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"Recruiting directors and maximizing their value"

The Challenge of a Part-time Team

Even the most conscientious director spends little time working in the role when compared to the time spent by the CEO and staff working in theirs. When compared to the 2000 plus hours that the CEO and the staff team spend on the job, the board can only be seen as a part-time team. Yet in this 'part-time' capacity, the board must have sufficient understanding of the enterprise's issues and concerns to be capable of exercising sound judgement and making appropriate decisions.

The challenge for the board thus becomes one of using its precious time to the best effect and having enough knowledge to effectively carry out its role. The CEO plays a part in this challenge by ensuring that the board receives the right information about the right issues in the right format and at the right time. The board can assist in this by ensuring that the CEO knows what information it needs and how to present this so that there is understanding and meaning. Timing, too, is important. The board should not be expected to read and digest material at short notice when there is, in fact, no rush. Nor should directors be expected to interpret detailed and densely presented financial or other data or be required to wade their way through large tracts of information or data in order to find key facts.

The CEO and directors must work together to design ways to support the board in its role while recognising that there is limited time for the role to be carried out.

Ensure that the work is meaningful

One of the greatest hindrances to effective governance practice is when directors can find no real meaning in their work. Often this occurs as the result of the board becoming engaged in the CEO's work rather than its own. This is an easy pattern for directors to fall into. Management issues are often 'sexier', easier to talk about, more immediate and, not uncommonly, more closely aligned with the directors' realm of practical experience than are the more esoteric, future-focused big picture issues that are at the heart of the board's governance role. It is little wonder then that board meetings easily slip into operational rather than governance mode.

Sometimes there is good reason to discuss operational matters

We don't wish to give the impression that operational issues should never be discussed around the board table nor that directors' operational experience is of no value to the board or the organisation. There will be many times when, for example, as part of a strategic dialogue or an in-depth compliance discussion, operational matters are raised and brought into the dialogue. Directors should be clear, however, that such straying from their governance focus is a necessary component of a higher-level discussion, essential to a better understanding of an issue or problem. In other words they must be convinced that the inclusion of a brief operationally focused discussion facilitates a better governance decision.

Being clear about the point of boardroom dialogue

When the board as a whole, or individual directors, do not understand the context of a discussion, or when there is no clarity about the purpose of an issue or its relationship to the organisation's business, meaning

cannot be assigned and interest will waver or dissipate. One way to ensure that there is governance meaning assigned to board discussions is to reference all boardroom discussion topics to something that the board has already determined, or about which it is due to make a determination. Every discussion or dialogue should have a reference point somewhere in the board's documentation. It should be made clear how an issue relates to the mission, a strategy or some other planning statement. Compliance monitoring should be referenced to criteria that determine the standard for effective or acceptable compliance. Board policies provide a reference for many board discussions and much CEO reporting. CEO reports should also be referenced to a board policy or a planning statement. Directors should not be asked to read documents or engage in dialogue without an explicit or implicit understanding of where they fit in the board's role.

Don't allow the 'part-timeness' to inhibit top performance

Boards are part-time contributors to the organisation and that is unlikely to ever change. Accepting this, it is essential that the CEO and the directors work together to ensure that the 'part-timeness' of this important body does not inhibit its performance. With the board giving regular feedback to the CEO about its support requirements and with the CEO regularly asking the board for feedback about the support given, there is every opportunity created for the board to add real value to the organisation and for directors to gain great satisfaction from this.

Seeking Out Differences - The Importance of Diversity in the Boardroom

Unfortunately, there is more than a little truth in the old adage that, if a board has six people with similar views and ideas, it has five members more than it needs! There is an understandable human tendency for boards that can control or influence their own succession to seek out new members who they will be 'comfortable' with. That means that a typical board tends to replenish itself with people quite similar to those who are already around the table. It is reinforced by a connected reality. Anyone considering a board appointment is also likely to prefer to join a board with people who they expect to find 'compatible'.

These mutually reinforcing tendencies can produce boards whose members are almost 'clones' of each other. In particular, the members think pretty much the same way. The way they approach the challenges facing their organisation is based on similar mindsets and understandings of the world.

The tendency to seek compatibility within a board can be a significant factor in its under-performance. Important new strategic challenges, for example, may be ignored or not well understood. There is a particular risk of superficiality and decisions that are made too quickly on the basis of overly narrow perspectives.

