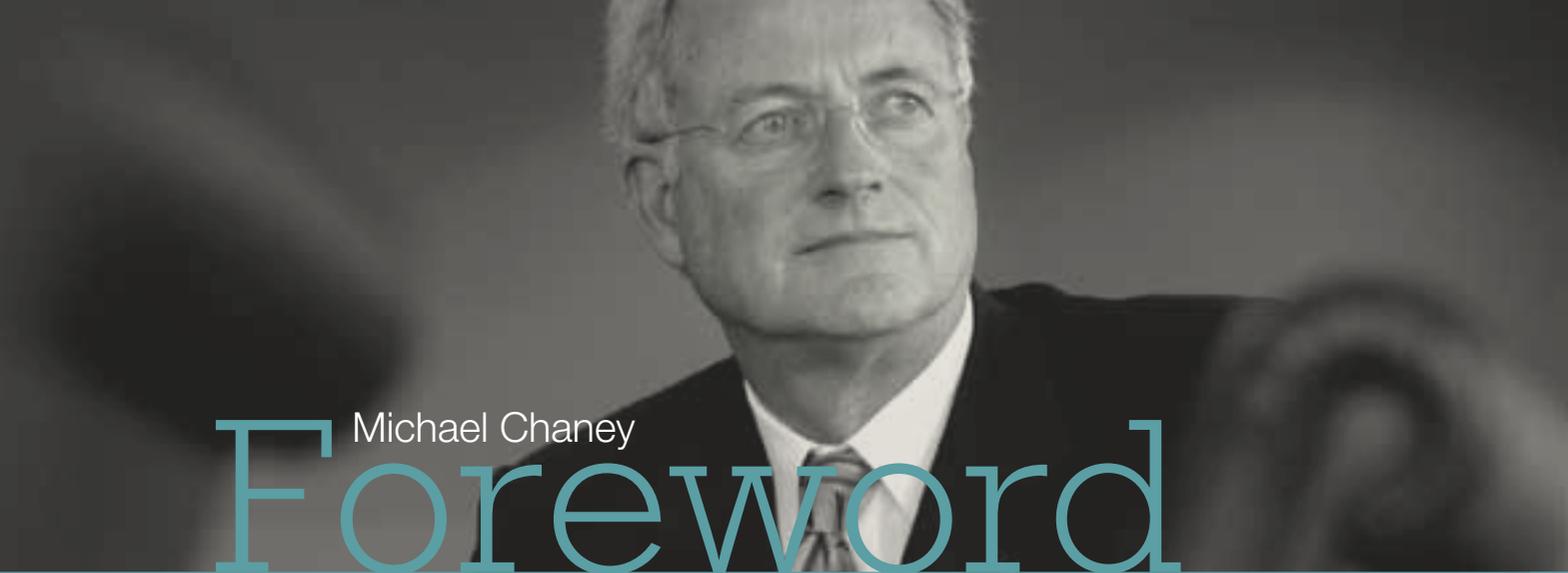


Cultivating Greatness in the Boardroom



**What makes
an exceptional
Non-Executive Director
in Australasia?**



Michael Chaney

Foreword

Globalisation, a tumultuous world economy and a rapidly evolving business regulation landscape are just some of the dynamics facing today's company directors. The marketplace is in a constant state of evolution and the speed with which it happens is increasing.

Governance continues to increase in complexity and those who take on a board position are expected to meet a growing list of demands. Long gone are the days of reading board papers in the car on the way to a meeting. Non-executive directors (NEDs) now must have the passion and commitment to keep the company's interests at the front of their minds constantly.

On top of this they need the right mix of soft skills, technical capabilities and experience to be truly effective in their role. Given the speed of change in the global marketplace and the increase in personal accountability, the bar is set high for NEDs just to meet the entry requirements, not to mention stay relevant once they are in the role.

With all this in mind, there has never been a more important time to strive for excellence. NEDs perform a critical role on the board: providing objectivity, oversight and a guiding hand with regard to company performance. Organisations are unlikely to reach their full potential without an effective, top-flight board.

Recognising a marked shift in recent years in the way its clients are viewing the role of a Non-Executive Director, Korn/Ferry set out to investigate what it means for NEDs to be 'exceptional' in the current market.

This report describes how for top NEDs, there is a clear interplay between behavioural attributes, skills and competencies, much of which remains unspoken in the boardroom. Fear of offending individuals and damaging reputations can be a hindrance to success.

By bringing to light all the elements of outstanding NEDs through interviews with 34 chairmen, deputy chairmen, CEOs and NEDs across listed companies in the Australasian region, the report aims to assist organisations in developing highly functional boards.

By going back to basics and finding out not just how to be a NED, but how to be an exceptional one, this report successfully refreshes a perspective that can often become lost in the regulations and policies. It will be as useful to experienced NEDs, as it will be for those just starting out in their directorship career; and will provide key insights on how to build a high-performing board of directors.



Michael Chaney AO
*Chairman, National Australia Bank
and Woodside Petroleum*

About Korn/Ferry International

Korn/Ferry International is a premier global provider of talent management solutions with a presence throughout the Americas, Asia Pacific, Europe, the Middle East and Africa. The firm delivers services and solutions to assist clients in cultivating greatness through the attraction, engagement, development and retention of key talent. This fully integrated suite of services includes executive search, leadership and talent consulting as well as high impact recruitment solutions through Futurestep, a subsidiary company. Opening for business in Sydney in 1979, Korn/Ferry now has five offices in Australasia including Auckland, Brisbane, Melbourne and Wellington.





