



Stack Your Board with Talent

USA governance writer Ram Charan calls the process 'stacking the board with talent'. Canadians Leighton and Thain describe director 'competency requirements'. John Carver talks about 'raw material'. Whatever terms are used to describe the basic director building blocks and the processes used to transform these into an effective board, it is not possible to get away from the absolute requirement that there must be the 'right fit' between the individual and the role.

In this lead article we address one of the most topical questions facing boards in both the not-for-profit and corporate sectors, "What are the skills and attributes required for effective directorship?"

We have written many times in preceding articles that new models of governance are emerging, bringing with them new challenges. Old dogs are finding themselves having to learn new tricks. Those that don't or won't are struggling under the weight of a newly emerging role and an increase in statutory requirements and stakeholder expectations. Boards and directors are increasingly making news headlines – in Australia AMP, The Melbourne Wesley Mission, in New Zealand, the Tainui Trust Board and Local Government New Zealand. The boards of these and a number of other organisations have taken big hits from the news media and from stakeholders in recent months. In each of these organisations, corporate governance has been found wanting.

It may be going too far to suggest that in those organisations the simple solution would be to change the composition of the board. Those organisations undoubtedly face quite complex problems. We do assert, however, that the combination of appropriate skills and attributes, an understanding of the role and of its accompanying responsibilities and strong ethical standards, when found together, will greatly reduce the incidence of negative governance outcomes.

Of these, the most important starting point may well be clarity of understanding about the board's purpose and the director's role.

Note that in this article we describe the ideal director competencies. We recognise that finding all of these in each and every person around the board table is an impossible task. Those responsible for forming boards and replacing departing directors need, therefore, to consider the overall composition of the board and how 'the pieces fit' together.

Board work is brain work

Before focusing on the skills for directorship it is important to restate the basic premise that 'board work is brain work'. Acceptance of this maxim is fundamental to any discussion about the skills and attributes required for directorship. The board's job is a thinking and talking one and strong conceptual skills are paramount. Directorship demands clarity of thought and an ability to cut through complex issues in order to get to their essence.

Strategic thinking skills

Highest on the list of directorship skills is the ability to adopt a strategic perspective, to see 'the big picture'. In the words of John Carver, "The board's job is to create the future, not mind the shop". Creating the future demands strategic thinking skills. Boards add value to their organisation's and to their CEO's work by lifting the discussion horizon to the strategic level, by identifying and focusing on the organisational 'ends' and understanding the meaning of these and their implications for the various stakeholder groups served.

An understanding of organisational structures and systems

A director should not be required to have the skills to run the organisation but he or she should know what running the organisation entails. While the board does not determine the operational management structure, nonetheless directors should have a basic understanding of how organisations should be structured and operated in order to deliver appropriate results.

Financial management

While directorship may require only a general understanding of business and organisational life, there can be no escaping the need for all directors to have at least some understanding of financial management. Every director should be comfortable with traditional financial statements. They should be able to read a balance sheet and should understand the connection between this and the more detailed profit and loss and cash flow statements. Every director – regardless of their professional qualifications or lack of them – has a shared responsibility for financial stewardship. They should, therefore, understand what is required for organisational financial security and be able to enter into a meaningful discussion about the current financial position and future financial requirements. Ideally the board's policies should provide the framework for such discussions by setting out the key financial ratios that correlate with financial performance. There should also be a clear statement of the CEO's financial delegation. Regular board monitoring and discussion of CEO compliance with the various financial policies should serve to educate and inform 'non-financial' directors about basic financial matters and help build skills in this area of directorship responsibilities. Special training may be needed to support some directors.

Knowledge of the business of the organisation

One of the great conundrums facing many directors is how can they know enough about the organisation they govern so that they make wise decisions when they spend, compared to the managers, so little time in or attending to its business.

One of the policies we promote when working with boards requires the board to not only understand the issues, concerns and aspirations of key stakeholders

(specifically the owners), but also places an obligation that all directors understand the issues concerning stakeholder interests. In other words, directors must know 'the business', its context, its culture and be familiar with organisation-specific developments both locally and abroad. Such knowledge is gained from boardroom discussions, from CEO reporting, from attending industry conferences, from reading industry-specific journals and, increasingly, from the Internet.

When directors join the board with relatively little industry-specific knowledge, it is beholden upon them and the board as a whole, to ensure that there is the opportunity to quickly fill knowledge gaps. New director induction is one way of addressing this (See Good Governance # 14 for a more detailed discussion about this topic). Such processes, however, do not override the requirement that every director must accept a personal responsibility to remain up-to-date in their knowledge about the industry so that this can be applied in the board's strategic decision-making and performance monitoring. At the same time it is unwise to overload a board with 'industry insiders' as this can easily narrow a board's thinking and understanding.

