

'Re-setting' your Board

Introduction

This is the season of possible changes in your Board composition.

The challenge for many is how best to determine the group of Directors that ought to be on your organisation's Board.

Often, however, by the time everyone has focussed on the task at hand, the AGM has had to be scheduled and the meeting itself conducted.

Well, there is always next year!

Why does this happen so often?

Over the years, I have observed that for many organisations the issue of their Board composition is one that is sometimes planned, sometimes unplanned, and often democracy is simply allowed to be the sole operating element at work.

Whether publicly-listed companies, school boards, football/sporting clubs, or a community body, Board renewal is a time of possible upheaval and a sense of uneasiness.

Over the years, I've been asked to advise on how 'so and so director could be replaced on our Board?'

The targeted director has either lost the plot or, worse still, they have never found it! Their time has come but, alas, they are oblivious to this message.

The short answer, of course, is that Boards do not have the power to get rid of an underperforming director.

This is, of course, a job for the members/constituents of the organisation. Unfortunately, this realistically is often beyond the collective wisdom of the members / constituents. How can a member / constituent, let alone a whole group of them, truly determine the individual performance of each director on their Board?

Most of us can recall, sometimes with a grimace and sometimes with a smile, examples of directors who thought the world revolved around them, or who could not make a decision even if their life depended upon it, or who consider each meeting is a whole new beginning or 'Groundhog Day'.

We also can recall those directors who always keep their best views and contributions until after the meeting has finished, and then are keen to share their opinion with you in detail, especially if it is contrary to the decision the Board has just made.

And who can forget the director who does not accept that a decision has been made by the Board, but insists on 'carrying their torch' into the public and before the members / constituents?

Finally there is, of course, the issue of the position of Chairman.

Boards sometimes can be forced to operate with the President as the Chairman. As a President, he/she may be absolutely excellent, but as a Chairman, we'll just say 'they should not give up their day job'!

What makes a good Chairman?

A good Chairman is not someone who happens to be prepared to take the job on, nor who is the last one standing, nor appointed because they have served their time on the Board and therefore by some seniority they are entitled to be awarded this gong.

Believe it or not, it just does not work like that.

Actively managing a Board's composition

It seems that Boards will often, when left to their own devices to manage their own composition, find it difficult to rise to the occasion. It is challenging from many different views: where to start? How exhaustive ought the process to be? Should it involve external advisors? What if the outcome is not what is best for the Board? What if it gets personal?

Even if it is unlikely that, at least on this occasion, 'the finger of fate' will be pointed at them, nevertheless many directors find it hard to tap one of their colleagues on the shoulder and say "your time is up"!

Why?

There may be a long-term collegial type relationship involved, or it could be as simple as finding it difficult to distinguish between the recognition of what could be good performance as a director and what may be underperformance.

In my many years in the various roles on a Board and with quite different types of Boards and organisations; in the selection of directors for Boards I was on and for Boards that I acted as an advisor for; and in evaluating individual directors and evaluating different Boards, Board management is never an easy issue.

Of course, the other quite clear lesson is that ducking the issue and not dealing with a director who is underperforming does not make life on the Board any easier. It generally becomes more difficult to manage over time.

I consider one reasonable approach that any Board can adopt is the 'set and apply' rule. By keeping it simple, Boards and their Directors can more positively manage this important aspect of their governance responsibilities.

The set and apply rule

Firstly, the Board needs to decide what period is a reasonable indicative 'innings' of a Director on their Board. Is it 8, or 10 or 12 years? The specific period is not as important as the Board coming to a decision on the period.

Once this is selected then the Board needs to consider what occurs when a Director reaches this length of time on the Board. Ought the Director to step down and not be eligible to stand again for a minimum of 1 or 2 years? Ought the Director only be able to stand as long as 60% or 75% of all of the other Directors support their decision to stand again?

In other words, the process involves the engagement of the Board in determining the value of the particular director in the past and their likely contribution to the organisation's governance in the future.

What this does is to pressure the directors to come up with what are the important competencies required of each and every director on their Board.

Now a question of performance

It is evident that a Board functions more effectively when made up of the "right" members. An additional element that is becoming more apparent, although still too often overlooked, is ensuring that the Board also has among its members the "right" Chairman.