Acknowledgements

We would like to thank the thirty four interviewees who gave up their time to take part in this project. They are listed below. Thanks are also due to the nine Korn/Ferry partners throughout the Australasian region who carried out the interviews to draw out the rich and thought-provoking insights.

List of interviewees

Cheryl Bart AO
Graham Bradley AM
Michael Chaney AO
Pierce Cody
Roger Corbett AO
Laurie Cox AO
Peter Crowley
Roger France
Chris Froggatt
Tony Froggatt
David Gonski AC
Steve Gregg
Nick Greiner AC
Dean Hawkins
Carolyn Hewson AO
Belinda Hutchinson AM
Simon Jones
Catherine Livingstone AO
James MacKenzie
Kevin McCann AM
Justin Milne
Nancy Milne OAM
John Morschel
John Mullen
Dr Helen Nugent AO
Lindsay Partridge
Bob Savage AM
Dr John Schubert AO
Tony Scotton
Warwick Smith AM
Justine Smyth
Peter Springford
Sir Henry Van der Heyden DCNZOM
Robert Wright

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Executive Summary

Our research demonstrates that top NEDs consistently bring a number of behavioural attributes to the table that enable an effective and functional board. They also bring a number of skills and competencies that meet the needs of the board. However, the story doesn't end there. The capacity of an NED to reach their potential largely depends on factors outside their control. The NED must be the right 'fit' with the board and receive an adequate level of support. And by support, we refer to a range of factors – from efficient information pathways to a constructive evaluation process.

From the perspective of the NED, we have identified two strategies that they need to employ in order to stand out from the crowd. First, they must take lessons from their predecessors and develop the behavioural characteristics that will make them highly effective in the boardroom. Secondly, they need to assess the specific market environment in which they are operating and build their skills and knowledge in areas that are rising priorities. Put simply, there are some core characteristics of NEDs that are as valid today as in the past, and there are aspects of the NED role that shift with market developments.

The enduring core characteristics of NEDs begin with the ability to remain highly strategic, yet know when and how to dive into the details. They must understand the business in depth, but retain their independence. They have to ask challenging, even difficult questions on behalf of the shareholders, so they need to know how to pose them in the most constructive way. They need to also see the role as part of a collective and act accordingly. In addition, the rising priorities on boards indicate a need for NEDs to master the complexities of risk and technology, have a global outlook, and include a long term strategic view within their vision.

Of course, each top NED is unique, and brings a specific mix of skills and competencies to a board. The key is building a complementary and diverse team in the boardroom. Taking gender diversity as the most straightforward example, there is wide agreement that female NEDs have a positive impact in the boardroom. They are seen as possessing strong interpersonal skills, a constructive communication style, and embrace working as part of a collective (in contrast to some of their male counterparts who view the NED role in more individual terms). Increasingly, there is a call to take into account age, ethnicity, and professional background – as well as the strategic agenda of the company and makeup of its markets – when considering the diversity of a board.

Becoming an exceptional NED is not the sole responsibility of the director. Our findings also indicate that boards and chairmen play a crucial role in ensuring their NEDs perform at the highest level. Complementary skill sets on the board, an effective chairman, good administration, and efficient information pathways are just some of the factors that impact whether NEDs reach their potential. Appointing the right NED to the board is only the beginning.

Continuity and change

Operating as part of a high-performing collective with a limited amount of time and demanding set of responsibilities, exceptional NEDs possess some core characteristics that have stood the test of time. These traits are the basics of being a top NED, attributes that all new and aspiring NEDs should tick off on their personal checklist before venturing into the boardroom.

In addition, the NED job today is a fundamentally bigger undertaking than it was in the past, and it calls for an adjustment in directors because of changes in the market. Macro shifts – including growing regulation, the rapid evolution of technology, and the quickening pace of globalisation – are driving the need for new skills among NEDs. These rising priorities for exceptional NEDs are today's 'X factors,' the attributes that may have the most significant immediate impact for the company.

The difference between the *core characteristics* and the *rising priorities* is time. Core characteristics are as applicable to NEDs today as they have been in the past, whereas the contemporary X factors speak to the changes occurring in the external market.

Core characteristics

The top five core characteristics of an exceptional NED reflect the balancing act that NEDs perform. They have to be strong but not domineering, strategic yet able to dive into details, engaged and team-oriented while preserving their independence.

One attribute that falls just short of the top five, however, is worthy of mention: commitment. The NED role is increasingly demanding and the best NEDs must be exceptionally focused and dedicated. It is the accepted norm for a good NED to be prepared for meetings, having read and thought about the issues beforehand. But outstanding NEDs take this one step further: they are passionate about the business, which means they are prepared, involved and want to know more.

“The best directors are those who see their role as 24/7; who are thinking about the business all the time, as opposed to those who just turn up for a meeting. They have a sense of being part of the family.”

Nick Greiner AC
Independent Non-Executive Chairman, Bradken

The non-executive director's role and responsibilities



NEDs are independent and objective members of the board who act on behalf of shareholders. Though they may be presented by the existing board, all are actually voted on and thus appointed by the shareholders.

