

## BOARD

# Board recruitment

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. Figure 1 shows a framework covering the four major areas of board competency: industry, technical, governance and behavioural. Every board will require the appropriate mix of competencies in each of these four areas.

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*<sup>1</sup> (ASX Principles) suggests "a board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership".

1. ASX Corporate Governance Council, 2019, *Corporate Governance Principles and Recommendations*, 4th Edition, February, <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf>, (accessed 7 August 2019).

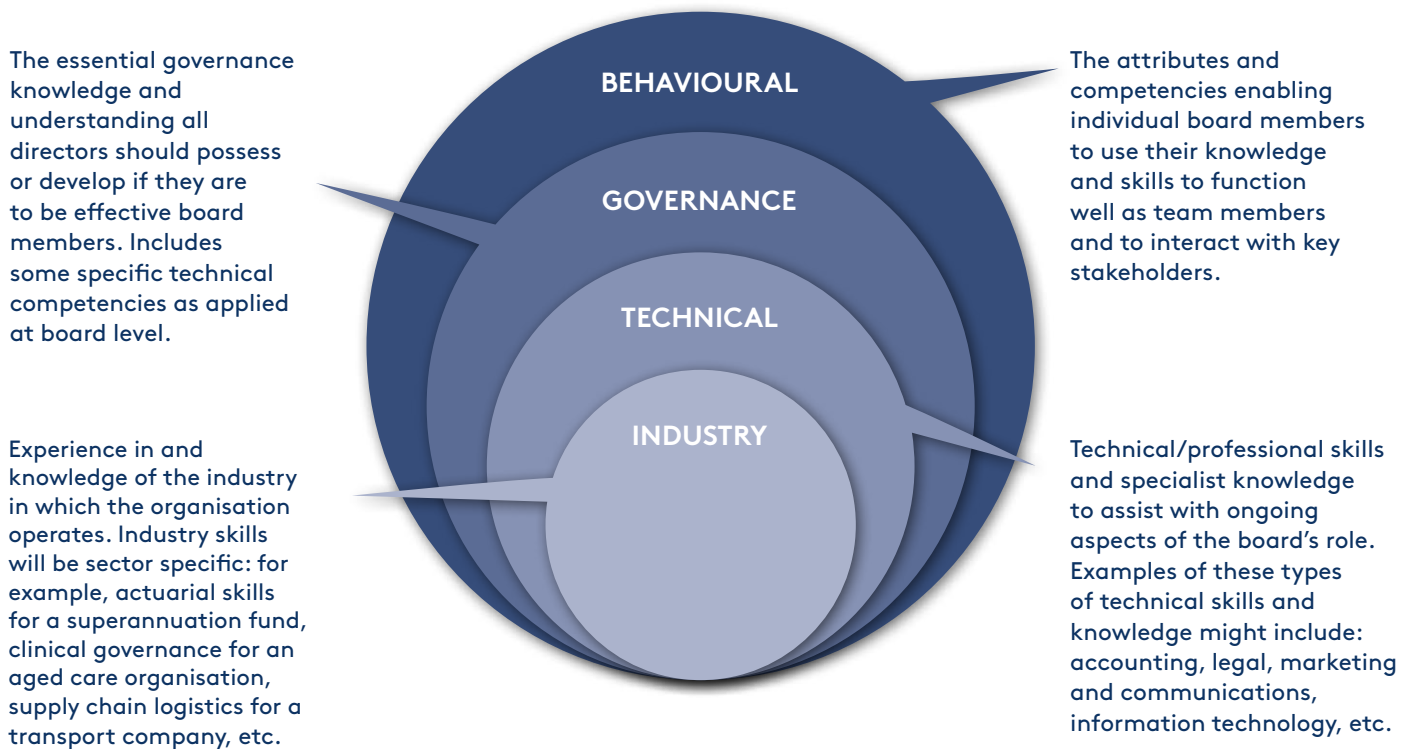
Once a skills matrix has been completed, to assist in formalising the requirements of the different governance roles, a position description may be compiled for the chair and each director and then reviewed and adjusted regularly. This position description can stress the specific roles each director 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 Framework<sup>2</sup>



2. G Kiel, G Nicholson, J A Tunny and J Beck, 2018, *Reviewing Your Board: A Guide to Board and Director Evaluation*, Australian Institute of Company Directors, Sydney.

### How diverse is the board?

A contemporary board needs diversity in terms of gender, age and culture. In recognition of this need, the ASX Principles includes the following in its Recommendation 1.5:

*A listed entity should:*

- (a) have and disclose a diversity policy;*
- (b) through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally.*

The recommendation goes on to include 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. In 2015, the Australian Institute of Company Directors, as secretariat of the Australian chapter of the 30% Club, called for ASX 200 companies to achieve 30 per cent women on boards by the end of 2018. As at the end of June 2019, women represented 29.7 per cent of directors on ASX 200 boards. 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.



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### 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 12 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 10 years directors become captured by management – they lose their ability to adequately challenge management.<sup>3</sup>

3. D Higgs, 2003, *Review of the Role and Effectiveness of Non-Executive Directors*, Department of Trade and Industry, London.

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.

As the ASX Principles notes in the commentary to Recommendation 2.3:

*The mere fact that a director has served on a board for a substantial period does not mean that the director has become too close to management or a substantial holder to be considered independent. However, the board should regularly assess whether that might be the case for any director who has served in that position for more than 10 years.*

### 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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