Australian Institute of Company Directors

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David Liddy
Managing Director

Thank you for inviting me to speak to you today.

I'm delighted to be here to discuss building an effective Board and CEO partnership.

It is quite timely for me to be talking about this because at Bank of Queensland, we only recently had some changes on our Board. As part of the normal ebb and flow of corporate life, we saw an existing director depart, brought on a new director and, significantly, had a change in Chairman.

Our new Chairman Neil Summerson is a member of the AICD and spoke at an AICD function a few weeks ago about Managing through Adversity. I believe he's here in the crowd today, so I sincerely hope he agrees with what I'm about to say.

I'd like to start with some wise words from Theodore Roosevelt, which I think are particularly relevant to today's discussion.

"The best executive is the one who has sense enough to pick good men to do what he wants done, and self-restraint enough to keep from meddling with them when they do it."

He was a smart man, Teddy Roosevelt, and I think he's really hit the nail on the head there.

This is obviously true for executives and their direct reports, and I believe it also applies to the CEO / Board relationship.

Because hiring a Senior Executive is a significant decision and one it is vital we get right, a huge amount of due diligence and rigour is put in to the process before he or she is officially brought on board. By the time they're sitting at the desk, I need to know they are the person for the job, because I put them there. So at that stage, I need to provide vision and guidance, but essentially I need to step back and let them do their job.

And it's the same with the Board. While their vision and guidance is invaluable, they understand that the best thing they can do is let me get on and do the job.

Of course I provide regular updates at Board meetings on pertinent strategic bank issues, and I'm also in regular communication with my Chairman.

You see, while Roosevelt mentions good sense and self-restraint, I think a good CEO / Board partnership actually comes down to two important factors - communication, and trust.

First, to communication.

As I have already mentioned, only last year we had a change of Chairman at Bank of Queensland. Our outgoing Chairman, Neil Roberts, had been a Director of the Bank for 21 years and Chairman for 13. He was Chairman when I arrived, so over the past seven years we found a working relationship that suited us.

When he retired in August last year, Neil Summerson was elected Chairman. While I had worked with Neil for many years, we had not worked together as Chairman and CEO.

Six months in, I believe having open lines of communication has enabled us to quickly find the working relationship that suits us.

We are both of the mind that a successful CEO / Board partnership is one in which the CEO provides the Board with sufficient information to enable them to fulfil their fiduciary duty, without being weighed down with the detail of the day to day operations of the organisation.

They do not need to be consulted on every business decision that needs to be made on a daily basis. Not only would it be inefficient and cumbersome to consult the Board on every single business decision, it would also restrict me from doing my job to the best of my ability.

One of the best things about being a small regional bank is that we have the flexibility our larger competitors don't, which enables us to move quickly and maximise new market opportunities.

And we wouldn't have that flexibility if the Board needed to be consulted in all business decisions.

Which brings me to my next point – trust.

The Board must have the confidence in the CEO to enable him or her to make these decisions. Obviously it is also the CEO's role to earn this trust, but at the end of the day it is the Board who employ the CEO, so they should have a degree of confidence, from the start, in his or her business acumen.

And it is not in the interests of anyone – not the shareholders, the regulators, the customers, or the management – for the Board to be involved in the everyday management of the company.

Obviously the CEO also requires agreement and clarity around company direction, careful consideration of the operating environment and how that impacts the business, and advice to this end. And the company could not function without the many invaluable corporate governance functions led by the Board.

On this point I feel corporate governance reform is a pressing issue perhaps not as pressing an issue in Australia but certainly one in many overseas countries. Boards simply must consist of industry specific experience not just good friends of the Chairman. At BOQ for instance we now have four board members with prior financial services experience at senior levels which I find "comforting".

Also on the governance side, at BOQ we have several Board 'governance' sub-committees, audit, risk, investment and remuneration and nomination, to name a few.

But at the end of the day the CEO is responsible for the day to day management of the company and he or she needs the ability to make decisions in a timely and expedient manner, without necessarily requiring Board approval.

Let me give you an example of a Board who were a little too hands-on.

When I first joined Bank of Queensland in 2001, every Director on the Board would sign off on the media release for the Bank's results announcement.

For those of you who are involved in the signing off of media releases, you will know that more than two people is too many. So you can imagine eight intelligent, business people, each with their own ideas about style, tone and content, trying to sign off on one document.

It was comical – though I don't think the Corporate Affairs Manager saw it that way.

And while I have no doubt that everyone's input was valuable, it was complete overkill. There is absolutely no need for the Board to review every word, and examine every nuance, of the media release. Their job is to drive shareholder value, not add commas and remove full-stops.

Now obviously I'm not having a go at my own Board – clearly I'm not that foolish. But while this approach may have worked with my predecessor, it wasn't how I wanted to work.

And I'm pleased to report it's not how the Bank of Queensland Board likes to operate these days either.

So we have arrived at a position where the Board has the trust in me to allow me to do my job, and you arrive at this position by consistently doing what you say you're going to do. And I provide them with sufficient information to enable them to do their job, without becoming weighed down in the detail.

We have communication, and we have trust, and as a result we have an effective and positive CEO and Board partnership.

I believe this positive relationship is reflected in our ability to identify market opportunities and move quickly to maximise them.

As you are all aware, we are in unprecedented times in terms of the global economy and the Australian financial services industry has changed forever as a result. There are some who think the second tier of financial institutions in Australia is fast disappearing, rapidly becoming an extinct species. For my money I don't believe the current Federal Government is all that worried about that prospect and is supporting stability at the top end of town rather than supporting much needed competition in our financial services industry!