Establishing the membership of any functional work group on the basis of their differences rather than their similarities is counter-intuitive and relatively rare. In this article therefore, we explore the case for diversity around the board table. We do this not because it is 'politically correct' (e.g. to achieve gender, ethnicity or age equity, or to balance different stakeholder interests) but because real differences around the board table – when well managed – increase the likelihood of good governance.

Why is diversity important?

Mostly boards that are deliberately built up with people who have similar personal characteristics too seldom recognise that, in terms of governance effectiveness, it offers only a false comfort. There are several reasons why organisations led by homogeneous boards are inherently at risk.

Closed minds

For one thing, if each board member has similar attitudes and thinks the same way about important topics there is a high probability the board will be 'blindsided'. It will not be able to anticipate, understand or even recognise the importance of future events or new developments. These can be practically invisible because they do not fit with the board's way of viewing its world. Boards loaded with 'industry insiders', for example, are notoriously likely to accept the current success formula without question and to reject new ideas.

The classic story of a group of people failing to understand and accept new information was of the Swiss watch industry. For generations the Swiss dominated the world of watch making. They were constant innovators. In 1968 they had more than 65 percent of the unit sales in the world watch market. Why, then, by 1980 had this collapsed to less than 10 percent?[1] Because the Swiss ran into a paradigm shift - a fundamental change in the rules of watch making. Almost overnight thousands of Swiss watch makers lost their jobs as their mechanical timepiece, based on gears, bearings and mainsprings, was replaced by the electronic watch. Ironically, it was the Swiss themselves who had invented the electronic quartz movement and yet, when the Swiss researchers presented their revolutionary new idea to Swiss manufacturers in 1967, it was rejected. It was alien to traditional watchmakers' understanding of what a watch was. In any case, why change a winning formula? The Japanese company, Seiko, when it became aware of the research later that year, interpreted that from a different mindset. It was able to understand and grasp the opportunity.

There are many similar stories of organisations and boards that 'missed the bus' because of weak strategic antennae and closed minds.

Groupthink

Another reason why diversity is important around the board table is because boards with a homogeneous membership are also more likely to fall into the trap of 'groupthink'. Groupthink has been defined by one of its most notable analysts, Irving Janis, as:

A mode of thinking that people engage in when they are deeply involved in a cohesive group, when the members' strivings for unanimity override their motivation to realistically appraise alternative courses of action.

Typically, under conditions of groupthink, boards pursue only a limited range of objectives, fail to explore alternatives, accept limited information at face value, and fail to work out the details of implementation (including contingency planning) over-assuming what is or is not possible.

What is missing in that type of situation is serious consideration being given to alternative, conflicting, points of view. That should not be surprising. Consciously or unconsciously, the formation of a board that is essentially homogeneous in its membership is often born out of a desire to avoid awkwardness or conflict. There is a fear people who think or see the world differently, will be 'difficult', 'that things will get out of hand' or that the boardroom dynamic will be uncomfortable in some way, even 'unpleasant'.

Of course it is true that we may not be at ease when people different from us are around the board table. It is also true that differences that are not managed well – and which become 'personal' – are not only unpleasant but may even lead to a board becoming quite dysfunctional. Without sources of difference, however, the fire of the creative tension necessary to make a boardroom team effective is dampened. It is important not just to tolerate but to seek out and encourage different and dissenting ideas.

Different types of diversity

When the term diversity is used, we have become conditioned to think first about diversity based on social and demographic characteristics. Gender, ethnicity, age and the like are only, however, the outward, visible signs of diversity. Make no mistake; it is important to seek a range of such characteristics. When directors look around the table and see visibly different people they expect, and come to listen for, contrasting viewpoints. And, if a boardroom team is diverse in this sense it is likely to be more attuned to picking up on disagreement. If members are conspicuously different from each other, individuals are less likely to assume others will think the same. They will be more open to the possibility and even the value of conflict.

There are, however, other less visible dimensions of diversity which are just as important to acknowledge and to seek to apply in a boardroom context. If these types of difference are not directly available to a board's deliberations, it could be at a serious disadvantage in the quality of its decision making. Other dimensions of difference can include:

Expertise – the different types of educational qualifications, training and professional expertise people have

Experience – differences in the way people have experienced and learned from life (including work)

Perspective – the different outlooks people have on life – reflecting their culture, education, family upbringing, their values, philosophies, social mores, etc.

