board Effectiveness
- Board Culture and Dynamics
- The Committees
- Role of Committee Chairs
- Pulling it all Together

Creating a Successful Board and Management Relationship

The Role of the Board vs. the Role of Management

- Oversight and Management are Different
 - Directors ensure good management; they don't provide it
 - Directors direct, managers manage
 - Directors trust and verify
- Remember: the fundamental role of the board is to oversee management by monitoring performance and compliance with policies and law.
 - Board engagement in operations oversight is different from board engagement in strategy and risk
- Operations:
 - Is management meeting their plan?
 - Are they managing operational risks?
 - Have they informed you of changes in the environment?
 - Do they have the staff, skill set, and resources to achieve goals?

The Role of the Board vs. the Role of Management

- Strategy and risk:
 - Is it a shared, iterative process?
 - What are the range of alternatives?
 - What are the assumptions and have they changed?
 - How is strategy and risk embedded throughout the organization and monitored?

The Role of the Board vs. the Role of Management

	Board	Management
Ethics	<ul style="list-style-type: none"> • Review and approve code of ethics policy • Ensure necessary systems are in place for organization to legally and ethically operate 	<ul style="list-style-type: none"> • Create code of ethics policy for the board's review and approval • Establish systems to ensure ethical compliance • Set a tone for the organization that values ethics and culture
Board Meetings	<ul style="list-style-type: none"> • Collaborate on agenda with management • Thoroughly review board meeting materials 	<ul style="list-style-type: none"> • Collaborate on agenda with board • Deliver timely and focused board meeting materials

The Role of the Board vs. the Role of Management

	Board	Management
Organization Operations	<ul style="list-style-type: none"> • Oversight of operations (is management keeping you informed?) 	<ul style="list-style-type: none"> • Manage organization operations • Ensure operations are safe, sustainable, humane, fair, and legal
Financial Goals	<ul style="list-style-type: none"> • Review and approve the organization's financial objectives, plans, and actions, including significant capital allocations and expenditures 	<ul style="list-style-type: none"> • Set financial goals • Implement plans to ensure the goals are met
Organization Performance	<ul style="list-style-type: none"> • Monitor organization performance against the strategic and organization plans 	<ul style="list-style-type: none"> • Ensure the systems are in place to execute the strategy • Report status and progress to the board routinely

The Role of the Board vs. the Role of Management

	Board	Management
Strategy	<ul style="list-style-type: none"> • Review and approve strategic plan • Develop an in-depth knowledge of the organization • Monitor competitive landscape • Utilize outside resources when appropriate 	<ul style="list-style-type: none"> • Create strategic plan with input from the board
Risk	<ul style="list-style-type: none"> • Oversee risk • Utilize outside resources when appropriate 	<ul style="list-style-type: none"> • Manage operational risks • Stay abreast of competitive landscape

Asymmetric Information

Management



Board



Committee



Board



Summary

- The Board Should be Aware of:
 - Overlaps in the roles of board and management
 - Adding value through a focus on strategy
 - Information flow with management