I can assure you that my Board and I are one of the same mind in positioning BOQ as a real alternative to the ‘Big Four’ and we believe the global financial crisis has created a number of attractive opportunities for us, given our solid base of customer deposits and demonstrated track record.

However, the same financial crisis that has created many of these opportunities is also forcing us to review the way we would traditionally approach creating value.

We are mid-way through a review we are calling Project Pathways whereby we are reviewing a series of options to further enhance our ongoing growth, including strategic partnerships, complementary merger opportunities and new business strategies such as portfolio optimisation and efficiency initiatives.

Last year we recognised that a number of opportunities exist in the marketplace, and decided to proactively explore how we could best position BOQ to exploit the opportunities arising in this rapidly evolving market.

This Project is paramount in ensuring we are well positioned to continue to grow and prosper in the future. Despite our recent trading update indicating a positive 1H09 result, to ensure we can continue to be a real alternative and deliver for our stakeholders, we need to adapt to changes in the environment.

The reason I am telling you this is that it will enable me to demonstrate how I work with the Board on strategy, and what our respective roles are in developing and leading strategy.

In my opinion, it is the job of the CEO and Executive team to develop the strategy, because they are intimately involved with the business and the industry. A good Board will then help set parameters, challenge hypotheses and add the rigour of ‘testing’ the strategy presented to them. And that’s what happens at BOQ. Sometimes more rigour than a headstrong CEO really wants!

So if I use the Pathways example. Last year when it became clear that the global economy was slowing and the Australian banking industry was going to be impacted, I worked with my executives to determine how BOQ could not only survive this changing marketplace but actually benefit from these changes.

The result was Pathways. We then took this strategy as a recommendation to the Board, who looked at it from every angle, tested it, debated it and then, when they were confident it was the right approach, endorsed the strategy.

In the March issue of "Company Director" this approach is termed strategic clarity, the frame of reference used by Boards to test rapid short-term management decisions that can permanently affect long term strategy, culture, market position, brand and values. Boards must ensure short-term decisions are taken in the light of longer-term strategy.

At BOQ we created a Board sub-committee led by our Chairman to oversee the various initiatives being considered within the Pathways project.

Their business acumen, together with their distance from the day to day operations of the Bank, enabled them to see the issue at hand and the proposed solution without preconceptions or prejudice. And that is, I believe, exactly how a Board works best.

But I'm not just here to talk about the role of the CEO and the Board.

Another subject I wanted to touch on is succession planning. While I'm not planning on going anywhere just yet, and in fact just last year extended my contract to December 2011, succession planning is not something you leave to the last minute.

We've all seen companies whose share price has either jumped or fallen as a result of an announcement regarding a CEO departure. This is particularly true in today's turbulent corporate environment where shareholders are seeking even more reassurance regarding company stability.

To my mind, there are four key principles for succession planning. The first is that succession planning must be driven by strategy.

The type of leader we will need in 2011 will be markedly different from the type of leader needed in 2001, and in fact, different to the leader we needed two years ago. The Bank will be in a different place entirely and different skills will be needed to drive the Bank's success.

The second principle is that CEO succession is a Board-driven, collaborative process. By this I mean that the recruitment of the new CEO should involve both the Board, and the incumbent CEO.

The third principle is that CEO succession is a continuous process.

While not something I like to dwell on, the Board must prepare for the ‘unplanned’ departure of a CEO; the ‘getting hit by a bus’ scenario.

It goes without saying that in the event that a CEO leaves unexpectedly, the Board must have an emergency succession plan to avoid disruption to the company.

The issue here and one of the most difficult aspects of succession planning is that while you need to have someone who is ready to step in and take the reins, you don’t want to surround yourself with people who actively undermine you.

It is a real balancing act and difficult to get right. And as I mentioned earlier, the other factor to consider is that the type of person you need as your successor keeps changing depending on the marketplace or your company direction. The type of person you would have identified to succeed a bank CEO two years ago – in the ‘good’ days – may be completely different to what you’d look for today.

But with my leadership team, I believe I have developed a solid list of candidates through introducing new people with new ideas, thoughts and perspectives, as well as developing existing contenders.

And I am confident that come my planned departure in December 2011, or God forbid if I make an unplanned exit between now and then, some of the best candidates for the job will come from within my own executive team.

The last but not least principle for succession planning is that the Board must ensure that the CEO develops and encourages a talent-rich organisation. The Board maintains the final accountability, but it is also the responsibility of the current CEO to have a long-term succession plan in place. My Board have included effective succession planning as one of my KPIs.

On this particular point I have no hesitation in saying that at Bank of Queensland we have developed an organisation that rewards talent and hard work.

Being a small organisation, there is a sense right across the Bank that you 'can't not turn up'. What this means is that BOQ people understand that what they do every day is important. If they throw a sickie, or if they turn up but their head's elsewhere, it means that everyone else in their team has to put in an extra effort to get things done.

So our people do turn up, and they bring their passion, their questions and their ideas, and they know that hard work is rewarded.

Bank of Queensland is a family, and it is one I am extremely proud of.

I have a great relationship with my Chairman and Board, and with my executive team, we have a team of 2500 enthusiastic, bright people across our corporate as well as Owner-Managed Branch network who come to work every day with a smile on their face and the desire to do their best, and we have a great opportunity to come out the other side of this economic crisis a stronger, leaner, more competitive bank.

In today's marketplace, it's not a bad place to be.