Personality – differences in the way people are in themselves and in the way they relate to others

Functionality – differences in intellect, aptitude, thinking and decision making styles, preferred group roles, etc.

Aspiration – differences in ambitions and expectations

Commitment – differences in the extent to which people are prepared and able to make and sustain the effort and discipline needed for good governance.

No doubt this list could be extended further and also recast in other ways.

Obtaining diversity and making It work

Getting the best from a board that is comprised of people who are quite different from each other is undoubtedly a greater challenge than when board members are essentially the same. When 'diverse' board members struggle to work together effectively there is often a common theme to the difficulties they face. Instead of addressing the issues facing them the board becomes diverted and divided by the differences that should be a source of strength. Instead of trying to understand and value their respective differences, individual members often fall into the trap of disparaging or dismissing those among their colleagues who see things differently.

The existence among its members of worthwhile differences means that a board needs to put a lot more effort into learning how its members can work together effectively. There is a need to be deliberate in working out how to acknowledge and piece together the different strengths of various board members. A good starting point is to explore openly and seek to understand the differences there are and the value and challenges that those might bring. Then try and be explicit about the type of decision-making style you want around your board table. Deliberately define 'rules of engagement' that encourage, even demand, a high level of interaction and the expression of different views. Explicitly shape a boardroom culture that welcomes the expression of different views and values but also requires people to be civil and respectful in their interactions with each other. Support this with a systematic board and director evaluation process to provide performance feedback. Do board members, for example, display the ability to 'disagree without being disagreeable'?

A significant point of difference, even among people with similar demographic characteristics, is related to different thinking styles. Sometimes this reflects the different roles board members play in their 'day jobs' and may be inclined to assume in the board itself. More fundamentally, however, each member of the board has a preferred problem solving and decision-making style. For example, some are likely to be very facts and 'task' oriented. Board members with these characteristics will want to collect up the 'hard facts' as quickly as possible, make a decision and move on to the next item on the agenda. They are likely, therefore, to have a very low tolerance for working with colleagues who do a lot of 'thinking aloud' and who enjoy exploring different concepts and ideas. This type of board member will do this without any apparent sense of urgency and in a way that may seem aimless and even self-indulgent to the former group. This second group of 'ideas' people are likely to find the first ('hard facts') group equally frustrating to work with!

These, and other types of difference, have been widely studied and described in numerous different personality, thinking style and group role typologies (e.g. Myers-Briggs, Belbin, etc). These classifications are available, along with related analytical tools for characterising these inherent differences within a group. There is real value for a board in getting someone with appropriate professional expertise (perhaps an organisational psychologist) to analyse the composition of its membership. This is particularly useful if individual differences in approach seem to be a source of unproductive tension. If these differences are unacknowledged, misunderstood or undervalued, they can quite easily get in the way of effective teamwork. The aim of every board should be to increase awareness and understanding of the nature of the differences that exist around the board table. That is the first step towards ensuring that differences can be appreciated and used positively.

When there is not enough difference within the boardroom team

As a result of such an analytical process many boards become aware that they have a comparative lack of useful difference among members. They also become more aware of the risks they face as a consequence. When changing the membership of the board is not a solution, at least, in the short term, there is a range of techniques that can be used to overcome any shortcomings. These can be used to advantage by all boards, regardless of their degree of diversity. For example:

1. Encourage board members to take on different roles during board discussions (e.g. by being the 'Devil's Advocate' who forces reconsideration or deeper consideration of an issue by challenging assumptions or being a dissenting voice when none other is heard). Training your board in Edward de Bono's 'six thinking hats' concepts, which relate to the different ways of thinking about and approaching a decision, may also prove to be a very good investment.

2. Encourage divergent (that is, broad ranging) thinking. Even if the information you have seems to point strongly to one outcome, deliberately 'reframe' the information by looking at it through a different frame (i.e. from a different angle). That might mean, for example, taking a look from the perspectives of different stakeholder groups whose philosophies and objectives you know are different, perhaps even in conflict with those of the board generally.

3. Multiply the points of view available to your board by consulting widely, and seeking out groups who are likely to have a different stance from those of your board members. Deliberately bring people into your boardroom discussions who you know will challenge the way the board is likely to see things.