As the job title implies, they must not hold any executive or other management position in the organisation. Most are usually “independent” as well, meaning they are also not major shareholders, suppliers, or customers nor have any other close relationship to the company.

In its corporate governance charter, each company outlines its NEDs' responsibilities beyond the basic legal requirements under Australia's Corporations Act 2001 or New Zealand's Companies Act of 1993. Most often, these responsibilities relate to the:

- > Formulation and oversight of the strategic direction
- > Recruitment and performance evaluation of the CEO
- > Provision of support and counsel to senior management
- > Review, approval and monitoring of the business plan and annual budget
- > Contribution to board and organisational policies
- > Compliance with laws and regulatory statutes for the business
- > Monitoring of risk exposure
- > Involvement with a board sub-committee
- > Identification of skills required by future board candidates

A big-picture thinker who can focus on opportunities and risks in the details

In contrast to an executive director who is deeply entrenched in the day-to-day management decisions of an organisation, the role of the NED is about objectivity and independence. The dilemma facing NEDs is that they are expected to advise from a strategic vantage point of 30,000 feet, yet ultimately held accountable for discrepancies in the details. Hence, NEDs with a high-level strategic view, who also know when to dive into the details, are particularly valuable to the board. Top NEDs focus quickly on what's important, connect the dots and draw appropriate conclusions.

76%

of respondents named this as a core characteristic of exceptional NEDs

“A great NED should have the ability to make effective decisions based on the information presented, be able to stand back and analyse the issues.”

Justine Smyth
NED, Telecom Corporation of New Zealand

“It is important to have an open mind, look objectively and probe effectively.”

Robert Wright
Chairman, SAI Global



Collective rather than individual

A board of directors is, by definition, a source of shared authority. As the Australian Institute of Company Directors described it: “A NED of a corporation has no executive or management authority or power in his or her own right. Each NED is one element of the collective composition of the board and one element of the ‘hearts and minds’ of the corporation. The authority and power resides in this collective, through board resolutions.”¹¹

NEDs that stand out on a board have the interpersonal skills, self awareness and insight to work effectively as part of a team. They know that “it’s a governance and strategic role, not a management role,” said Gloucester Coal, Mirvac and Pacific Brands’ Non-Executive Chairman James Mackenzie. They are aware of the value they add as an individual and to the board as a whole – and are conscious too of their own gaps and limitations.

Great NEDs are not there for their own gain or to build their own reputation, but rather commit to working entirely in collaboration with both their colleagues and management. One measure of this is when times get tough and the company’s reputation is on the line, an exceptional NED remains committed and stays on the board despite any potential damage to their personal reputation.

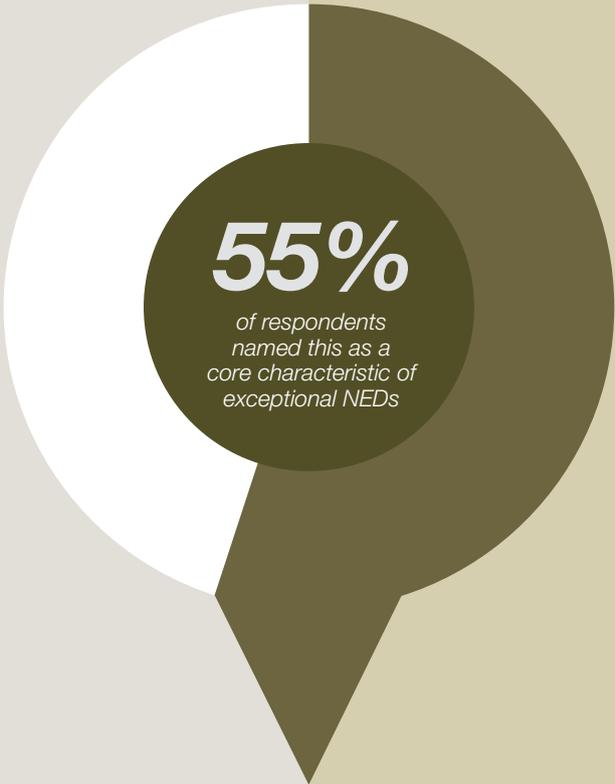
“They trust their board colleagues enough to ensure that the sum of the parts is greater than any one individual. They are a team player who doesn’t have to win every debate or lead every issue, recognising that healthy debate and divergent views can lead to a more solid conclusion.”

Dean Hawkins
NED, Ten Network and Leighton Contractors

“The best NEDs create a sense of team - knowing the balance between individual thought and teamwork.”

Roger Corbett AO
Chairman, Fairfax Media and NED,
Reserve Bank of Australia

Similarly, NEDs are empathetic towards both management and stakeholders of the business. They can engage and connect with a broad range of people, and have a level of perceptiveness that helps them read between the lines. They understand people.



Independent thinker with the courage to speak his or her mind

The primary purpose of a NED is to bring objective scrutiny on behalf of the shareholders. To that end, the importance of true independent thinking cannot be overstated. NEDs have not only a moral and ethical responsibility on the board, but also a legal one to act “in good faith” and “in the best interests of the company”.ⁱⁱ That means speaking up, and calling a spade a spade. We were told of one situation where a chairman informed the board, “no one in the boardroom will get fired for expressing an opinion but someone may be fired if they don’t speak up.”

