

What Should a Good Director Do? What Attributes Should a Director Have?

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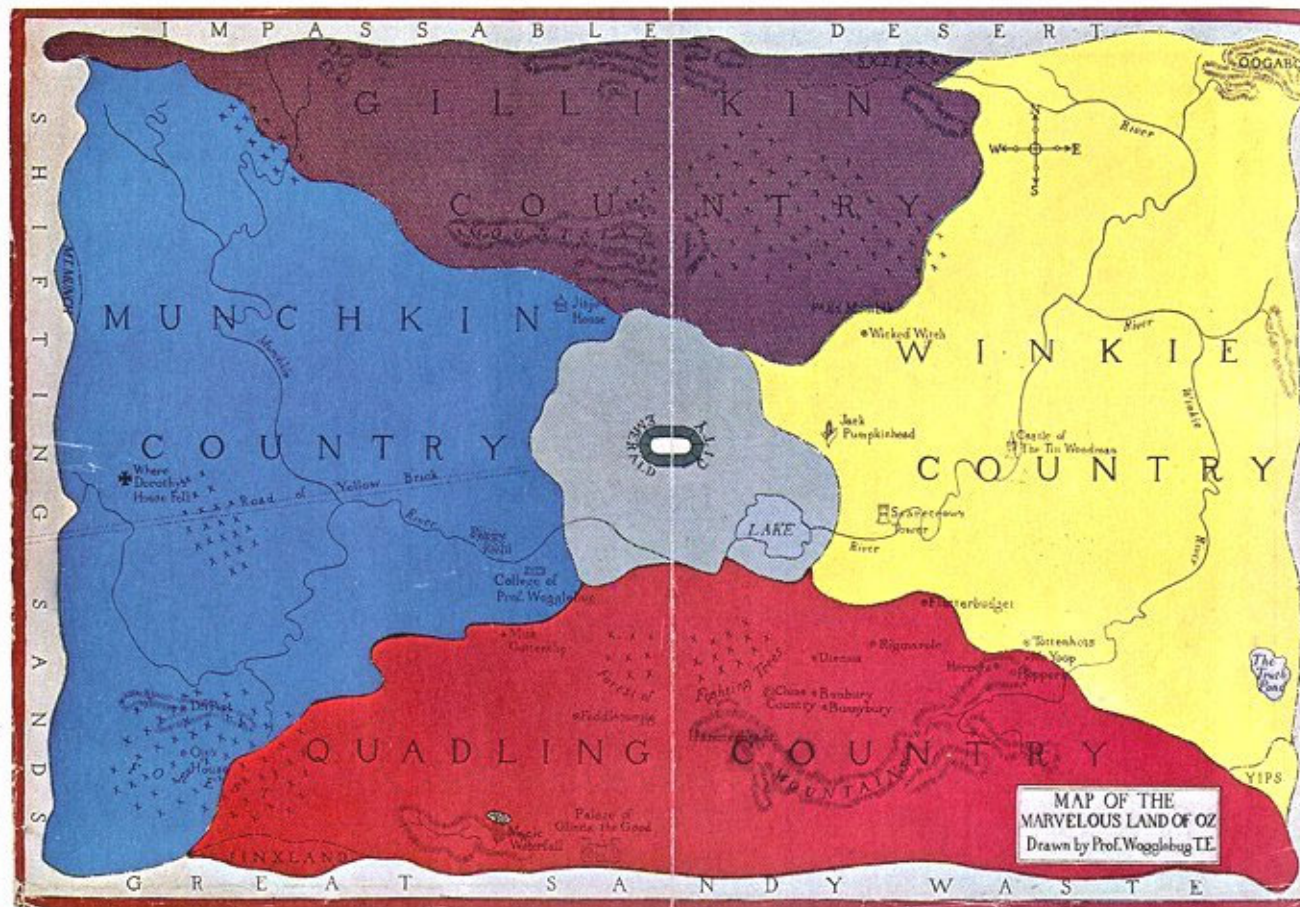
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The logo for BDTI, consisting of the letters "BDTI" in a white, serif font, centered within a solid blue rectangular box.

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The Setting: The Imaginary Country of Napaj



Many Issues Confront Firms in Napaj

- More competitors, stiffer competition – but companies often lack fast decision-making and bold strategy moves led by strong CEOs
- Strategies and capital allocation tends be based on extension of the status quo and retaining existing assets (and human capital)
- Globalization of businesses is accelerating rapidly, yet fewer than 2% of directors, and an even lower % of senior executives, are foreign nationals
- Customary “seniority-based” compensation and promotion practices that need to evolve into more performance-based systems. There are few lateral hires
- Underdeveloped global HR departments that spend little time on talent mapping, evaluations, leadership/skills training, or external hiring of the best and brightest
- Nominations and promotions are controlled by the CEO; he gets his power from that. Director “stints” average 3-4 years, and CEO tenure, 4 years or so – regardless of performance. There are many more “inside” directors than INEDs
- Risk-averse management that (however) is slow to sell loss-making operations. Low average ROE, and high cash balances from past successes
- New governance practices are expected by the market, but internal understanding of them is low, and investors need to understand them better too



Leading Edge, Inc.