Board Effectiveness

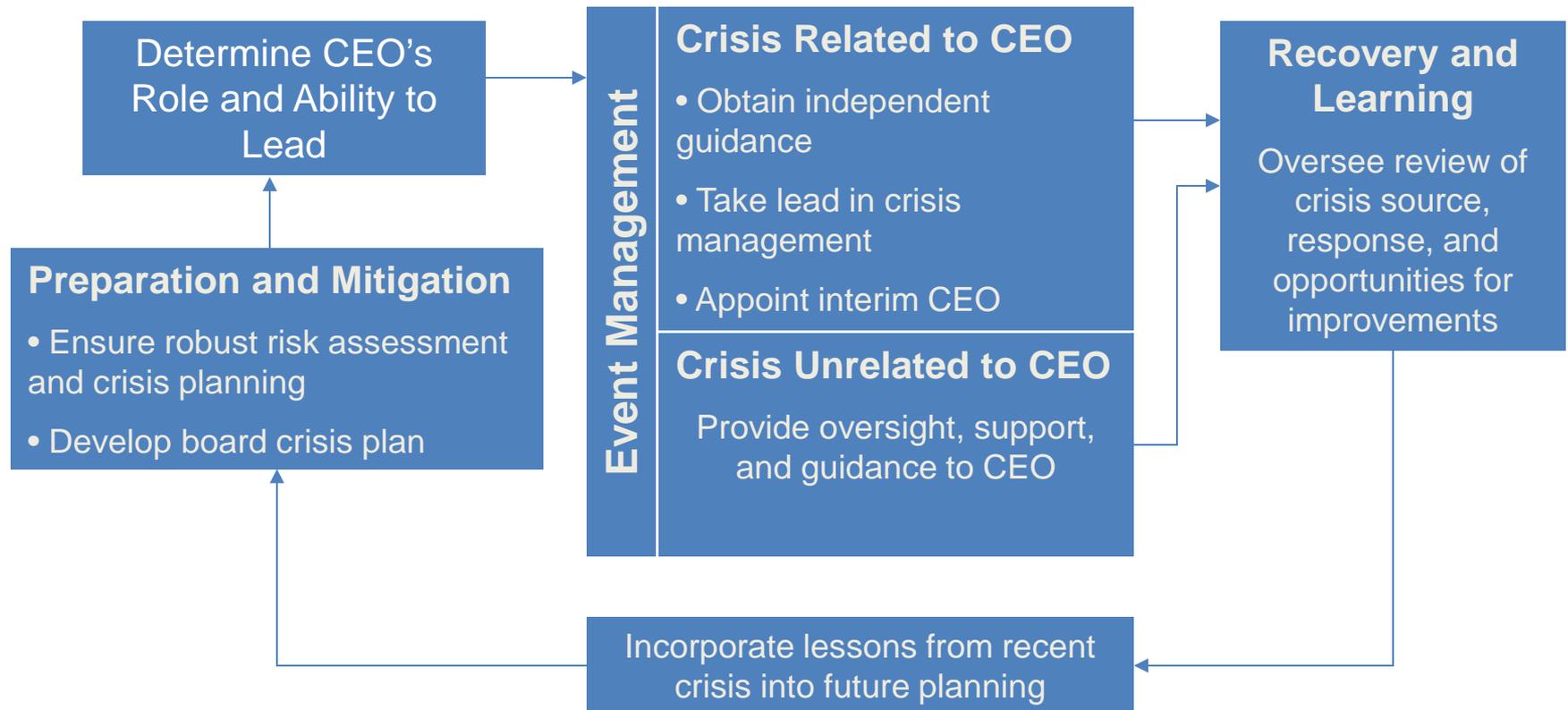
Board Effectiveness

- Prioritizing board responsibilities
- How do you ensure...
 - Appropriate use of time?
 - Covering critical topics/subjects?
 - Access to information and sources critical to decision making?
 - Fulfilling your fiduciary duties?

Board Effectiveness

- Board Behavioral Norms (An Example)
 - Openness without assumption
 - Accountability in the meeting and beyond
 - Respect and trust
 - Strive for alignment
 - Pause and thoughtfulness
 - Avoid the use of external communication devices

The Board's Role in Each Phase of a Crisis



Board Culture and Dynamics

Board Culture and Dynamics

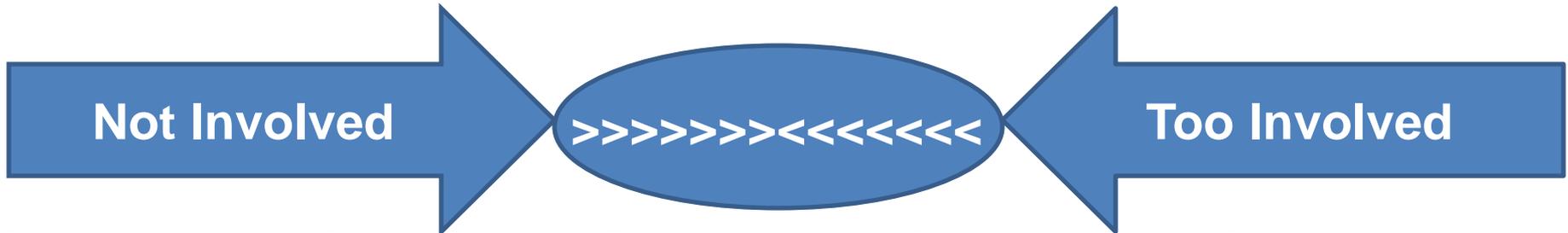
$$\textit{Capabilities} + \textit{Culture} = \textit{Capacity}$$

The *CAPACITY* of a board to add value and remain independent is a function of the

CAPABILITIES of individual directors (skills and attributes) and the *CULTURE* of the board (including process, behaviors, and expectations).

