

Board recruitment

Board composition

The board must ensure that it has the right mix of competencies to meet the company's evolving needs. Managing the process that encompasses succession planning, nomination and director recruitment is one of the board's most important tasks. A nomination committee often performs the details of this task. Following are a series of points to consider when the board needs to recruit one or more new directors.

Does the board have the right mix of competencies?

Having the appropriate mix of competencies for a board to undertake its role is seen as the most important requirement of a modern board. In short, a board without the mix of competencies required to fulfil its task is a board which is bound to fail. It should be noted that the term skill is used here interchangeably with the term competency, although technically competency is the more encompassing term.

A regular, formalised skills gap analysis is crucial and, in order to perform this function well, the board must be able to articulate the agreed strategic direction and then identify the skills needed to oversee the strategy. The skills profile of existing directors can be mapped against the skills matrix and any gaps identified. The ASX Corporate Governance Council (ASXCGC) in Recommendation 2.2 of its *Corporate Governance Principles and Recommendations 3e* (2014) suggests

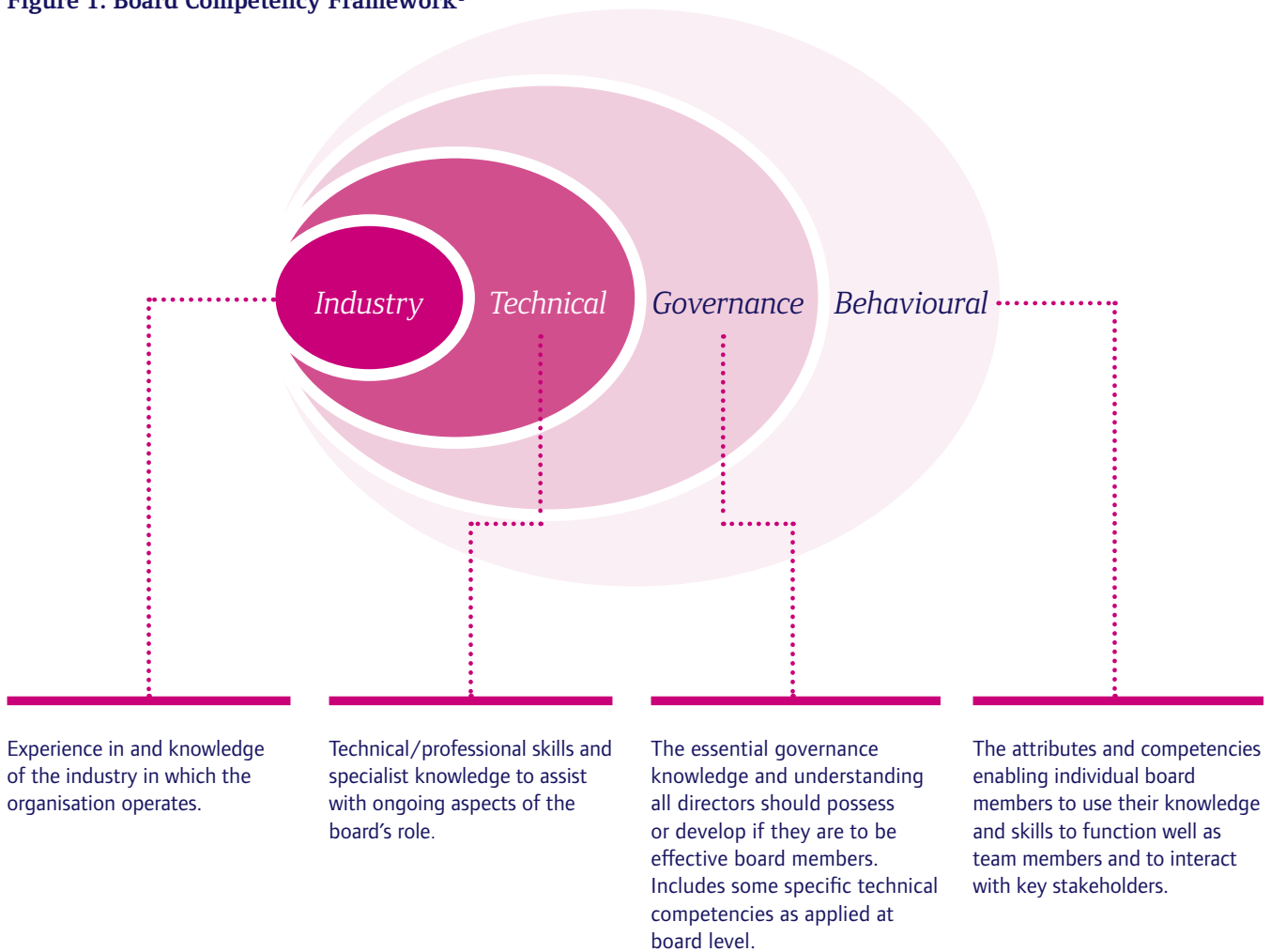
"a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership."

