

Induction of Directors

Since the publication of the ICSA Best Practice Guide *The Appointment and Induction of Directors*, it has become apparent that some newly appointed directors have been completely overwhelmed with the sheer volume of documents and other papers provided by the well meaning company secretary to such an extent that some have been completely put off by it.

The objective of induction is to inform the director such that he or she can become as effective as possible in their new role as soon as possible. The provision of reams of paper in one go is, obviously, not conducive to this process. It is therefore recommended that, on appointment, a new director be provided with certain key, essential information together with a comprehensive list of other information that will be made available subsequently.

More recently we have seen the publication of the Higgs Report on the role and effectiveness of non-executive directors. That report includes various recommendations including, as Annex I, an induction checklist. ICSA worked closely with the Higgs review team on the creation of that checklist and, in order to enable it to be kept brief and to the point, undertook to produce this Guidance Note providing more comprehensive details of the material that should be considered for inclusion in an induction pack provided to new directors on, or during the weeks immediately following their appointment.

The following list is divided into three parts. The first includes the essential material that should be provided immediately and the second, material that should be provided over the first few weeks following the appointment, as and when deemed most appropriate. The director should, however, be provided immediately with a comprehensive list of the material being made available in total, together with an undertaking to provide it earlier if required. The third list covers items which the company secretary might consider making the director aware of.

Note that some information 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 that may be necessary.

The topics contained within this note should be supplied to all newly appointed directors, both executive and non-executive, however the secretary will need to gauge the level of previous knowledge and adjust them accordingly, particularly in regard to the appointment of executive directors.

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Essential information to be provided immediately.

The following information is felt to be essential and needs to be given to the director prior to the first board meeting. Methods of delivery vary, some of the information needs to be sent to the director with his appointment letter; but some could be deferred until a meeting after the board papers have been issued, so that the company secretary can review the board pack with the director before the first meeting highlighting any relevant issues.

Directors Duties

- Brief outline of the role of a director and a summary of his/her responsibilities and ongoing obligations under legislation, regulation and best practice.
- Copy of UKLA Model Code, and details of the company's procedure regarding directors' share dealings and the disclosure of price sensitive information.
- The company's guidelines on:
 - Matters reserved for the board;
 - Delegated Authorities;
 - The policy for obtaining independent professional advice for directors;
 - Other standing orders, policies and procedures of which the director should be aware.
- "Fire Drill" procedures. (the procedures in place to deal with situations such as hostile takeover bids.)

The Company's Business

- Current strategic/business plan, market analysis and budgets for the year with revised forecast, and three/five year plan.
- Latest annual report and accounts, and interims as appropriate.
- Explanation of key performance indicators.
- List of major domestic and overseas subsidiaries, associated companies and joint ventures, including any parent company(ies).
- Summary details of major group insurance policies including D & O liability insurance.
- Details of any major litigation, either current or potential, being undertaken by the company or against the company.
- Treasury issues:
 - Funding position and arrangements;
 - Dividend policy.
- The corporate brochure, mission statement and any other reports issued by the company such as an environmental report, with a summary of the main events (such as mergers, divestments, introductions of new products, diversification into new areas, restructuring etc.) over the last three years.

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Board Issues

- Up to date copy of the company's Memorandum and Articles of Association /Constitution, with a summary of the most important provisions.
- Minutes of the last 3 to 6 board meetings.
- Schedule of dates of future board meetings and board subcommittees if appropriate.
- Description of board procedures covering details such as when papers are sent out, the normal location of meetings, how long they last and an indication of the routine business transacted.
- Brief biographical and contact details of all directors of the company, the company secretary and other key executives. This should include any executive responsibilities of directors, their dates of appointment and any board committees upon which individual directors sit.
- Details of board subcommittees together with terms of reference and, where the director will be joining a committee, copies of the minutes of meetings of that committee during the previous 12 months.

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Additional material to be provided during the first few months.

The following information is crucial to assist the director to develop his knowledge of the company, its operations and staff, but is not necessary for him to commence his involvement. It is suggested, however, that a detailed schedule of the information available is provided to him, and the information is supplied either on request or within three months of appointment. It would also be appropriate to involve senior members of staff in the induction programme, for example the investor relations manager could give a presentation on the IR programme, so that the non-executive director begins to get a view of the depth of management available and the executive director is exposed to areas of the business he has less previous knowledge of.

- Copies of the company's main product/service brochures.
- Copies of recent press cuttings, reports and articles concerning the company.
- Details of the company's advisers (lawyers, bankers, auditors, registrars etc.), both internal and external, with the name of the partner dealing with the company's affairs.
- The company's risk management procedures and relevant disaster recovery plans.
- An outline of the provisions of the Combined Code as appended to the UK Listing Rules together with details of the company's corporate governance guidelines and any Investor's corporate governance guidelines which the company seeks to follow.
- Brief history of the company including when it was incorporated and any significant events during its history.
- Notices of any general meetings held in the last 3 years, and accompanying circulars as appropriate.
- Company organisation chart and management succession plans.
- Copy of all management accounts prepared since the company's last audited accounts.
- The company's investor relations policy and details of the major shareholders.
- Details of the five largest customers with the level of business done over the last five years.
- Details of the five largest suppliers to the company.
- Policies as regards:
 - Health & Safety;
 - Environmental;
 - Ethics and Whistleblowing;
 - Charitable & political donations.
- Internal company telephone directory (including any overseas contact numbers and names).

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Additional information which the company secretary might consider making the director aware of.

The final section includes information which will differ for all companies depending on the sector and the company secretary will need to use his experience and knowledge to pass on information to allow the director to feel accustomed to the business as soon as possible.

- Protocol, procedures and dress code for:
 - Board meetings;
 - General meetings;
 - Formal dinners, staff social events, site visits etc. including the involvement of partners where appropriate.
- Procedures for:
 - Accounts sign off;
 - Results announcements;
 - Items requiring approval outside of board meetings.
- Expenses policy and method of re-imburement.

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