



# BoardWorks

## What Expectations Should We Have of Directors?

Terry Kilmister and Graeme Nahkies

Increasingly, 'professional' standards of performance are expected of board members in all manner of different organisations but such standards are seldom spelled out. In motivating effective performance by directors, it is no less important than for chief executives or other staff that board members know what is expected of them. A basic tenet of any formal accountability system is that, to be held accountable, an individual must have foreknowledge of explicit and clearly stated standards of performance.

The increasing incidence of board and director effectiveness reviews, the development of board charters and even the rash of attempts in recent years to 'legislate' for good governance, have moved things in the right direction. Nevertheless, much remains to be done. It is our intention in this article, building on related themes in previous issues,<sup>1</sup> to describe six basic expectations of director performance. We envisage that these descriptions will be useful in a number of applications. For example, in:

- director selection and appointment;
- director induction;
- director effectiveness evaluation;
- director training and development; and
- the development of board charters, codes of practice, governance policies etc.

### Expectation 1: An Understanding of the *Board's* Role

This is not the place to spell out what governance is all about, but the most basic expectation of an individual director is that he or she should understand the key characteristics of the board's *governance* roles and responsibilities. While there are some features that are practically universal to all governance environments, each organisation's own situation demands specific attention. For example, the board's role, and that of its individual members, in a small 'start-up' in which directors also perform management responsibilities, will be quite different than in a large, mature corporation which has a greater depth of executive capability. Also, regardless of the fact that a director might wear 'other hats' in some organisations (e.g. investor, shareholder, member, volunteer, etc.) he or she must be able to distinguish *governance* expectations from those of an operational nature and to ensure that the organisation is as well *governed* as it is *managed*.

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The starting point for understanding is each director's familiarity with the legislation that conditions and frames the board's roles and responsibilities in relation to their organisation's situation. Also vitally important is the organisation's own internal constitutional documentation (e.g. 'articles', 'rules', 'trust deed', etc). The other area of 'background' that is central to each director's understanding concerns the board's own policies, procedures and any other documentation that has an influence on the way the organisation is governed.

We find that there are a number of common misunderstandings about the board's role, particularly among less experienced board members. For example:

- Thinking of the board primarily as the highest level of management overseeing the detail of operational activity rather than as a subset of the ownership, responsible for ensuring that the organisation is 'owner accountable'. The board's primary focus should be organisational purpose and achievement of that purpose. This requires individual directors to be obsessive about the achievement of tangible outcomes and desired results.
- Thinking that the board is a collection of 'representatives' in which individuals have an obligation to act as a 'representative' of, or even an advocate for, a particular constituency or interest group. However, governance ultimately involves a series of collective decisions and to get there, directors must think and act independently. Their perspective should be 'what is in the best interests of the organisation and its members/owners/etc, as a whole?'
- Thinking that the board is a collection of 'experts' and that each director joins the board primarily to fill some sort of 'position' associated with that expertise. In company with such thinking is often an expectation of deference to this expertise and the sense that individual directors can limit their interest and contribution to their chosen domain. In contrast, however, is the requirement for directors to contribute, synergistically, to the development of the board's collective understanding and to share responsibility for effective *group* decision-making.

These misunderstandings can also contribute to related problems. For example:

- A sense that, individually, accepting a board position is a matter of 'all care and no responsibility' when, in law, the directors, severally and individually, carry the ultimate accountability for organisational performance.
- A comparative inability to distinguish between other roles the individual director may play in relation to the organisation (for example, shareholder, member, volunteer (i.e. unpaid staff member), service provider, executive, interest group/sector/constituency representative).

### **Expectation 2: Adequate Preparation**

One of the principal duties of a director is the 'duty of care'. This means being adequately informed about the affairs of the organisation and exercising sound judgement based on his/her inquiries. Although a professional director of a large company may have more incentive and opportunity to fulfill this expectation, it is arguably even more important for 'volunteer' directors of smaller less well-resourced organisations. In such cases, in the absence of great breadth or depth of executive competence, the effective application of board members' experience and judgment is vital.