Top NEDs have the courage, integrity and moral strength to express their views without hesitation. They are not easily swayed and do not fall prey to groupthink. And, perhaps most importantly, as one chairman noted,

they have the ‘art of persuasion.’ They can carry their argument. At the same time, they choose their battles and don’t argue minor points.

“When things get tough, they are prepared to be brave, prepared to acknowledge there is a problem which has to be dealt with.”

Belinda Hutchinson AM
Non-Executive Chairman, QBE Insurance Group and NED, AGL Energy

“It’s restrained courage; knowing when to speak is also important. And knowing what’s important – using emotional intelligence to judge.”

Dr Helen Nugent AO
NED, Macquarie Group and Origin Energy

Asks deep questions without being confrontational

Strong communication skills are a must for any NED but the best are adept at drawing information out of colleagues and management without ever causing offence. They know the right questions to ask and how and when to ask them. They use constructive language, encourage active debate and influence peers without ever becoming dictatorial.

“They have measured delivery. They judge how to deliver the message according to the board and the needs of the business.”

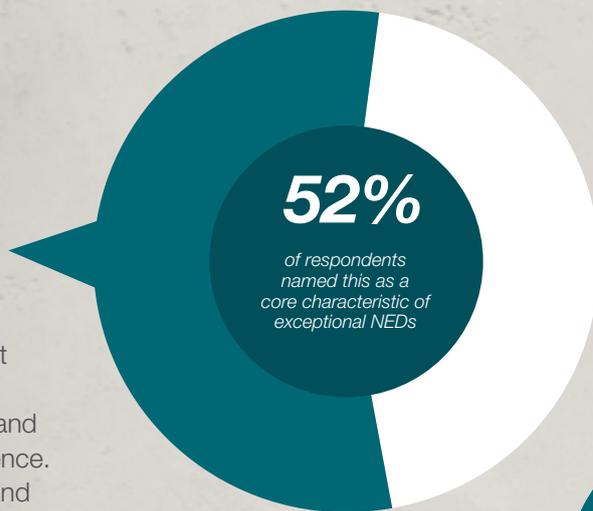
Simon Jones
NED, Computershare

“Top NEDs have the ability to question in a non-confrontational manner, to encourage a cohesive board and a supportive relationship with the management team. This leads to a better outcome as no one feels threatened and a robust discussion can be had.”

Nancy Milne OAM
NED, Australand Property Group

The best NEDs also listen well and make thoughtful, well considered comments, says Myer Holdings and Goodman Fielder NED Chris Froggatt, adding, “They ask insightful, probing questions, and speak only when they have something to say.”

How important is verbal approach and tone in the boardroom? Very. As evidence, the Australian Institute of Company Directors has begun hosting a series of workshops called *Managing Difficult Conversations*, including one on “structuring language to get a positive response and open up new thinking”.



Breadth of experience

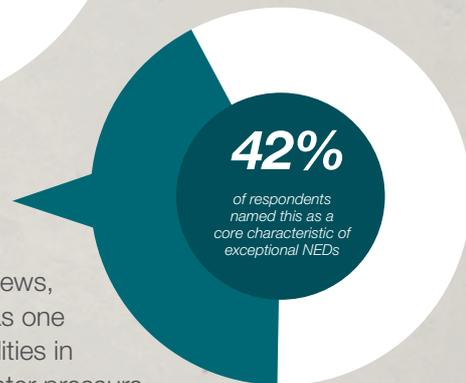
Over the course of our interviews, experience slowly emerged as one of the most sought-after qualities in NEDs. Boards are under greater pressure than ever before, and face mounting challenges and new forms of risk. A depth of experience is integral to an effective board.

That requires more than just a base of knowledge; it means they have ‘been there.’ These top NEDs may have had a recent management role, a background in leadership, or simply a strong career as a director. Either way, the weight of that experience earns them the respect and confidence of their colleagues and management. They also understand the intricacies of the industry, have extensive business experience and commercial nous – and as a result are valued for their wisdom and ability to facilitate intelligent and strategic discussions in the boardroom.

“Exceptional NEDs have a range of experiences which enable them to put issues in perspective. They don’t jump at shadows; they’ve been there and done that.”

Michael Chaney AO
Non-Executive Chairman, National Australia Bank and Woodside Petroleum

Among the diverse experiences that serve NEDs well is having ridden out the storm of difficult times.





Interviewees also stressed that this does not necessarily mean that former CEOs are the best NEDs. “Some NEDs who were CEOs can find it hard to adjust, stand back and get out of the detail,” says Lindsay Partridge, Managing Director at Brickworks. NEDs need to be prepared to take a back seat, and some CEOs find this a challenge.

“You want people who are battle-scarred, whose judgment is underpinned by experience.”

Catherine Livingstone AO
Non-Executive Chairman, Telstra Corporation and
NED, Worley Parsons and Macquarie Group



Characteristics on the rise

The greatest change in boardroom work in recent years is one of volume, agreed the directors we interviewed. The job has become harder and more time consuming as the specific demands placed on NEDs, not to mention the materials they are expected to be across, have multiplied.

This overall raising of the bar has generated mixed reviews. To take regulatory reform as an example, it is seen by some as necessary to address market failings (such as changes made in response to the cases of Centro, James Hardie, and Fortescue Metals).ⁱⁱⁱ Critics counter, however, that over-regulation stems from knee-jerk reactions to ‘populist’ issues. Either way, for boards, increased regulation can monopolise the board’s – and hence a NED’s – time and cut into time previously spent on strategic oversight and company performance. According to Tabcorp Holding NED Steve Gregg, governance issues now frequently occupy a third of all board time.