4. Use an outside person who can act, in a sense, as a provocateur. Their job is to challenge assumptions and pose difficult questions. If used as a process facilitator they are well placed to tease out differences in viewpoints and manage any resultant dissension in a productive manner.

Conclusion

Despite our natural inclinations, differences in thinking around the board table are not something to be afraid of and avoided. On the contrary, divergent views are essential for effective decision-making. When differences are respected and well-managed, conflicting views lead to the consideration of more alternatives, deeper, more thorough analysis, a better understanding of possible choices and significantly more effective decision-making overall.

1   Joel Arthur Barker (1993) Paradigms: The Business of Discovering the Future. New York; HarperBusiness.

Getting the Right People on Board - Director Recruitment and Succession Planning

Do you ever look around the board table and wonder what some of your colleagues (and even you yourself) have to contribute? Does your board struggle to find new, well qualified members? Do some of your fellow directors seem to be on a completely different planet? Do you wish some of them were? Even though your board has a full quota of directors do some of them consistently under-perform or even fail to turn up?

These and related issues are realities in many organisations. Few boards have conducted a recruitment process that has not, at some time, delivered to the board table a new director who was unsuited to his or her role, whose expectations were misplaced or whose aspirations were misaligned__ with the purpose and direction of the organisation. Shortcomings in board building invariably lead to board performance deficiencies of one sort or another.

While there are many different aspects to effective board formation a simple ingredient that is often missing is an approach that is systematic and deliberate. In this article we describe the main steps in an effective board recruitment process and the time that might elapse in completing the various steps. It should be noted that thoroughness in director recruitment and selection does take time and preparations should be made well ahead of a departing director where this is possible. The timeline suggested is realistic but could possibly be shortened depending on the content of some of the intervening steps and whether there is an opportunity for those to be undertaken concurrently.

The key steps can be divided into three distinct phases.

Phase One: Needs Assessment

1.   **Confirm the number of director positions to be filled** (Month 1)

Usually this is something that depends in the first instance on discussions within the board itself. In other cases, depending on the organisation's constitution and its legal form (e.g. company, incorporated society, statutory authority etc.), filling vacant board positions may not be the prerogative of the board and various stakeholder groups' views may need to be sought at an early stage. This will require discussions with relevant parties representing both the board and the relevant group.

2.   **Confirm the board's role, structure and work program** (Month 2/3)

Before any recruitment process is begun it is desirable, in a broad sense, to confirm the structure, role, and focus of the board. This is most likely to be within the purview of the board itself. In some cases, however, it may require consultation with owners, regulatory authorities or various other interested parties. The board in such cases would need to factor in the need for consultation or obtaining the necessary approvals.

The board should identify the key strategic challenges facing the organisation over the next 3-5 years (the realistic term of appointment of any new directors) and any other governance matters about which candidates for membership should be aware (e.g. contingencies that may affect directors liabilities) before accepting appointment.

Before seeking interest in the directorships that may be available it is important at this stage that there is a clear ownership strategy for the organisation. High calibre candidates will have a particular interest in the expectations the owners[1] have of the board and the extent to which the board will be empowered to govern.

3.   **Create a 'needs matrix'** (Month 2/3)

This process is identified as a separate step but may, in some cases, be run in conjunction with Step 2. Given a shared view about the challenges in front of the organisation existing directors are invited to comment on the skills, experience, attributes etc. they feel the board as-a-whole requires. They would next be invited to identify areas of relative strength and weakness by assessing the present board against those requirements. Provided there is a genuine commitment to openness and the board is at ease with a 'warts and all' approach, both tasks can be completed through a general board discussion.

Realistically, however, that is not always the case. In cases where there is a concern that an open discussion would be constrained for any reason[2] we have found that an independently conducted survey to gauge views anonymously is useful. If such concerns do exist it may also be wise to invest in an independently facilitated discussion of the results of the survey.

4.   Finalise a recruitment profile for each available position (Month 3)

From the previous steps in the process it should then be possible to agree a profile against which to begin the recruitment process. In some organisations the board can control the process throughout. In others the following steps may be out of the board's hands. Such may be the case, for example, if new directors are to be elected through a democratic process or if the owners have a tendency to make an appointment without reference to the chairman or other directors (e.g. as in political appointments to Government-owned entities). In such situations it may seem to some boards that the preceding steps (1-3) are a waste of their time. Even then, however, we would argue that a board should always be aware of, and be able to articulate, its own strengths and weaknesses. There are a surprising number of opportunities to influence even an electoral process provided the board can express its challenges and its needs sufficiently clearly in advance. Electors are often looking for advice or information to help them make an informed choice. Of course, such an approach will be negated if there is any sense that it is prompted by self-interest (personal re-election).