Commitment to the Organisation's Mission and Values

While there is an active debate in the commercial sector about the primary purpose of a company (e.g. to serve the shareholder's interests or to meet wider stakeholder expectations) not-for-profit organisations without exception, exist to serve the interests of external stakeholders. It is imperative, therefore, that all personnel associated with the organisation have a strong commitment to the Mission or Purpose of the organisation and to its Values. It is even more important for the board to demonstrate tangible commitment because of their stewardship role. Directors not committed to the Mission and Values will often be at odds with the rest of the board and staff and could easily lead the board in a direction that is inconsistent with the organisation's fundamental reason for being. This could have dire effects including a loss of reputation, public support and funding.

Increasingly it is being acknowledged that these 'softer' elements in organisational performance are just as central to the success of commercial organisations.

Interpersonal skills

Directors must be effective team players and thus have not only specialist skills for the role but also strong interpersonal skills in support of the board's team process components.

The ability to listen to the viewpoint of others, to suspend judgement and to put oneself in the shoes of others are all essential boardroom skills, none more or less important than any of the others. Equally important is the ability to ask probing or exploratory questions. It is imperative that directors are able to question effectively the CEO, other senior staff present at the board meeting or outsiders from whom the board is seeking expert advice. One key director communication skill is the ability to challenge assumptions, to go behind everyday understanding in a search for deeper meaning as this applies to the organisation and its key stakeholders. In doing so, however, a director must be able to question and challenge in a manner that is assertive but constructive. Key here is the ability to 'disagree without being disagreeable'. Related to this is emotional maturity and personal judgement about those matters sufficiently important to contest strongly and even put at stake personal credibility. Some directors overplay their hand and become disregarded for 'crying wolf' too often.

Teamwork skills

Each director should be concerned to ensure that every other director's opinion is voiced. To this end a basic understanding of group theory is essential, either understood intuitively or as the result of structured learning. Knowing how to tactfully draw out the involvement of a non-performing director is not the preserve of the Chairperson alone. Every director should want to hear the opinions and views of every other director and should ensure that these are made known. We often say that being on a board entails an obligation that your views and opinions are voiced and open to challenge and examination. This is a standard part of the territory that cannot or should not be avoided. Any director uncomfortable with this position should not be in the role.

At the heart of good decision making and a commitment to those decisions is an inclusive and rigorous process of hearing and understanding different information, ideas and points of view. An emerging understanding of the importance of dialogue (as distinct from traditional debate) and skill in its application is a topic that has great relevance to all boards and will be featured in a future issue of Good Governance.

Leadership skills

The board is a leadership group and should itself be comprised of leaders. To this end every director should regard him or herself as a leader and be willing to take on a leadership responsibility in board life. This might involve leading a committee or a working party, representing the organisation to the outside world or leading a board discussion on a topic concerning board effectiveness or an issue about which the individual director has special knowledge.

Meeting Skills

Even though there has recently been a marked trend in board meeting style from formal rule-bound meetings to informal strategic workshops, nonetheless directors need to have a basic understanding of the commonly accepted rules of meeting management. There will be times when formality is appropriate, for example in managing constitutional issues or when voting is required.

'Diversity'

Boards need directors who have a diversity of experience, skills, philosophies and even values. Boards need directors who can connect with and empathise with key target markets, key client groups and other key stakeholders. Boards do not need directors who are appointed simply because they allow the board (or the owners or some other 'regulatory' agency) to put a tick alongside some requirement that a certain type of interest be represented. Many boards are weakened because they appoint on quota rather than on merit. To do the former is a disservice to the organisation, its mission and the directors concerned. 'Quota' boards, by and large are poor at connecting with key stakeholder groups because they assume (wrongly) that all the information they need about those groups is represented around the board table.

Personal Attributes

Fiduciary duty – ethical standards. Highest on the list of personal attributes must be those associated with a commitment to personal integrity and corporate governance ethics. The board has a ‘fiduciary’ or trusteeship responsibility to the organisation, its stakeholders and, in most instances, to the wider community. No organisation exists as an island in the community, isolated from its impact on the wider social and economic environment. In the not-for-profit sector every dollar spent on a service or a programme could just as easily be spent by another organisation on another equally important programme or service. It is the role of the board and of individual directors to ensure that the organisation provides appropriate value for every dollar spent.