While we stress the importance of effective board-driven induction of its new members there is

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a primary obligation on the part of each board member to become fully familiar with the organisation, its characteristics and its legal framework and policies and its operating environment. An important part of being prepared is to understand the organisation's history. An organisation's past provides an important setting and context for today's and tomorrow's decision-making.

A director should continue to study the organisation and its challenges, making a commitment to continually monitor and understand the way it works and its operating environment. This requires looking both within and outside the organisation. For example, ideally a director would be familiar with key personnel, their roles, responsibilities, and their value to the organisation. It is also necessary to understand the performance drivers of the business and its economic rationale whether it is a commercial enterprise or a not-for-profit one. Both must be able to pay their way.

A director should also be aware of the social and cultural environment in which their organisation operates. Globalisation, for example, has meant that, increasingly, directors must not only understand local regulatory environments but those much further afield.

One of the most obvious expectations under this heading is that a director will be well prepared for board meetings. Here *quality* is more important than the *quantity* of preparation. Nevertheless, as a rule of thumb, a director should expect to devote as much time to preparation – that is studying board papers, developing questions, thinking through his or her own perspectives on matters to be considered by the board, and the like – as to attendance at the meeting itself. It is in the board meeting situation that a director's failure to prepare adequately is most apparent and has its greatest affect on the board and staff. Ideally, a director should take as much care in their stewardship of the organisation as he/she would to their personal affairs.

### **Expectation 3: Active and Responsible Participation**

An obvious expectation is that a director should be consistently physically present when the board is 'at work'. This means being willing and able to find the necessary time to participate in board meetings and relevant organisational functions. Except on rare occasions, a director should be on time for meetings and stay until the end. The actions of individuals who persistently 'come and go' during the course of board meeting – including those who are continually distracted by mobile phone calls, e-mail or SMS messages, etc - are disruptive and show disrespect to fellow directors, staff and others who may be part of the board meeting. If other commitments or interests routinely prevent a board member from being present and staying focused on the board meeting he or she should reconsider their position on the board. Few, if any, boards can afford passengers.

One of the most common complaints we hear directors expressing of colleagues is to the effect that 'he hardly ever opens his mouth'. We are not knocking directors who are, by nature and/or inclination, quieter and more reflective, or even just less confident in presenting their views. However, a director who does not contribute actively to their board's dialogue does not advance its thinking and understanding. Persistent silence also leaves other directors uncertain about where their colleague really stands on a particular matter. Worse, this lack of participation invites negative speculation about motive and commitment and is likely to leave

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directors who are more active resentful that they are doing all the 'heavy lifting'.

Each board member should at least listen carefully and ask questions to aid their understanding in making appropriate decisions. Questions are usually more valuable than statements provided these advance the board's collective understanding of an issue or situation. 'Dumb' ('intelligently naïve') questions are especially valuable. Another way that quieter board members can be 'active' is to use their personal connections and networks to assist the organisation. This 'door opening' function can be extremely valuable in a wide range of situations.

It is an expectation that individual directors will make a 'balanced' contribution to the board. The challenge of 'activist directors' was explored in the previous issue.<sup>2</sup> While boardrooms, understandably, attract people with well-developed egos and strong personal convictions, personal agendas and crusades have no place around a fully functional board table. An individual director may have the ability or personal influence to command attention but his or her colleagues will soon come to resist their personal preoccupations and limit their influence. Similarly, board members who regularly launch into long-winded personal anecdotes that have comparatively little to do with the matter in hand contribute little to the quality of the board's consideration and decision-making. Their colleagues quickly 'tune out'.

An effective director works as a member of the team, actively engaged in the discussion of vital issues contributing information, ideas and opinions, expecting these to be rigorously tested. This is a collaborative process intended to get the deepest possible understanding and the best thought through decisions. He or she constantly looks for ways to link his/her special expertise and experience to the wisdom of their colleagues. In this regard, an important aspect of a director's role is to assist management in understanding current and future aspirations and needs of the 'ownership'. In a rapidly changing business environment, this interpretive role is critical to the success of the organisation and its ultimate accountability for the fulfillment of the purpose of the organisation.