How Engaged Should We Be?

The following are five possible board models, which fall along a continuum from not involved to too involved.



Passive Board	Certifying Board	Engaged Board	Intervening Board	Operating Board
<ul style="list-style-type: none"> • Functions at discretion of CEO • Ratifies management's preferences 	<p>Certifies the CEO is doing what board expects</p>	<p>Provides insight, advice, and support to the CEO and management team</p>	<p>Becomes intensely involved in decision making around key issues</p>	<ul style="list-style-type: none"> • Makes key decisions that management then implements • Fills gaps in management experience

Source: David Nadler *HBR*

Signs and Symptoms of Dysfunction

Action/Demeanor	Symptoms
Too dominant or disengaged director(s)	<ul style="list-style-type: none"> • Disrespectful demeanor • Distracted during meetings (reading emails, checking phone, etc.) • Aggressively asserting control over discussion
Rushed decision making	<ul style="list-style-type: none"> • Pressure to make decisions quickly without enough information
Signs of groupthink	<ul style="list-style-type: none"> • Lots of nodding heads—no dissent • Directors don't speak up in meetings but privately air concerns with fellow board members in small groups
Lack of information	<ul style="list-style-type: none"> • Routinely only receive information from management and no external experts
Too much deference to authority	<ul style="list-style-type: none"> • Quick to agree with management or committee chairs
Lack of accountability	<ul style="list-style-type: none"> • No one takes responsibility for decisions
Assume follow-up and action	<ul style="list-style-type: none"> • No review of previous decisions

Board Culture and Dynamics

- Assuring a Dynamic High-Performing Board
 - Strive to be a fully independent board member
 - Encourage constructive conflict
 - Active listening
 - Strong board/committee leaders
 - Work together
 - Craft rules of engagement
 - Do not underestimate the importance of “The Physics of the Boardroom”
 - Assign accountability and follow up

Board Culture and Dynamics

Stages of Board Evolution



Source: Ram Charan, *Boards that Deliver: Advancing Corporate Governance from Compliance to Competitive Advantage*, John Wiley & Sons, Inc., 2005

The Committees

The Committees

- **Board Governance Committee**
 - Committee assignments
 - Board composition, including candidate nomination and selection
 - Board structure: size, membership policies, tenure limiting mechanisms, committee membership rotation
 - Board, committee, and peer evaluations
 - Governance matters: code of ethics, governance guidelines, bylaws, etc.
 - Setting and monitoring board performance goals
 - Organizational communication plan/process

Role of Committee Chairs

Role of Committee Chairs

- Committee chairs are responsible for organizing the work of the committees. In fulfilling this function they:
 1. Consult with the President and set the committee agenda in accordance with the Board's delegation to the committee.
 2. Convene and chair meetings of the committee
 3. Ensure that the committee operates to assist the Board consistent with its delegation and Board rules including:
 - a. Limiting meeting discussion content to those issues that, according to Board policy and delegation, are within the committee's responsibility and not within management's responsibility
 - b. Ensuring timely, fair, orderly, thorough but efficient deliberations, and enforcing the Board's rules of order.
 - c. Ensuring appropriate delegation of authority protocol, consistent with the responsibilities of the Board.

Role of Committee Chairs

- Committee chairs are responsible for organizing the work of the committees. In fulfilling this function they:
 4. Work directly with the staff person(s) assigned by the Chief Executive Officer on matters within the committee delegation
 5. May delegate to staff individual Board member requests for documents or information. Staff will inform all Board members of any documents or information provided pursuant to such individual Board member request.