But the concept of ‘fiduciary duty’ extends well beyond the responsibilities for the organisation’s finances and beyond the not-for-profit sector – witness the emergence of ‘triple bottom-line’ results reporting in the business sector (social and environmental as well as financial). Every board has a responsibility to its key stakeholders and to the community at large. Given that the vast majority of not-for-profit boards represent community interests, directors have the task of actually taking this responsibility seriously and acting accordingly. Directors are in a very privileged position. They have the power to shape organisational direction and shape policies but do not have to turn either of these into action. This is the role of the CEO and staff. With this privilege comes a special responsibility – to make sound ethical decisions. Corporate governance has at its core, regardless of the type of organisation, the structuring of an ethical framework relevant to the organisation and its position in the community.

Independence. Independence is a state of mind or an attitude. In order to ensure that the board does not become captive to ‘group think’ (See Good Governance # 16) it is essential that the board reflect a diversity of opinions and experience essential to sound debate and decision-making. While individuals must exercise sound judgement based on their own experience and knowledge, the board’s judgement comes from the combined good judgement of individual directors. Such collective judgements are enhanced by sound independent thinking brought together around agreement about achieving a shared purpose.

Ability to recognise competing interests. On a personal ethical level, directors must have the courage of their convictions. They must have the ability to be objective, to view board issues and processes through the lens of principle rather than the subjectivity of personal impact or implication. One area where this is particularly relevant is in the identification of any clash between personal and organisational interests. While all boards should have a conflict of interests policy and apply this rigorously, it is up to the individual director to identify and acknowledge any real or potential clash of interests and take whatever steps are appropriate to distance him or herself from impropriety.

Acting in the best interests of the organisation as a whole. The board has a responsibility to the organisation or the company as a whole, to the total stakeholder or shareholder benefit, rather than to subgroups or individual stakeholders. For some directors, especially those who see themselves as representing constituency groupings, e.g. wards or State or Provincial associations, this requirement can prove problematic. Yet this is a requirement in law that cannot be circumvented. One way of addressing this is by reinforcing a board commitment to systems and context in which every board discussion and action is viewed as part of a greater perspective. Commitment to the organisation’s mission and vision is one way to ensure such a focus.

Seeing things through. It is important that directors have a commitment to seeing things through. This is consistent with a strategic or long-term view of the organisation. The board should not be distracted by short-term imperatives (particularly when these are simply urgent and not important – see article on time management, page 10) at the expense of the strategic. To this end directors must be able to distinguish between pressing short-term demands that probably rest with management and the more strategic longer-term issues that belong with the board.

A sense of humour. Many battle-weary directors would agree that it is only with a sense of humour that one can hope to survive on a board and remain emotionally and intellectually intact. Certainly our own experience of directorship lends weight to the importance of every director having a set of survival strategies to be used when the going gets rough, as inevitably it will do at one time or another. Humour is a key antidote to frustration allowing the individual to push through the difficulties in a positive frame of mind without needing to upset or blame others.

A commitment to governing. The board's job is to govern the organisation, not to manage it. It is therefore imperative that directors understand the difference between these two interdependent but separate roles and make a commitment to carrying out their governing job rather than partnering (or even supplanting) the CEO in managing the organisation.

Appropriate connections - appropriate contribution

For some boards, appropriate connections and networks are an essential director contribution. Directors who can open funding doors or who can assist with advocacy and lobbying by accessing or influencing the target can be invaluable. However, not all directors will bring such connections, neither should they be expected to.

A more universal expectation is that all directors will make an appropriate contribution. For some this will be from the perspective of expert knowledge, others will bring a broad scope of general knowledge about the industry and some relevant experience. We recommend that when boards consider the contribution and connections needed in support of effective governance, time should be taken to first analyse the strategic issues facing the organisation. There should also be an analysis of the current director's skills and contributions. The outcome of such analysis may result in the identification of gaps that the board may deem desirable, even necessary, to fill. Such a process reinforces the notion that governance and directorship is a serious component in organisational life that requires the same attention in the recruitment process as is applied to the selection of senior managers.

Summary

Successful governance demands a powerful engagement between the director and the board, between the skills and attributes brought by each director and the mission of the organisation and between the board and its fiduciary responsibilities. None of these can occur if the wrong people are confronted with the task of board leadership.

No board should be flippant or careless in determining its composition, nor should any director be so in considering his or her acceptance of the responsibilities accompanying directorship. Directorship is an active, demanding and challenging task, made more challenging by emerging expectations of the role. There must be a fit between the skills and attributes of the individual director, the 'chemistry' of the board team and the particular contribution that the individual is required to make.