Phase Two: Recruitment

5.   Identify suitable candidates (Month 3/4)

In many organisations there are traditional avenues for obtaining new directors. Increasingly, however, there is suspicion voiced that these owe more to the personal contacts and affiliations of existing directors (e.g. the 'old boys' network') than to a process that will identify those candidates who are best qualified. There is an ever present danger in any process that has a tendency to simply 'clone' existing directors. There is value in taking as much care in appointing new directors as would generally be taken in recruiting a new CEO or other senior executive. The process may therefore involve a public advertising process and possibly even a professional 'search' process. Whichever approach is adopted the aim is to attract a range of well qualified candidates from which to produce a short-list for final selection.

6.   Short-listing of potential directors (Month 4)

Of course, a democratic election process for new directors has its own dynamic. Where a selection process is involved, however, applicants can be assessed against the recruitment profile and discussions can be held with both potential candidates and their referees as appropriate. The ideal is to reduce the list of possible contenders to a 'medium shortlist' from which a final group of candidates can be selected to be interviewed by a selection panel. (Note: at an early stage, responsibility for the various stages of this process, including this final short listing, should be clearly defined. This is often allocated to an appropriate board committee, perhaps the board's Corporate Governance Committee). It should also be expected that competent candidates will wish at this stage, or even earlier, to undertake at least some degree of due diligence on the organisation and the board they may be invited to join. This takes time but should be encouraged as it increases the likelihood of a successful appointment.

7.   Final selection (Month 5)

The selection panel interviews a final group of candidates (the number depending on the number of vacancies) deciding to whom a directorship should be offered. If this stage of the process has been conducted by a committee, its mandate may not extend to a final decision and it may require full board agreement. The timeline should take this into account.

8.   Appointment and orientation (Month 5)

The final stage, often neglected, is to ensure that appointees (or those successful by election) have clear role and performance expectations and terms of appointment outlined to them. Typically this is done by the chairman although in some cases it may be the responsibility of a representative of the owners. This step would also define an orientation process to be undertaken to ensure that each new

director is able to contribute to the board's thinking and become an effective team member as soon as possible. (For a further discussion about this, readers might refer to Good Governance #15, May-June 2000, "Joining a Board – Special Issue") Because changing even one member changes the overall dynamic of a board this does mean, among other things, working with the board as a whole to set shared expectations of how its members will work together in future. Implementation of this stage may carry the total elapsed time well beyond the five months estimated.

Phase Three: Succession planning

Successfully filling vacant positions is by no means the end of the process. An effective board maintains a continuous watch on its performance and its composition. You never know when a new appointment may become necessary or desirable. Three further steps can be identified, therefore:

9.   Review the board's performance and composition

An organisation's circumstances and needs change over time. Changes at the board level are often required in order to reflect and cope with such changes. The board should have a process for consciously identifying and tracking the need for possible changes at the board level. This should include a regular review of the board's performance both collectively and at the individual member level.

10. Maintain the needs matrix and a current director profile

The needs matrix must be regularly updated (at least annually, if not more frequently in some rapidly changing situations). The ideal time to do this is following (or as part of) a board and director performance assessment. As described in relation to Step 3 it is important for existing directors to have shared views about both the challenges in front of the organisation and the skills, experience, attributes etc. they feel the board as-a-whole requires. The board can then maintain an up-to-date assessment of how well its present composition fulfils emerging requirements and what, if any, new skills or experience is required should a new director be sought.

11. Maintain a list of prospective directors

With those needs in mind the board can be continuously on the alert for individuals who might be a good match with that target profile. In some types of organisations it is also worthwhile for owners to be well acquainted with these needs and to be encouraged to also be proactive in identifying suitable candidates for possible future election or appointment.

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1   The concept of ownership as used in this context should not be confined to 'shareholders' (proprietary ownership) but should extend, for example, to the members of an incorporated society.
2   For example, where there was a concern among individual directors that their place on the board might be at risk as a consequence of such deliberations.