

OPINION

Making directorship simple and profound

Looking back 20 years John Mendzela gives his view on whether the core competencies required of a director have changed.

In 1995, the New Zealand Institute of Directors had a coat of arms with the motto 'Integrity and enterprise', a code of ethics, and a Company Directors' Course. The qualifications for a good director were simply described as 'integrity, common sense and business acumen'. Most directors learned directorship by doing it. Personal referrals – sometimes valuable, and sometimes more an 'old boys' club' – determined most appointments.

What a contrast with today! The IoD documents extensive guidance on every aspect of directorship. It offers professional development for every stage of a governance career and help with every aspect of board operation. And the qualifications for a good director now include a long list of competencies.

More is not necessarily better. One of my key themes when training prospective directors was to outline progression through "Three stages of understanding":

We would discuss the problem of getting stuck in an interim Stage Two, through an unduly technical education, long but narrow industry experience, or a highly specialised role. I would stress that complication can be appropriate in management and technical activity but is unhelpful in governance.

In 1995, IoD thinking about directorship was certainly simple, but also somewhat superficial.

In 2015, we face a more challenging governance environment. Directors are under the spotlight. Boards are expected to actively add value, not just passively confirm.

Today, professional thinking is certainly profound. But has complication taken

over? Are we stuck in Stage Two, lost in the fog? Or can we maintain the "simple and profound" approach essential to good governance?

INTEGRITY

I think we can. With help from a dictionary, let's update that brief description of directorship qualifications: integrity, commonsense, and business acumen.

The need for integrity is greater than ever. IoD requirements that members adhere to good governance practices is clear. But with boards facing increased demands, we should expand that first qualification to "commitment".

Commitment is firstly defined as 'being dedicated to a cause' – the good of the organisation being governed. It's doing a job, not just holding a position.

But a second limb of the definition can be more challenging: 'an engagement or obligation that restricts freedom of action'.

That obligation extends beyond direct conflicts of interest. Conflicts of information and conflicts of role are more subtle, and often more important. Perceptions are important, not just facts. Good directors must instinctively understand and navigate those challenges.

A board that I was advising unanimously resolved that certain confidential and economically valuable information would not be disclosed to directors, to avoid any actual or perceived conflict of interest. (What you don't know you can't act on.)

But at the next meeting, one director nonetheless demanded to know that information. Instantly, another director demanded NOT to know it. A third director also demanded the information, while a

fourth got up to leave so that he couldn't know it. Two other directors looked panicky and said nothing. Ultimately the dispute was resolved without any major damage. But while two directors had demonstrated their fitness for office, two others had demonstrated the opposite.

COMMON SENSE

The second qualification – common sense – is defined as "sound and prudent judgment based on a simple perception of the situation or facts". "Simple" is there, but what about "profound"?

Let's replace common sense with comprehension – defined as "the ability to understand something". Understand what? Comprehension shares roots with comprehensive. A complete and holistic approach is an essential feature of directorship.

So it isn't good enough to bang on excessively about sales or finance because you know a lot about that, and not come to grips with other aspects of the enterprise. Or to apply outdated concepts that rely too heavily on past experience. Observation and research strongly suggest that, compared with peers elsewhere, Kiwi businesses tend to over-perform operationally and underperform strategically. In a world where acting globally with future orientation is essential, tactically-oriented and locally-based thinking won't be enough.

Comprehension also includes accepting the governance requirement to support the common good of the whole organisation, ahead of individual or partial agendas. A board I worked with became dysfunctional because one

director – undoubtedly knowledgeable and principled – undermined board decisions he disagreed with, in a public and damaging manner. He firmly believed that his primary duty was to the representative group that had put him on the board. No amount of explanation about collective responsibility or good governance practices could alter that belief. So he had to go, and did.

BUSINESS ACUMEN

Commitment plus comprehension creates willingness and understanding to do the right things. The third qualification – business acumen – is about doing those things effectively. The dictionary defines business acumen as ‘keenness and quickness in understanding and dealing with a business situation in a manner that is likely to lead to a good outcome.’

What better description could we ask for? All organisations, profit-seeking or not, face business situations. Applying timely good judgment to reach optimal outcomes lies at the heart of good governance. Chairmanship demands particularly strong business acumen to weigh up alternatives, seek and evaluate specialist advice, and shape timeframes and processes for board decisions.

So an updated short qualification for directorship might read “commitment, comprehension, and business acumen”. Can we train directors, to create and enhance those qualities? Only up to

a point. To become knowledge and skill, information and example must be practically applied through personal experience. And whether we like it or not, some abilities and characteristics (or their absence) are largely innate and immutable.

Stress-testing for directorship comes when an organisation faces capability challenges, financial pressures, adverse trends or disruptive events. Under stress, a board needs all of its members to stay staunch, grasp the full picture and help generate practical action. But some apparently well-qualified directors fail stress testing. Why?

A SPARK OF ENTERPRISE

I vividly recall helping a capable chairman interview several director candidates. One had a good track record, said all the right things, and had been to all the right training courses. But after he left the room, the chairman asked me (and himself) a simple question – would we be comfortable relying on this candidate to help the board add value? We thought not, and dropped him off the list.

What spark was missing? In the IoD’s 1995 motto, integrity was coupled with enterprise - defined as ‘readiness to engage in daring or difficult action’. Our candidate lacked enterprise.

It’s no surprise that risk management is prominent on board agendas. Organisations and their directors face increasing expectations and tougher penalties for getting it wrong. But risk

management should not become risk minimisation, because minimising risk also minimises opportunity. To add value, boards also need to encourage and demonstrate enterprise.

ELEMENTS OF DIRECTORSHIP

It’s worth thinking again in a simple but profound way. Does this candidate display:

- commitment – to doing the right things?
- comprehension – understanding all the right things to do?
- business acumen – a talent for doing the right things effectively?

And as a final consideration – how enterprising is this person likely to be?

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CURRENT COMPETENCIES

The IoD has developed the Director Competency Framework structured under four key director attributes. These are: strategic and governance leadership, informed decision-making, business acumen, and communication. You can assess yourself against elements of these when it comes to choosing a professional development activity.

For more information, visit iod.org.nz