**LEADING
EDGE →**

Leading Edge's CEO is bolder and more far-sighted than most, partly because the company took a very big hit recently. He realizes that major strategic and organizational changes are needed, including better financial management and globally uniform, rigorous evaluations of managerial performance (since 60% of revenues come from abroad)...but he also knows that this process will be difficult. He is not sure if the current board will be able to bring about these changes and meet the expectations of investors. He feels the need for new thinking and input.

At the CEO's urging, the board has set up a **"Nominations and HR Policy Committee"** composed solely of independent directors and asked it to proactively about the changes that are needed. The Committee frequently calls the CEO and other senior executives to give their input and perspectives, but they are not members, so it is free to discuss issues without them in the room whenever it wants.

CEO's View: “Our Typical Board Meeting Is Too Short-Term in Orientation”

- “Our board is formalistic. The main objective seems to be to ‘satisfy the minimum requirements of Company Law’. There is no clear consensus about other priorities and the role of directors beyond that”
- “Far too much time is spent on detailed reporting of monthly results and how we are tracking to the annual plan. We rarely discuss results using long-term, comparative data, benchmarks, and non-financial KPIs”
- “There is too little analysis/consideration of long-term market changes under way, and new strategic options. Strategy is designed to fit the assets and people we have, not identify what we *could and should* do”
- “The board only ‘debates’ things that are already decided. Shouldn’t we managers ask for ‘the sense of the board’ at an earlier stage?”
- “There are so many items on the agenda that I feel there is not enough time left to spend discussing the most important issues. We do not engage in ‘stargazing’ about our future vision and opportunities”

CEO: “I am reminded of Albert Einstein’s Definition of ‘Insanity’ “

Insanity: Doing the same thing over and over again and expecting different results.

狂気:それは、同じことを何度も何度も繰り返し行い、違う結果を予測することである。



ENTROPY ?

CEO: “Don’t We Need a Board that Thinks and Acts More for the Long-Term?”

- ✓ “Is ready to swiftly decide changes of strategy, redeployment of capital, when necessary?... because it fully discussed all the options early on?”
- ✓ Closely follows long-term changes in the competitive environment, and the risk environment? Including possible disruptions?
- ✓ Reacts to trends in operational/financial results, customer behavior and competitors’ actions, by setting goals + holding managers accountable?
- ✓ Requires more objective analysis? Does not mainly rely on mere ‘opinions’ or intuition, or the decision of the management committee?
- ✓ Strives to identify ‘lessons for the future’, new emerging issues, and new strategic alternatives? Raises perspectives that management missed?
- ✓ Allocates its time to the topics and decisions that are most important?
- ✓ Restricts reporting of short-term results to the trends, not the noise?
- ✓ Delegates when possible, while properly monitoring and supervising?
- ✓ Allocates sufficient time to ‘Stargazing’ and ‘thinking big’?”

You are: Advisor to the Nominations and HR Policy Committee

The Nominations and HR Policy Committee has asked you to answer the following questions in the case of Napaj:

1. What should good directors do, and be willing to do? a) at board meetings; b) outside of board meetings?
2. What mix of hard and soft skills are required?
3. How much time allocation, flexibility to allocate time, or dedication should be expected?
4. What systems and policies for the support, training, and development of directors and executives are needed?
5. How can boards and shareholders best engage with each other on these issues?

- 1) What should good directors do, and be willing to do?
 a) at board meetings; b) outside of board meetings?

Executive (“Inside”) Directors		External (“Outside”) Directors	
At board meetings	Outside board mtgs	At board meetings	Outside board mtgs
In normal times		In normal times	
(Please write brief answers in the boxes)			
In times of crisis		In times of crisis	

2) What mix of hard + soft skills are required? What minimum “core” skills? What knowledge, experience should be represented?

Executive (“Inside”) Directors		External (“Outside”) Directors	
Hard skills, knowledge	Soft/experience	Hard skills, knowledge	Soft/experience
Minimum core skills/knowledge	Job experience, soft skills	Minimum core skills/knowledge	Job experience, soft skills
(Please write brief answers in the boxes)			
At least one person should have skill/ knowledge in:	At least one person with experience/soft skills in:	At least one person should have skill/ knowledge in:	At least one person with experience/soft skills in:

3) How much time allocation, or flexibility, should be expected? Other full-time job + how many board seats?

Executive (“Inside”) Directors		External (“Outside”) Directors	
Time per month (avg); what other measures of dedication, flexibility?	Concurrent board positions allowable, in addition to a full-time job?	Time per month (avg); what other measures of dedication, flexibility?	Concurrent board positions allowable. in addition to a full-time job?
(Please write brief answers in the boxes)			

4) What policies for the support, training, and development of directors and executives are needed?

Executive (“Inside”) Directors		External (“Outside”) Directors	
After appointment	Before appointment (senior managers)	After appointment	Before appointment
Support			
(Please write brief answers in the boxes)			
Training			
Development			

5) How can boards and shareholders best engage with each other on these issues? What should each group do?

CEO/ Management	Boards	External Directors	Shareholders
(Please write brief answers in the boxes)			



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