

## PRINCIPLE 3

# Board composition

The board's structure and composition enable it to fulfil its role effectively

- 3.1 Directors are appointed based on merit, through a transparent process, and in alignment with the purpose and strategy
- 3.2 Tenure of directors is limited to encourage renewal and staggered to retain corporate knowledge
- 3.3 The board reflects a mix of personal attributes which enable it to fulfil its role effectively
- 3.4 The board assesses and records its members' skills and experience, and this is disclosed to stakeholders
- 3.5 The board undertakes succession planning to address current and future skills needs in alignment with the purpose and the strategy

Having the right people around the table is critical to the effectiveness of a board. Boards should look critically at who their directors are and how they are appointed. There is no one-size-fits-all ideal structure and composition for boards. Instead, the directors must decide what form their board should take and give consideration to how this might change over time.

### Appointing directors

Directors are generally appointed by:

- direct appointment by the board; or
- election by the members.

Organisations may use either of these methods or a combination of the two. Generally, an organisation's governing documents and any laws that apply to it will set out requirements about who can be appointed as a director and by what process they must be appointed.

It is a good idea to set out the process for appointing directors in a policy. This policy should include matters, such as who is eligible to be a director, how they can nominate and any processes that must be followed so that their appointment is valid. Making this policy available to stakeholders, especially members, can help promote transparency and will help prospective directors to understand the process.

If directors are appointed by election, it is important the process is transparent. One way that this can be achieved is through appointing an impartial third party (sometimes called a 'returning officer') to oversee the process so that it is fairly and properly run. Often an organisation's governing documents will set out the requirements in relation to the election process.

### Tenure of directors

Directors are generally appointed for a fixed term. The total time that they are appointed for (which may include several terms) is referred to as 'tenure'.

Once a director's term concludes they will either be reappointed for another term or they will cease to be a director. An organisation's governing documents will generally set out requirements about how long a director is appointed for, whether they can be reappointed and,

if so, whether there is a limit to the number of terms (or years) that a person can serve as a director.

It is a good idea for a director's tenure to be limited to encourage renewal. Although there may be good reason for a director to serve for an extended period in certain circumstances, there are many benefits to bringing fresh perspectives onto a board.

Boards should consider how a director's tenure may impact their performance, particularly if serving for ten years or longer. Even if a director does serve for an extended period, limiting tenure will encourage regular review about whether their appointment continues to be in the best interest of the organisation.

It is also important to consider how the mix of tenure on a board might affect the retention of institutional knowledge. If too many directors depart at once, this could result in the loss of important history and context, which helps the board to make good decisions. Directors also play an important role in mentoring their peers and so it is important that new directors can work with, and learn from, more experienced directors as part of their induction process.

For this reason, it is a good idea to stagger board tenure so that the number of departing directors, new directors and ongoing directors is balanced.

### Measuring skills and experience

To understand what skills they have, address shortages and forecast future needs, many boards quantify and record their directors' skills and experience in a 'skills matrix.'

A skills matrix is a document that profiles its directors' skills and experience. There are several ways that this can be presented, including which skills are highlighted within the matrix. Boards should consider what skills and experience are relevant to them in the context of their purpose and strategy.

The example simple skills matrix below demonstrates how three fictional board members have been assessed against a set of general criteria. Some more detailed matrices will ask directors to assess their proficiency within the set criteria.

**Figure 3: Example board skills matrix**

	Accounting	Investment	Legal	Human Resources	Technology	Marketing	Fundraising	Industry	Governance	Media	Risk	Government
Amrita Chandra	✓	✓		✓	✓		✓				✓	
Jose Garcia			✓					✓	✓			✓
Rashia Abdi				✓	✓	✓	✓		✓		✓	

While technical skills are important, boards should look beyond these to consider the other attributes of directors such as a passion for the organisation's purpose and soft skills such as communication, negotiation and conflict resolution. One of the more challenging balances to strike is in having diverse perspectives and encouraging robust debate while maintaining a respectful and cohesive working relationship between directors. The absence of a collegiate approach to decision-making can lead to dysfunction and decision paralysis.

It is a good idea for boards to disclose their members' skills and experience to stakeholders to help them understand who is responsible for governing the organisation. Although some boards may disclose a full skill matrix as in the example of Figure 3, NFPs will also provide this information in an anonymous way. For example, through recording how many directors have a certain skill without disclosing which particular directors have this skill.

The skills matrix can also be a useful way to identify areas for board training, development and succession planning.

### Size of the board

Boards need to have enough members to fulfil their responsibilities, access the skills and experience they need, and to facilitate changes to composition without major disruption. However, if the board is too large it may be difficult for all directors to contribute and this may undermine its effectiveness.

Boards must determine for themselves, within the limits imposed on them by their governing documents and the law, what the ideal board size is for their circumstances. Generally, NFP boards tend to be between six and 11 people, though they may be smaller or larger.

An organisation's governing documents and any laws that apply to it may set out requirements about the minimum and maximum number of directors a board may have. There may also be requirements about how many directors must be present at a meeting for it to be valid (quorum).

### Succession planning

Succession planning refers to taking a methodical approach to projecting the future skill and experience needs of the organisation, and putting plans in place to meet them. Boards should forecast when vacancies will arise and identify suitable candidates to facilitate smooth transitions between directors.

It is important that a board is prepared to respond to and meet the gaps created by the natural rotation of directors, or more unexpected events such as sudden illness or death. Boards should engage in succession planning not only for directors, but also for the CEO and other senior staff. This is not always a precise activity, and so boards should be prepared to be flexible in their approach.

One way this can be done is through maintaining a list of suitable and interested candidates to create a pipeline of prospective directors that can be drawn on in response to need. Some boards use more structured programs such as allowing prospective directors to be 'observers', so they can learn about the board's business (without participating in decision-making) and be better prepared when a vacancy arises. It is also common for boards to appoint people to committees with a view to preparing them to become directors in the future.

