



April 2, 2020

The Right Board of Directors

What is the Right Board of Directors?

The board is the engine of an organization and is at the heart of effective corporate governance. So to start at the top, what is the right board?

The right board is a board that is composed well and has the right mandate. We will address the composition of the board in this article and the mandate of the board in due course.

Board Composition

What should one consider when composing a board or re-evaluating the boards composition?

In short, 7 criteria to consider:

- Type
- Experience
- Subject expert
- Personal attributes
- Diversity
- Viewpoints
- Other value added criteria.

Type

Boards should include an appropriate mix of executive, non-executive and independent directors.

Executive directors are directors that have a post within the business but are also nominated to be in the boardroom; these are normally CEO's and/or CFO's. Independent directors are directors that have no relation to the business (or as minimal as legally possible) other than their directorship. Non-executive directors are in essence directors that are not executive but do not fully comply with the independence criteria i.e. have worked with the company in the past, have a contractual relationship with the company as a supplier, financier or otherwise etc.

What is the appropriate mix? That depends on the type of business and the stage of the business. Early stage businesses will traditionally have more executives on the board while more advanced and developed businesses are likely to have more independent members. The more complex the business and the more strategic oversight is necessary the more independent directors are needed.

Experience

A board in essence needs to provide strategic advice and oversight. To be able to do that, board directors need to have the right experience be it within the industry of the company, in the geographical area where the company operates or specifically within the market it operates.

Identifying what specific experience is necessary to provide the strategic support and oversight is important in identifying the right directors to be on the board.

Subject expert

It comes as a surprise to some boards that not all board members need to be subject experts on the same topic. Boards need to be holistic in the sense that amongst themselves, the board members should be able to address all key matters related to the business. Key subject matter experts normally include financial, risk, legal and human resources. Of course there are many variants to that where sometimes marketing and communication expertise may be needed on the board or even logistics depending on the business.

Personal attributes

Have you ever been in a room full of alpha males? As great as that may be in terms of energy levels but the reality is not everyone can lead the board at all times. It is important to consider other attributes such as tactical thinking, implementers, realists etc. Its finding the combination of personal attributes that work together to achieve the required result that makes a board an effective board.

Diversity

If you are following social media, the sustainability development goals (SDGs), the many initiatives these days driving diversity and inclusion you will agree that this is a key topic. From a governance perspective however, this is key to ensure that you are addressing all the issues your stakeholders are interested in. It is important to highlight here that diversity refers to all forms of diversity i.e. gender diversity, age diversity, background diversity etc.

For example, if you are an FMCG targeting mid-income households or a cosmetic company, it would be extremely valuable to have a representative of that target group on the board that can provide feedback on the strategies selected.

View points

It is not uncommon for shareholders to appoint directors that they know would agree with them. However, without differing viewpoints it is difficult to develop a business and ensure that the business remains in line with market changes (look at what happened to Kodak or Blockbusters). Some members might be risk averse while others are more cautious; its not that one is better than the other but having a combination of such differing viewpoints will ensure that all key issues are raised and discussed and a reasonable middle ground is achieved.

Other value-added criteria

It may seem like we have covered all possible criteria for an efficient board composition but this catch all criteria is very important too. Consider this, a company that has been operating for several years is now considering changing its strategy, approach, market segmentation etc. Different experience and subject matter expertise becomes important and therefore, the existing board is now no longer the most suitable board to handle this change.

What is the right Board?

The simple answer is, it's a sliding scale and no one size fits all but a consideration of different factors to ensure that the right composition and an appropriate mix of people are there to undertake the task. Often its not about having good directors but having the right directors that is important.