Notwithstanding the pressures for consensus and avoidance of conflict on any board, active participation means each director thinking for him or herself, openly and honestly sharing what they know and expressing personal convictions. An actively participating director is unlikely to be a rubber stamp for management recommendations or any outside interest.

Active participation also involves sharing responsibility for board behaviour and productivity, not leaving this exclusively to the chair. An active director also helps develop a good working relationship with management and assists the board to objectively evaluate and acknowledge management performance.

#### **Expectation 4: A Positive and Constructive Attitude**

The attitude and mindset of individual directors has a surprisingly big impact on boardroom dynamics and on the relationship between a board and its executive team. When an individual director is persistently negative or destructive, the risk of the whole board becoming distracted is great indeed.

An effective director is likely to be positive, interested, tactful, open-minded and self-aware. They will welcome and not be threatened by fresh ideas or new opinions that typically

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accompany the infusion of 'new blood' onto the board.

A new director quickly finds out that individual opinions are important to the decision-making process but that their own point of view cannot always prevail. Each individual has to garner support for his or her particular way of thinking.

#### **Expectation 5: Personal Honesty and Integrity**

A feature of successful, fully functioning boards is a high level of trust and mutual confidence both within the board and between the board and management. The basis for this is personal honesty and integrity.

In one sense, mutual trust and confidence can only come with time. The process of constant testing of individuals' honesty and integrity is seldom explicit but becomes particularly apparent when the assessment is less than fulsome. Few issues in the boardroom put this to the test more than the handling of conflicts of interest. An effective director will not need to be prompted to declare such interests.

Maintaining boardroom confidentiality is another testing area in many organisations. Few governing boards (even those in the public sector obliged to hold their meetings in public), at some stage, do not have to deal with some matters in confidence. The problem of individual directors breaching confidence tends to be less of a problem when other expectations referred to in this article are met.

Often, when unresolved conflicts of interest and breaches of confidentiality occur, the problem is actually a conflict of loyalty when an individual director genuinely feels a greater sense of obligation to the interests of some other constituency. An effective director will resolve the conflict by resigning or standing aside while others deal with the matter on which there is conflict. When this occurs, integrity is maintained.

#### **Expectation 6: Willingness to Be Held Accountable**

Neither the board's role nor those of individual directors exist in a vacuum. The board and its members are accountable 'upward and outward' to, for example, shareholders/members, etc. The fiduciary nature of a director's responsibilities requires each person to approach board decision-making focused on what is best for the organisation and its 'ownership' as a whole. This not only means that favoritism in respect of any individual or special interest group is prohibited, but that personal interests must not intrude. This may mean periodical sacrifices on the part of each director.

To provide effective governance a board must speak with 'one voice' even though board decisions, duly arrived at, may not be the first choice of all directors. Once a board policy or position has been agreed to an individual director must reflect the views of the board, rather than his or her own, whenever speaking for the board or organisation. There is a related obligation to support the implementation of a board decision. A director who is unable to do so has only one honourable option – to resign from the board.

Stakeholders have a right to expect that individual directors will be committed to ongoing learning relevant to the board's effectiveness even if this does not take the form of regular, structured professional development (which ideally it should). The courts have previously

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reinforced the expectation that someone accepting a board position has implicitly agreed that he or she has the time and competence to discharge the responsibilities of governance.

## Conclusion

In this article, we have outlined six broad expectations of directors. We do not intend to suggest that these are the only expectations an organisation should have of those that direct its affairs. It is tempting to state, however, that, regardless of any other qualifications and virtues a director may have, if he or she cannot fulfil these basic expectations then they should not be considered welcome or worthy of a place at the board table of any organisation.

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- 1 See for example, "Your First Year as a Director". Good Governance # 54 (November-December 2006)  
"Expectations of the Chair, Individual Directors and the Board as a Group." Good Governance #50 (March-April 2006)
  - 2 "Dealing With (And Making The Best Of) Activist Directors." Good Governance #54 (November- December 2006)