It may be helpful to get advice from a recruitment consultant to deepen the talent pool of potential new directors.

## Board diversity

One of the benefits of having a board is that it brings several minds to focus on a shared purpose. This benefit is multiplied when directors bring diverse perspectives to bear on their work, making available different ways of processing information and solving problems.

Governance is a team sport, and as with any sports team it is the quality of the team overall (and not any individual member) that defines its success.

The arguments for the importance of board diversity have their roots in social justice, drawing on principles of equality and fairness. However, research demonstrates that diversity on the board can contribute to improved performance. Diverse boards have also been shown to increase staff retention and engagement, promote a better understanding of an organisation's stakeholders and drive innovation. Diversity also assists in deepening the talent pool from which to draw staff, executives and directors.

Boards should aim to reflect a mix of personal attributes in their composition. This may include:

- Gender;
- Cultural and linguistic background;
- Professional experience;
- Sexuality;
- Attitudes;
- Age;
- Educational qualification;
- Lived experience;
- Technical skills;
- Socioeconomic background;
- Marital or family status;
- Boardroom behaviours;
- Religious belief; and
- Gender identity.

Research has shown that it is not only the diversity of personal attributes which influence a board's performance but also diversity in thinking style. This is referred to as 'cognitive diversity.'

Diverse boards also send an important message about the values of an organisation and the society it wishes to create. There has been a significant focus on the representation of women on boards for many years which recognises the imbalance of female participation in the workforce, particularly in senior roles. Much progress has been made in this regard, but there is also increasing focus on other aspects of diversity, such as the under representation of people from culturally and linguistically diverse backgrounds.

## Achieving board diversity

Diversity can be a challenging goal for organisations to achieve. For many NFPs, simply finding someone who is willing to serve as a director can be challenging enough, let alone representing multiple diverse attributes in a small cohort of people. This difficulty can be compounded for organisations whose directors are appointed by election where the board may have limited opportunity to influence its composition.

One way through which boards can aim to achieve diversity is through establishing a diversity policy. This is a policy that both expresses the organisation's commitment to achieving diversity and outlines the practical measures the organisation will take to achieve diversity. For example, a diversity policy might:

- Set targets for the representation of certain personal attributes (such as gender) on the board or in the staff cohort, and measure and publicly report on performance against these targets;
- Commit to inclusive and flexible employment practices such as providing reasonable adjustments to physical work environments for people living with disability, and providing flexible working arrangements to support different lifestyle needs;

- Support programs that encourage and celebrate diversity such as cultural awareness training and networks for lesbian, gay, transgender and intersex people and their allies; and
- Require that recruitment practices are inclusive to guard against conscious and unconscious bias in selection processes.

Setting performance targets around diversity is important because what gets measured gets done. For example, many boards in the private sector have committed to ensuring at least 30 per cent of their board are women because this number has been shown to be the 'tipping point' after which diversity will usually become entrenched in an organisation's culture.

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## QUESTIONS FOR DIRECTORS



- \* IS THE PROCESS FOR APPOINTING DIRECTORS CLEARLY DEFINED, TRANSPARENT AND FOLLOWED?



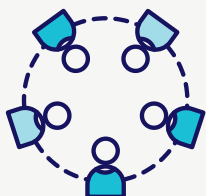
- \* WHAT IS THE BOARD'S CURRENT SKILLS MIX, AND HOW IS IT COMMUNICATED TO STAKEHOLDERS?



- \* WHO WILL BE LEAVING THIS BOARD IN THE NEAR-TERM FUTURE AND IS THERE A PLAN TO RESPOND?



- \* WHAT SKILLS WILL THE BOARD NEED IN THE FUTURE AND HOW WILL THEY BE ACCESSED?



- \* WHAT STEPS HAS THE BOARD TAKEN TO PROMOTE DIVERSITY?



## CASE STUDIES

### HelpfulCare

HelpfulCare has six directors. Each director is appointed for a three-year period. The appointments are staggered so that there are never more than two members departing the board at any one time (unless they depart for other reasons, including resignation). The constitution allows the appointment of members to casual vacancies. The board has a composition policy which they use to assist them in making decisions to appoint directors.

The composition policy sets out the skills and experience it is seeking from its directors. The board reports its directors' skills against five key dimensions:

- Sector knowledge;
- Strategy and risk;
- People, culture and conduct;

- Financial acumen; and
- Regulation and governance.

The number of directors with each skillset is communicated through the annual report. The board has also set a quota of having 40 per cent women on its board, and its performance in this regard is also communicated in the annual report.

HelpfulCare's board review their composition annually and consider this in the context of succession planning. The board's nominations committee is charged with identifying and developing relationships with suitable candidates for board roles consistent with the requirements of the composition policy.

### The Friendlies

The nine directors of the Friendlies are elected by the membership at their annual general meeting. Directors are elected for a two-year period. The Friendlies' constitution sets out how elections are to be held, including if directors can be reappointed after their two-year term. The relevant parts of the constitution are circulated to members in advance of the annual general meeting.

The Friendlies communicate their directors' skills and experience by including profiles of them in their annual report. The board maintains a skills matrix but this isn't disclosed to stakeholders. At the annual general meeting, the president makes a statement (approved by the board)

about the skills gaps they are seeking to address. At the meeting, those nominating for a position are allowed the time to address the members about how their skills and experience would benefit the organisation.

At the discretion of the president, members are permitted to attend for non-confidential parts of a few board meetings to act as 'observers'. The immediate past president has a special role set out in the constitution which enables them to continue on the board for one year in order to provide continuity, and to take a mentoring role with new members, at the board's discretion.