Once a skills matrix has been completed, to assist in formalising the requirements of the different governance roles, a position description may be compiled for the chair and each director and then reviewed and adjusted regularly. This position description can stress the specific roles each director is expected to bring the board in line with their identified competencies.

Specific skills may be required to support a particular activity – for example, if the business is looking to expand overseas, undertake a merger or acquisition or make major changes to technology. Some boards hold 'hot seats' for directors whose input will be very helpful, but only for a relatively limited time.

Early-stage businesses are likely to experience particularly rapid change – for example, a director with experience in raising capital might be invaluable in the first 12 months of the company's life, but have less to contribute when it moves to the next stage.

Figure 1: Board Competency Framework¹



How diverse is the board?

A contemporary board needs diversity in terms of gender, age and culture. In recognition of this need, the ASXCGC includes the following in its Recommendation 1.5 (*Corporate Governance Principles and Recommendations 3e*):

"A listed entity should:

- (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them".

The recommendation goes on to include reporting requirements including the need for a diversity policy, diversity objectives and providing data on the respective proportions of men and women on the board, in senior

executive positions and across the whole organisation. The ASXCGC also provides guidelines for a diversity policy.

From a board perspective, the need for diversity needs to be balanced against the fact that the majority of boards contain between four and nine directors. The need to ensure that the board is competency based and at the same time contains sufficient diversity can be challenging. The Australian Institute of Company Directors, as secretariat of the Australian chapter of the 30 per cent Club, encourages the target of a minimum of 30 per cent female representation on ASX 200 boards by the end of 2018.⁹ Realistically, any director on a modern board will need to cover several skills and at the same time add to the diversity mix of the board.

¹ Kiel G, Nicholson G, Tunny J A and Beck J, *Directors at Work: A Practical Guide for Boards*, Thomson Reuters Australia, 2012.

Is everyone on the board performing effectively?

There is no room for passengers in the boardroom and the board should have a process for divesting itself of anyone with little to contribute. The board should also have the self-awareness to look for and recognise groupthink and then find a way to address this. Any new directors appointed to bring in fresh ideas should have the courage to question and challenge the rest of the board.

Does the board set a limit on how long members are allowed to serve?

Limits on how long directors should spend on the board is a controversial area. One school of thought is that a limit should be imposed, either formally through the company's constitution or informally through a policy. Limits of around nine to twelve years are common, often expressed as three or four terms of two or three years. Even with such a policy, continuing tenure should be closely linked to performance and contribution – a poorly-performing director should not be able to assume that he or she will automatically remain on the board for the maximum time allowed.

The reasons put forward for recommending a limit to the maximum term a person spends on the board include:

- To ensure that directors stay on a board to make an active contribution in the interests of the company and not primarily because of the monetary and/or psycho-social benefits being a director provides to an individual;
- To ensure there is continual refreshment of the board ; and
- Arguments that after about ten years directors become captured by management – they lose their ability to adequately challenge management.²

An alternative school of thought is that limits are arbitrary and that time served should be at the discretion of each board. Directors who are making a valuable contribution should not be forced out because they have completed a stated maximum term. This school of thought places emphasis on continual appraisal of each director's contribution to the board and ensuring the directors have competencies which are necessary to the company's future strategic direction.

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² Higgs D, *Review of the Role and Effectiveness of Non-Executive Directors*, Department of Trade and Industry, London, 2002.

Is the board too limited in its search for new directors?

Boards can no longer rely on personal networks and retiring senior executives from their own industry to provide the range of skills and experience they need. A good professional search firm will suggest candidates from further afield and, if a board member does put forward a name, provide an impartial assessment. Engaging a search firm will also signal to shareholders/members that directors are being chosen on merit. In particular, just relying on the contacts of existing directors has been identified as a major reason for the historic lack of diversity of many boards of major companies.

Is there an effective succession plan for the chair in place?

Many boards are now formalising the title of deputy chair and appointing a director to this position on the understanding that he or she is next in line. This gives the director time to become familiar with the demands of the role and ensures that an appropriate person is ready to step up quickly if the chair should have to leave without notice. However, care should be taken to ensure that such a process has the full support of the board and that having an heir apparent does not alienate the other directors.

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