“Even five or ten years ago, NED roles were looked at as a ‘cushy number’ – that’s certainly not the case anymore.”

Tony Froggatt

NED, Coca Cola Amatil and Brambles

To stay ahead, and be seen as exceptional, NEDs need even greater discipline in preparation, ensuring that they are able to master the compliance policies and issues, without losing sight of what it is that they are ultimately responsible for: the health of the company. The role is more formidable than ever before, which means “the calibre of people required has increased,” says Roger France, Deputy Chairman at Air New Zealand and NED, Fisher & Paykel Healthcare.

More specifically, the priorities of contemporary boards have given rise to a new list of ‘X factors’ for those aspiring to be exceptional NEDs. These new skills and technical capabilities reflect the result of changes in the global economy as well as in the political, environmental, and social landscape.



Deeper understanding of risk

In the post-crisis era, boards are knee-deep in the complexities of risk, and under increasing scrutiny. Moreover, the scope of risk accountabilities is expanding beyond just the financial; information technology risk, reputational risk, and loss of leadership risks (such as CEO succession), are now falling under the board’s risk oversight umbrella.

Boards need to set the risk appetite for the business, but to do that they cannot just exist as a ratification body for management’s decisions. Instead they must proactively and supportively engage and challenge management. So today’s NEDs need a deep understanding of all forms of risk, and how they should be measured and mitigated, particularly in tough market conditions.

“The proliferation of regulation, global financial events, and a highly influential media result in a short-term focus – and makes people frightened to take risks. If you’re paralysed because of regulation, you don’t go forward... it’s not how you run a business.”

Cheryl Bart AO
NED, Spark Infrastructure Group

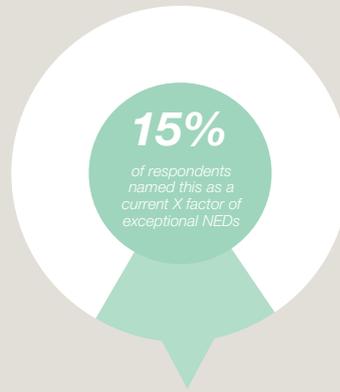
A global outlook

Multinational corporations need to be ‘global’ in more than name. They require a deep understanding of international events and an appreciation for the different national cultures in which the company operates. It is no longer sufficient to view foreign operations as appendages to the domestic business.^{iv}

In truth, however, the complex and interconnected global economy affects *all* businesses. Consider the turmoil stemming from the Wall Street crisis in the US and the subsequent sovereign debt crisis in Europe, which both posed threats to the entire global financial system. Top NEDs have the global outlook to provide key insights to the board in the face of such fast-moving developments. They can anticipate the impact on the business and can make pre-emptive decisions on how best to manage.

“The world is much more interconnected, what happens in Europe affects Australia, so an understanding of what is going on globally is very valuable. Directors who have international networks are vital to the market intelligence level of the board.”

Carolyn Hewson AO
NED, BHP Billiton, Westpac Banking Corporation and Stockland



Flexible and responsive to change

‘Cultural lag’ – a term first published in 1922 by sociologist William F. Ogburn and currently regaining traction – warns of the perils of being slow to react and adapt to new technological or other material developments. The gap in time between a new discovery or invention and the adjustment to it – legally, socially, or in business – creates instability. Today especially, cultural lag threatens the competitiveness of businesses whose only misstep is inaction.

Change also can come in the form of new policies and regulations, community values, or market conditions – just to name a few. Boards must navigate companies through these rapidly shifting challenges. NEDs who are out of touch or even resistant to change won’t be able to steer the board.

Likewise, because of the entrenchment of the 24 hour news cycle and the unprecedented interconnectedness of global markets, companies cannot afford to react to events at a pace of their own choosing. Today’s NEDs must be able to make tough decisions in timeframes that would have been regarded impossible only a few years ago.

“The speed of change, volatility and lack of predictability means that NEDs need to be more flexible and able to deal with the controllable as well as the uncontrollable. They need a tolerance for ambiguity.”

Nick Greiner AC
Independent Non-Executive Chairman, Bradken

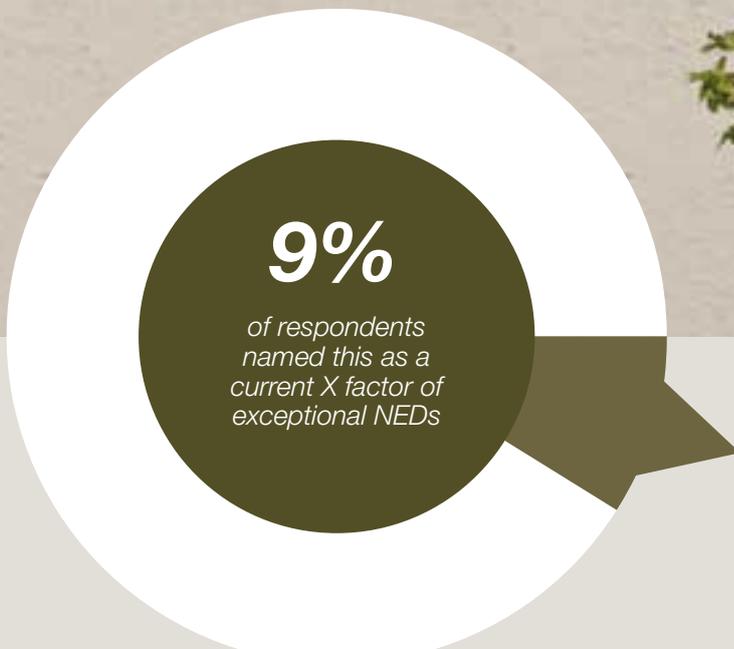
Familiar with new technologies and social media

