Boardroom Partners

A CHANGING PROFILE

Directors and future chairs on ASX 200 boards
who are fifty years and younger

SUMMARY

At the end of 2006, 90% of the non-executive positions in the ASX 200 were held by directors aged over 50. The remaining positions (107) were held by directors aged 50 and under. The average age was 59.6, and the range was from 31 to 85. Almost a quarter of these younger directors were interviewed for this research to gain insight into their experiences and challenges.

The discussions ranged over their earlier careers, the decision to take up board work, the appointment process, the realities of directorship and their future career moves. Interviews also canvassed issues of board effectiveness and governance challenges facing these directors. They were candid and insightful.

Our research found:

- There is a significant difference in the rates of appointment to boards of men and women under 50 years of age. While only 10% of the non-executive positions on the top 200 boards are held by women; over 25% of this group of 'young' directors is female.

- Overall, these directors found the appointment processes positive. The most significant factors for individuals in taking up the appointments were a sense that it was a good 'fit' with their experience and interests; enough due diligence to feel comfortable with the degree of risk; sufficient challenge and stimulation; and, very importantly, a high respect for the group of people they were joining.

- Induction processes and director development still tend to be ad hoc and rely heavily on the individuals' initiative. In terms of board effectiveness, directors pointed to the right mix of skills and experience, good evaluation processes and, critically, the skill and credibility of the chair.

- Directors largely found the realities of their workload manageable and sustainable. They were, however, conscious of the increasing demands on directors and, whilst generally satisfied with their remuneration, saw an increasing gap between directors' accountabilities and rewards.

- Age was not a barrier to being able to participate fully. However, age is becoming part of the recruitment conversation within boards. One third of these ASX companies explicitly discussed age as an issue in their appointment process, some consciously seeking somewhat younger directors.

- This group of directors felt that their companies had good governance frameworks in place. They were, however, concerned about recent court decisions on directors' liability and a consequential blurring of the boundaries between directors and management. They believed this might discourage good people from taking up board roles and encourage others to stand down.

- Only one person thought they would not pursue further board work. The majority could see themselves as future chairs, if not in the immediate future, then within the next 5-10 years. Further experience, chairing smaller boards, broadened networks and learning from other chairs were seen as the best preparation.

THE DIRECTORS

Eighteen directors aged fifty years or younger responded to our invitation to participate in structured interviews. This represented 19% of the available cohort.

The age of directors ranged from 39 to 50, with the majority aged between 46 and 50. The longest serving had been on the board for 7 years and the most recent was in their first year.

One of the eighteen was currently chair of the sample companies. Only 2 directors had no other board appointments, with the most common number of board positions held being three or four. These appointments were across a range of organisations, including advisory boards; not-for-profits; private companies and other listed entities.

In terms of gender, these directors are not a representative sample of the total group of directors fifty years or younger. Of the eighteen who were interviewed eleven were women whereas they comprised only one quarter of the 'young' group.

We have taken this into account into our analysis and there are some critical differences in the experience and perceptions of male and female directors brought out through this research. Of the 18 boards, 7 had no female representation.

Our participants came from a diverse range of professional backgrounds with a predominance of qualifications and experience in economics, finance, accounting, audit, management consulting, legal and general business management. The industries ranged across finance, retail, materials, capital goods, utilities, property, healthcare, media, food and staples. Across those industries the experience of directors was remarkably similar.

PURSUING BOARD ROLES AND CAREERS

Where did directorships fit in people's career paths and decision-making?

There were distinct differences for these men and women in terms of the place of board work in their professional and personal lives. Most obvious were the women's pursuit for greater career and work/life flexibility through directorships.

All the women directors we interviewed told of the desire for greater control over their destiny as well as seeking intellectual challenges and the opportunity to use their skills and experience in a strategic environment.

Many of them were partners or senior consultants in investment banking, accounting firms, legal practices or management consulting. Others were executives or ran their own businesses. One investment banker found it more stimulating talking to companies about strategy rather than persuading investors to invest; she did not want to move into a full-time executive role. Another was an accounting partner who felt her career was narrowing and felt she wanted more diverse experience of companies but not in an executive capacity.

A number of women had had enough of the time demands of full-time executive roles which left them little space for other pursuits. Most saw a mix of board work and other professional roles as optimal. Some actively sought a portfolio of board positions as their career.

> *"In taking the role (with the ASX 200 company) I was looking for diversity in board roles. I had been in financial service areas and this was a bit different, but basically I was looking at every opportunity in terms of how it might fit into a portfolio of board work, looking at the particular organisation, industry, risk profile etc".*

> *"I certainly know friends and colleagues who are choosing to sit on boards to gain some space. It does present an alternative career for women in their forties while I suspect men would view the board option as more a post retirement option".*

And family life played a critical part in the decision-making. A partner in one of Australia's largest law firms left to seek more flexible options because the firm had not enabled her to give sufficient time to her child's particular developmental needs.