Role of Committee Chairs

- Committee chairs are responsible for organizing the work of the committees. In fulfilling this function they:
 6. Receive and assess requests from committee members for new reports and analyses. The chair will consider the following factors in determining whether the request will be granted:
 - a. The current and projected workload of the staff that will be needed to complete the report or analyses.
 - b. The need to engage consultants and/or third-party vendors to complete the report or analyses, and the budget available to hire any needed consultants and/or third-party vendors.
 - c. The existence of current reports or analyses that may fulfill the request.
 - d. How the request fits into the overall strategic goals of CalPERS.

Role of Committee Chairs

- Committee chairs are responsible for organizing the work of the committees. In fulfilling this function they:
 7. In consultation with the members of the committee and the staff person(s) assigned by the Chief Executive Officer to assist the committee, determine the most appropriate method of and time for obtaining and considering independent consultant input on issues within the committee's delegated authority.
 8. In consultation with the staff person(s) assigned by the Chief Executive Officer to assist the committee, annually review the matters that were presented to the committee during the prior year, and evaluate whether these matters represented an effective and efficient method of achieving the Board's policies and strategic direction. Report conclusions and recommendations to the committee for action.

Role of Committee Chairs

- Committee chairs are responsible for organizing the work of the committees. In fulfilling this function they:
 9. Act as a liaison between the committee, the President, and the Board.
 10. May, in the absence of the President and Vice President, appoint a sub-committee to conduct the business of the committee if there are an insufficient number of committee members in attendance to constitute a quorum.

- E. Role of the Committee Vice Chair.
 - In the absence or incapacity of the committee chair, the vice chair will have the authority delegated and established by the committee's delegation.

The Committees

PRESENTER / SESSION	#	Item	Time in minutes	Q & A	Est. Time at End
OPEN SESSION					
		Call to Order and Roll Call	0	0	9:00a
Ted Eliopoulos		Executive Report – Chief Investment Officer Briefing	15	0	9:15a
Ted Eliopoulos		Consent Items			
		Action Consent Items:	0	0	9:15a
		a. Approval of the May 16, 2016 Meeting Minutes			
Ted Eliopoulos		Consent Items			
		Information Consent Items:	0	0	9:15a
		a. Annual Calendar Review			
		a. Draft Agenda for August 15, 2016 Meeting			
		a. Monthly Update – Performance and Risk			
		a. Monthly Update – Investment Compliance			
		a. Federal Investment Policy Representative Update			
		Action Agenda Items			
	1.	Asset Allocation, Performance & Risk			
Ted Eliopoulos Eric Baggesen Dianne Sandoval Steve Foresti, Wilshire Consulting		a. Interim Asset Allocation Targets Review (Including Capital Markets Outlook)	30	20	10:05a
	1.	Legislation			
Mary Anne Ashley		a. Assembly Bill 2348 (Levine): CalPERS Investments in California Infrastructure Projects.	10	10	10:25a

Source: CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION, *Investment Committee Meeting Agenda*

Pulling it all Together

Pulling it all Together

1. Establish clear direction and expectations
2. Select and support a great CEO
3. Healthy dynamics and engagement
 - Target behaviors to be an “Engaged Board”
 - Change disruptive behaviors early
4. Directors should be passionate about CalPERS
 - A strategic asset and come prepared
 - Study industry
 - Self reflection

Pulling it all Together

5. Continuously improve governance processes
 - Spend time thoughtfully and wisely (agenda setting)
 - Use CalPERS Board of Administration Governance Policy as the touchstone
6. Incorporate strategy and risk
 - Imbed strategy and risk
 - Maintain an ongoing dialogue on risk and strategy
 - Help management identify potential competitive disruptors

Pulling it all Together

7. Evaluate board/committee performance and continuously refresh
 - Evaluate board and committee performance informally after every meeting
 - Board director development and education
 - Practice refreshment
 - Committee and committee chairmanship rotation (policy)
 - Board, committee, self-, peer, senior management assessments

Pulling it all Together

8. Strong board and committee leadership with clear responsibilities

- An effective board leader who leads the board, not the organization, and works well with the CEO
- Effective committee chairs who lead their committees and focus agendas on the important issues, not the organization functions
- Creates a culture of collaboration, communication, and feedback

Q&A
Thank You

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