With 30 percent of the world’s population now actively online – representing a staggering 2 billion people and growing – technology is affecting every facet of business. Customers and clients have shifted their internet use drastically in recent years: more are accessing the internet on smart phones and media tablets than desktop or laptop computers and already 1.2 billion use social media channels such as Facebook and Twitter.^v Such platforms are changing the way customers interact with brands, and are driving new business models. Understanding how they work is becoming essential to any boardroom discussion about corporate strategy.

The dramatic growth of online engagement brings with it new risks for companies, such as cybercrime and reputational risk. To stay ahead, boards need to recognise the new ways that both consumers and employees are engaging with the internet and provide management with support and advice on how to capitalise on these latest developments in the digital revolution. It is no wonder that boards are now looking for NEDs who ‘really get’ technology and understand the many ways it is impacting business.

“Today’s director needs to understand the internet and social media and the changes it’s making to all businesses.”

Bob Savage AM
Chairman, David Jones



9%

*of respondents
named this as a
current X factor of
exceptional NEDs*

Takes a long term view

It is critical that NEDs think beyond the confines of the annual profit cycles. The rise of corporate social responsibility programs and environmental policies indicate that boards are already starting to embrace a more holistic view of business performance. Likewise, boards now have a deeper appreciation of how the organisation's impact on the environment can shape its public brand.

Such interests point to the value of a more long term strategy. Hard lessons learned from the downfall of Lehman Brothers, Centro, Babcock & Brown, and Allco demonstrate that the risk of an ultimate collapse is very real. NEDs in particular are called upon to have the big picture in mind, and to steer the company toward choices that will sustain not just itself, but also its markets, and its society.

“Long term sustainability is really important to the survival of your business and an appreciation of that is vital.”

David Gonski AC

*Non-Executive Chairman, Coca Cola Amatil
and Chairman, Future Fund*



Exceptionally bad NEDs

It's easy to drift off the path of superior performance as a NED. Chairmen warn NEDs not to become any of these unfortunate types:

Hobbyhorse jockeys. NEDs with a personal agenda who are overly focused on their own area of expertise, or who seem to wear blinkers. "They focus on a narrow area which they know," says QBE Chairman and NED, AGL Energy Belinda Hutchinson AM, "and other issues appear irrelevant."

Hand grenade throwers. Argumentative, hostile and obstructive. NEDs who are disruptive to the board. They get a bee in their bonnet, notes SAI Global CEO Tony Scotton. "The whole discussion gets hijacked because of one director's questioning," he says.

Non-stop talkers. Ego or insecurity can drive NEDs to talk, even when they aren't moving the discussion forward. "They speak for the sake of speaking, continuously trying to demonstrate their knowledge," says National Australia Bank and Woodside Petroleum Chairman Michael Chaney AO.

Policemen. NEDs who view their role as keeping management honest rather than being supportive. "They put management on the defensive," says Nuplex Industries and New Zealand Refining Company Director, Peter Springford. "They roast or interrogate rather than debate."

Captives of compliance. Rules and regulations can bog down NEDs and distract them from what's important. Some, says

Coca Cola Amatil and Future Fund Chairman David Gonski AC, "get overly worried about compliance to avoid making decisions."

Nodders. These NEDs just go along and seem prone to group think. "People that show up and nod 'wisely', but don't make much of a contribution", is how Tabcorp Holding NED Justin Milne describes them.

Hesitators. "Failure to speak up in a timely way, through lack of confidence or timidity," means a director isn't contributing as he should, says Graham Bradley AM, Chairman of Stockland and Vice President, Business Council of Australia.

The uncommitted. Some NEDs just seem to be going through the motions. SAI Global Chairman Robert Wright noted his frustration specifically with "those who don't prepare for meetings and think about what is in them."

Egocentrics. "Some directors have an attitude that 'this is about me' rather than 'this is about us' and build a career around their own ego," says Bob Savage AM, Chairman of David Jones.

In over their heads. Asciano CEO and NED, Telstra Corporation, John Mullen, said that NEDs who don't fully understand the challenges facing the business can't contribute useful advice or solutions.

Attracting exceptional NEDs

Even with a growing pool of candidates in the Australasian region, attracting exceptional NEDs can often be a significant hurdle. A rigorous, formal and transparent approach is crucial to identifying the top candidates, and distilling the list down to those best suited to a particular opportunity.

The first step is to examine the overall business strategy – addressing both short and long term needs of the board. Then, identify current gaps in skills and capabilities among the current members. This will remove biases from the selection process, and focus the search on the talent needed in the incoming NED. Attention should be given to the core characteristics outlined earlier – those traits that are always needed to contribute effectively to a board – as well as the competencies that match the board's rising priorities.

“Good candidates will look at the chairman and the board, also the CEO and how the company is performing.”