How the Board works as a Board, and how its members work together as an operational unit, are increasingly important considerations of Boards seeking to remain relevant and offering true value to the organisation that they monitor and give oversight to. The United Kingdom's Combined Code of Corporate Governance has emphasised the approach to be adopted by Boards of a "planned and progressive refreshing of the board."

A Board's composition now needs to consider a broader range of elements than was required for yesterday's Boards.

Enterprise Care has developed its 5-way lens for Boards to view their composition through. This quin-focal perspective looks at:-

1. Background Experiences;
2. Diversity;
3. Personal Attributes;
4. Skills; and
5. Competence.

Some of the aspects that a Board needs to be aware of will involve:-

- ✓ What are the current skills already on the Board?
- ✓ What skills will be needed in the future by the Board?
- ✓ What breadth of experiences will be helpful for matters discussed at future Board meetings?
- ✓ What is the appropriate make-up of the balance of people and their cohesiveness in working together?
- ✓ Will the Board be a high-performing operational unit?

Behind boardroom doors

In PwC's 2013 Annual Corporate Director Survey the comment was made:-

"Directors' responsibilities are expanding, and the number and complexity of the issues they have to oversee are increasing." And....

"Having a board made up of the right people with the relevant skill sets is critical in today's competitive business environment." And...

"The average corporate board has 10.7 people, and the average director sits on a board for just over eight and a half years. What if someone on the board isn't measuring up? More than one in three directors (35%) think someone on their board should be replaced. The top three reasons are diminished performance because of aging, a lack of the required expertise, and poor preparation for meetings. Over half of directors who have served on the board less than one year believe a fellow board member should be replaced—but fewer than 25% who've served more than 10 years feel the same. The biggest hurdles to replacing an underperforming colleague lie with board leadership's discomfort addressing the issue, followed by a lack of individual director assessments."

The following observation is an excellent touchstone for any director, and especially the Board, when reviewing their composition needs:-

"You want to be able to look around the boardroom table and see the different stakeholders represented so that when an issue comes up that involves one of them, you have an experienced person to turn to on that matter."—Michael Treschow, Chairman of Ericsson and Unilever Board Governance

Juggling the simple and the complex

Recent work undertaken by Enterprise Care has thrown up the existence of significant tensions that need to be accommodated by Boards in the area of Board composition.

The experience of rapid change, of pressing competition, of increasing demands, and of relentless need to be involved and aware of what the organisation is doing, has pushed the issue of Board composition and its management to the fore.

But what does this mean for many of the Boards that Enterprise Care has dealt with?

The key tensions that are observed include the following:-

1. Corporate knowledge versus 'fresh' thinking;
2. Possessing the corporate 'mission/purpose' versus the 'heritage wrecker';
3. Uniformity and togetherness versus variety and separateness;
4. 'Single origin' versus 'blend';
5. Myopic focus versus strategic focus;
6. Detailed versus global thinking;
7. Decisive considerations versus meticulous and painstaking processing;
8. Cursory or surface thinking versus analytical and penetrating;
9. Risk averse versus active risk mitigation; and
10. Value protector versus value creator.

The only way is the way forward

It is my own experience that Directors need to be savvier concerning the operational nature of the organisation that the Board has oversight of. This means the level of each individual Director's competence and the strength of their engagement in that role have become more significant.

Whether the Board is made up of 5 Directors or 13 Directors is less important now than what each Director is doing in their role as a Director.

Whereas it was all too common to hear the muffled cry of many an executive concerned with the need to communicate with their Directors only at the "dummy level", now the growing expectation is to engage vigorously as equals and thereby learn from one another equally and with positive affect.

Conclusion

The composition of all Boards is a more important driver than ever of a high-performing organisation today. It impacts the level of an organisation's performance substantially in many ways, including: its strategic clarity and direction; the likelihood of successful execution of plans and programs and overall accomplishments; its level of competitiveness; its level of profitability; the strength of innovation; and overall capacity to adapt and operate successfully in complex environments.

Re-setting your Board composition is no longer a nice-to-consider approach in your governance cupboard, but a must-have today to ensure your organisation's success in the future.

Damien J. Smith LLB B Com FAICD FCIS FCSA FAIM CAHRI
Managing Director

Enterprise Care Pty Ltd

and *Australian Legal Practitioner* – **Damien J Smith Lawyers & Consultants**