Another, with two children, couldn't see how she could have the sort of family life she wanted with both she and her husband working full-time. She sold her business and began consulting but didn't want to do that full-time as she felt the need for more professional refreshment.

> *"So that's when I started thinking about a portfolio, a mix of things that would hone your skills, bring you some decent money and would be intellectually stimulating".*

Flexibility in work and family life were also the determining factors for two of the men interviewed. One had made a decision to pursue a portfolio board career, moving to this after many years in public life; another was exchanging a full-time executive role for board and advisory work, and more time with his family.

Other male directors had full-time roles as executives, some in subsidiaries of the organisation whose board they were appointed to. Another ran his own business and had held major roles in his industry's peak bodies prior to being elected to his ASX board. One was currently a CEO in another organisation and the non-executive position was his other major professional role.

GETTING ONTO AN ASX 200 BOARD

FINDING THE OPPORTUNITY

The approach by an ASX company came about through various routes. For those CEOs in subsidiary companies, a directorship on the overall board 'came with the job'. However, it was not an automatic process and one company had a specific screening process to assess nominees to ensure a good fit.

There is awareness amongst directors that being a CEO of a significant enterprise makes you an attractive proposition for boards, even where you are not known.

Prior connection was a critical factor. One male director had been in investment banking when this particular company was floated and had made a number of relationships, including with the CEO. Another had, in his previous public career, been responsible for decisions about assets that were eventually taken over by the ASX company. A third was directly approached by shareholders to stand in an elected capacity.

The consulting relationship was part of the equation, particularly for women who had been exposed to boards and management via their audit, accounting, investment banking or management advisory roles. These skills sets were in demand by boards and consulting had provided them with networks which they may not have been able to access if they had been senior executives 'hidden' within one company.

Being on boards generates opportunity to be on other boards. Some of those with more diverse and long-standing board experience described a range of inter-connections with individuals which meant they were referred on to the ASX board or invited to join by people they had met via other board work.

One of the major differences in men and women's experience was the role that search firms played in bringing them to a board's attention. As part of a deliberate move towards a board career, some women had actively approached search firms and got on their radar. Others were contacted by search firms who had been given a brief to identify suitable female candidates. This was a positive for younger women who would not necessarily have had the network visibility. And they acknowledged that in recent years, boards had more actively sought women – if unfortunately tending to approach the 'tried and true' names.

One woman saw herself very much in the right place at the right time – with a skill set that fitted the board which was also actively looking for women and one that was open to less experienced directors.

> *"They felt they were a strong board and felt they could go after someone who was starting a board career".*

MAKING THE DECISION

Interviewees were asked about their own decision-making in taking up this particular ASX 200 appointment.

What factors had been important to them in accepting the role? What had attracted them?

Did they have reservations in pursuing this opportunity?

Were there things that, in hindsight, they wished they had negotiated before accepting?

A number of factors influenced their decision to take up this directorship opportunity:

The fit between the individual and the industry

Some had worked in the same industry for years and saw that they could add considerable value. It was a logical move for them. People moving into a new industry acknowledged concerns about how difficult it might be to operate effectively, and they put extra effort into getting themselves up to speed.

The majority of reservations people had were about the adequacy of their depth of experience and skills for the task ahead. One female director reflected the reticence that she saw more common amongst women.

> *"Men when asked to do a job will say 'yes I can do that'. Like other women, I suffered from the 'I'm not sure I'm ready' syndrome".*

Sufficient due diligence to assure themselves of the level of risk within the company

If they were not familiar with the business, people sought out extensive information and advice from their networks and public sources to test whether they were prepared to take on the risk.

Where people were joining a company which had experienced difficulties, they assessed the chair's integrity and capacity to lead significant change. There were comments from interviewees about the impossibility of knowing the full extent of risk until you were on the board.

A sense of challenge and stimulation

People were excited by the strategic challenges of such large companies and their opportunity to influence change, although one interviewee felt he had exhausted that challenge and could add more value in private and not-for-profit organisations undergoing growth.

Respect for, and trust in, the group of people they were joining

The qualities of the chair, other directors, the CEO, and the board culture were frequently mentioned as make-or-break factors in taking the appointment. People were influenced by the experience and stature of the directors they were joining.

> *"I knew the chair's positive reputation in the sector, and the skills and experience around the table told me that this was a serious board that was going to be able to meet any challenge thrown at it".*

> *"I knew some of the board and saw them as having real integrity. The company has a high ethical profile and the CEO is well regarded. After all, at the end of the day, you are risking your reputation in taking on the job and you can't do that if you can't trust in your fellow directors".*

> *"When I went through the appointment process I was looking for the right chemistry… people who would have something in common, where the board dynamics were good. I wasn't interested in joining a dysfunctional board and I've seen some of them in my time".*

Most directors felt they had carried out sufficient due diligence and had no real regrets about the negotiations.