Carolyn Hewson AO
NED, BHP Billiton, Westpac Banking Corporation and Stockland

Before the desired potential director is identified, boards also should look in the mirror. How will they be sized up? NEDs report that they are primarily influenced by the performance of the company and the reputation of its chairman. Individual chairmen, then, must walk a fine line between being high-profile and over-exposed, being known for their thought leadership versus being labelled overly opinionated. The board leader is in essence both coach and captain; a vital person to a NED asked to join the team.

Another deciding factor is whether a board offers the right kind of challenge to a NED. Do the industry, strategy, and specific needs of the board match the skills and passions of the candidate? As Dr John Schubert AO, NED at BHP Billiton and Qantas Airways put it, “people join boards for the opportunity to make a difference.” Even if a company is successful and interesting, it may not be the

best setting for a particular NED to make a meaningful contribution.

“Taking time to find the right fit in a potential NED is essential, ensuring the right chemistry and cultural fit.”

Warwick Smith AM
Chairman for ACT and NSW, ANZ Banking Group

Logistics may also come into play, particularly for those who are still working full time in another role. The increased demand for directors with international experience (or desire to give directors exposure to international markets) complicates the schedule in terms of the number of meetings and their location. A board's flexibility, travel demands, use of communications technology and the commitment to advance planning are increasingly considerations for NEDs weighing up board-appointment options.

Compensation is usually not the driver. “For the good directors it is not about the money, but the interesting challenge, the quality of the management team and the intellectual stimulation,” notes GWA Managing Director Peter Crowley. At the same time, compensation should reflect the time and energy that NEDs invest, plus, and perhaps most importantly, the risks they may be taking on. Boards looking for the top NEDs need to be competitive with their pay too as a way to make directors feel appropriately valued.

“Most directors are underpaid when you take into account the risk and reward involved. Shareholders need the best board possible and that board should be rewarded accordingly. Unfortunately, there is no additional pay for extra performance and experience; rookie directors get paid the same as someone who has extensive experience.”

Bob Savage AM
Chairman, David Jones

Optimising NED performance

If a board were blessed with all exceptional NEDs, or even a majority of them, would that automatically produce a top performing board? As we all know from sporting analogies, a collection of individual stars is not necessarily a winning team.

One tool to encourage top performance is board evaluation. Evaluating individual performance as part of the annual board review has increased over the last five years. While there are mixed views as to whether the evaluation should be handled entirely internally, by an external consultant, or through combination of both, most NEDs and chairmen agree that the process should be structured, thorough and carried out with sensitivity.

“Board evaluation is still difficult. Although boards have improved processes, for the majority it is still a box ticking exercise.”

Laurie Cox AO
Chairman, SMS Management & Technology

Individual evaluations have been a positive development. However, boards may need to consider an even more comprehensive examination of all the factors that contribute to a high functioning board, including individual directors’ competencies in relation to the strategic agenda, the dynamics of

the board as a whole, the information that the board receives, and the systems and structures. Ultimately, how all this feeds into the board’s decision making determines the board’s effectiveness. Aligning the level of analysis to the overall strategic agenda of the organisation can be informative. By going this route, boards with a need to move beyond a largely compliance-based evaluation approach can begin to develop a board that is a strategic asset to the company.

For such companies, mastering the individual director evaluation can be a powerful first step. Once they’ve been through the evaluation process, NEDs will watch to see if anything changes, or if feedback is just swept under the carpet. They also will look to see if and how the chairman removes non-performing NEDs. NEDs will only want to engage with a more rigorous process if they have seen the benefit to themselves and the board of well done individual reviews.

The best NEDs, of course, are open to personal feedback and constantly seek to improve both their individual contribution and the overall effectiveness of the board. Initiating a board effectiveness program may shed some light on who the top NEDs are on any given board: they will be the ones actively engaged in the process.



Securing that first NED appointment

Building a directorship career, starting with landing that first appointment, requires taking a proactive approach. To begin, align your value proposition with your aspirations. What can you contribute to a board? Then, what is the right market for those skills?

Other steps to take:

Education. Complete director training programs, such as those offered by the Australian Institute of Company Directors and the Institute of Directors in New Zealand. Consider a mentor with director experience for advice.

Gain experience. Consider avenues for gaining boardroom experience before targeting large, listed companies. For instance, government boards, not-for-profits, and small and mid-sized enterprises.

Network. Utilise the right networks for your target market, be they search firms, government agencies, directors' associations such as Women on Boards or the Australian Institute of Company Directors. Consider finding a sponsor to promote you to the right board.



New to the boardroom?

Advice from veteran NEDs and chairmen about how to approach the first board appointment:

Get up to speed. “Get the whole fire hydrant of information,” says Spark Infrastructure Group NED Cheryl Bart AO. Read everything and meet everyone you can, including directors and executives, one on one. Macquarie Group and Origin Energy NED Dr Helen Nugent AO concurs. “You can’t over invest in learning. And you need to continue to reinvest to ‘stay fresh’ and understand what’s going on in the business and the markets,” she says.

Ask and listen. “Listen and learn for the first meetings before making uneducated comments,” advises Origin Energy and Macquarie Group

Chairman and NED of Bluescope Steel, Kevin McCann AM. “Don’t feel the need to talk on every topic.”

Commit to adding value. “When considering becoming a NED, it must be for the right reasons,” said ANZ Chairman John Morschel, which is to help a business be better than it already is. “It is not a lifestyle change.”

Reach out. Boards are a team, and the better the players know one another’s strengths, the stronger the whole team is. “Building relationships to enable leadership and committees is essential,” Nugent says. “Creating a shared understanding takes time.”

Diversity and the exceptional NED

Just as no two boards are the same, so is the case with exceptional NEDs. Each possess a unique combination of skills and competencies, background and viewpoints, experience and interests.

Differences and diversity are a key component of an effective board, driving rigorous debate and ensuring that no stone is left unturned. A collective of like minded individuals is of no gain. Boards that look to create a balance of skill sets and a complementary composition of behavioural attributes will reap rewards in their success.

In Australia, the ASX’s adoption of gender diversity guidelines has provided the regulatory impetus for boards to act. In light of the recommendations that came into effect in 2011 – listed companies must now annually report not just the proportion of female employees and number of women in senior executive roles, but also a diversity policy with specific objectives. Gender diversity is now squarely on many boards’ strategic agenda.



Although less of a focus, questions are also being raised in New Zealand, on whether a similar approach should be taken to address the lack of gender diversity on NZX boards. In January 2012, the Institute of Directors in New Zealand launched its inaugural mentoring programme for aspiring female directors, hoping to mirror the success of their Australian counterparts in lifting the number of female board directors.

As an executive search firm, Korn/Ferry has seen firsthand the impact of this push, particularly in the board space. Clients are requesting greater numbers of female candidates for NED roles; the number of female board directors we have placed is up by 40 percent over prior years. In 2011, 60 percent of our board appointments were women. Within the present study, 85 percent of respondents view gender diversity somewhere in the realm of important to essential in terms of board effectiveness.

“Gender diversity is essential for an effective board. Women are 50 percent of the population. Wouldn’t you want their insight and intuition?”

Roger France
*Deputy Chairman, Air New Zealand and NED,
Fisher & Paykel Healthcare*

The benefits of having a gender diverse board are greater than simply using differences to drive debate. Anecdotally, our interviewees reported that female NEDs are more collaborative and generally take a more constructive approach to debate – skills that correspond to two of the core characteristics of exceptional NEDs.

“Women have more skills around people – their instincts and judgment are better.”

Sir Henry Van der Heyden DCNZOM
*Chairman, Fonterra Co-operative Group & Director,
Auckland International Airport*

Those looking to truly benefit from gender diversity on their board cannot simply appoint one token female. Two recent studies demonstrate that the tipping point for improved board performance stemming from gender diversity occurs once three women are appointed to a board.^{vi}

“Changing the women in the team from zero to three has completely changed the dynamics – making it more effective.”

John Mullen
CEO, Asciano and NED, Telstra Corporation

Diversity, in general, was also agreed to be a component of a strong board. While gender is currently the dominant aspect of the diversity conversation in the region, many felt that the debate needs to be broadened to include age, ethnicity, background and more.

“Diversity... should encompass age, experience, geographic location and diversity of styles. You don’t want a board that is comfortable; you want a board that is edgy, challenging, creative and fun.”

Catherine Livingstone AO
*Non-Executive Chairman, Telstra Corporation
and NED, WorleyParsons and Macquarie Group*





Conclusion

Non-executive directors provide crucial objectivity to the board and the business. In the current unpredictable economic climate, the fresh point of view a NED provides is particularly valuable: it not only contributes to strategic direction and assures good governance, but also helps the board spot both risks and opportunities.

Exceptional NEDs, always in demand, are even more so today as regulators, shareholders, employees, customers, and other stakeholders present boards with a lengthy list of needs and wants. Only the best NEDs will add the value that boards desperately need.

However, in recruiting top NEDs, boards need to remain cognisant of a number of points:

Find NEDs who fit... and can grow.

Take both core characteristics – a collective approach, commitment, strategic vision, and constructive communication style – and competencies into consideration when

assessing a potential NED's fit with the board. But keep in mind, too, that the need for particular competencies may change within even just a few years. Look for NEDs who can grow and adapt with the times.

Appointment is only the beginning.

To be truly effective, a board needs to assemble a complementary group of skill sets, build a strong team dynamic and enable rigorous debate. This requires ongoing recalibration and vigilance. A board that masters those things becomes a strategic asset to the company, meets all compliance needs, and becomes somewhat future-proof.

The world is changing – and business with it – at breakneck speed. With increasing demands made of NEDs, being viewed as 'exceptional' is an accomplishment that, according to one chairman, only two or three on a board may achieve.

At the same time, boards and NEDs need to ask themselves: is this a benchmark they can afford to ignore?

About Korn/Ferry's Board and CEO Services Practice

Korn/Ferry International's Global Board and CEO Services Practice comprises a dedicated team from the most senior ranks of the firm. We conduct scores of director engagements every year, tapping talent from every corner of the globe.

In Australasia, Korn/Ferry conducts a significant number of board search engagements annually for leading organisations, ranging from the appointment of non-executive chairmen and single directors to fill specific vacancies,

to strategic board succession and the assembly of an entire board for a newly public company. The shortage of experienced directors, the tightening of governance policies and the desire to diversify boards has made the identification of top-flight talent more difficult than ever.

Korn/Ferry's Board Practice understands those challenges and helps assemble effective, knowledgeable and cohesive boards that are prepared to meet growing demands for greater accountability and more effective performance.



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