THE APPOINTMENT PROCESS

All directors were generally positive about the appointment process itself. The formality varied considerably depending on any prior relationship with board members and the organisation's point of development.

One person, well-known to the board, described their experience as 'just a chat and a cup of tea'. Another was in a start-up company with an unestablished process and the director had been specifically invited because of his earlier connection. He presumed they had checked him out sufficiently before inviting him!

Others had participated in much more structured processes:

> *"I was an unknown. I was interviewed by everyone, first by the chair and then by the other directors. There was a full-on interview which included asking me how I would manage the fact that I was younger than most of the management team".*

> *"References were sought and were really important. It was the most professional process I've been through in terms of boards I'm on. That's what boards should do".*

Even where their own process had been relatively informal, directors commented on the increasing structure and rigour being brought to appointments in subsequent years.

The tendency was for boards to increasingly use search firms to supplement their own networks. Opinion was divided on the effectiveness of head-hunters. Some gave examples of where this had tapped valuable unknowns. Others felt the firms had narrow networks, had not listened to the briefs and put up inappropriate candidates, or had been weak in screening, offering up long lists which encouraged boards to bring more anecdotal information and assumptions to the board table.

A survey of 57 directors by Ernst and Young in 2003 indicated that ASX 200 companies were generally casting their net wider[1], with 70% of the remuneration and nomination committees looking beyond traditional sources in seeking directors with the right competencies.

Overall, directors interviewed for this research felt the combined approach of board networks and a wider search was often the most valuable. Networks were vital in terms of attracting 'known quantities' but not sufficient to maintain diversity.

However, even when this approach was taken, boards could still narrow their focus. One director described how knowledge of candidates and a preference for CEOs was given greater weighting in her board's decisions.

Despite this, most of those interviewed held more than one directorship; with only two directors having their ASX Top 200 company as their only board. Four directors had five non-executive positions, demonstrating a fairly full time commitment to board work. This is shown in full in Table 1 below.

Number of Directors Interviewed	Number of Board Positions Held
2	1
3	2
5	3
4	4
4	5

Table 1: Board appointments of directors interviewed

THE REALITIES

GETTING UP TO SPEED – INDUCTION

Board induction processes have improved over recent years but there still seems to be a degree of passivity in some boards and an expectation that directors will fend for themselves or gather wisdom from standard sources of information.

We asked our interviewees what had helped or hindered them in getting up to speed as new directors.

Did they have effective structured orientation processes in place?

Was the board proactive in reaching out to new directors or did it assume they would take the initiative?

Those who came in with some connection and familiarity with the industry saw themselves at a natural advantage. They had some sense of the critical issues in the business and the external relationships that mattered; they could tap other sources for information, knew the language, and could, as one director pointed out, *"detect the bullshit factor more quickly".*

On the other hand, unknowns felt they had a greater capacity to ask questions about the way things were done – *"I have no baggage, there are no taboo subjects"*.

The obvious things were mentioned – time spent with the chair, other more experienced board members, the company secretary and auditor, and an early robust understanding of the budget, particularly in complex multi-subsidiary companies.

But there were some things that came out strongly in addition:

Wasting no time in getting close to the business

Spending as much time as necessary with key business managers, – not just the CEO and CFO – and visiting sites where appropriate.

> *"It was priceless to have contact with employees below the level of senior management – a feel for the culture is the best way to measure risk – it was structured and rigorous. I still do it and I learn something new every time".*

> *"The feedback from the CEO was that the management team was so impressed that I had spent so much time learning about the business. In the first year every month I would do something different".*

> *"I don't think a structured process is a substitute for getting out and being engaged with management and immersing yourself in the issues and debate".*

Reading the culture and board style well

A number of people highlighted the need to understand the 'rules' of how to be effective on this particular board, to observe the dynamics and find the right style. Interpersonal competence paid dividends.

Having good sounding boards

One woman regularly tested 'potentially silly questions' with the chair or fellow directors. Another appreciated the offer made by a colleague in the early months to go over the paperwork ahead of board meetings.

> *"Almost like having a buddy without the formalities".*

Many talked about managing their own induction. Some met ad hoc or haphazard processes when they arrived. They received help and support if they asked and there were no barriers, but no proactivity either.

> *"I have to tell you I think the state of induction processes in any of these companies is pretty shocking; they send you all the governance manuals, charts as if reading the constitution is really going to help you".*

However, more recent appointees had encountered much improved processes to support them – things had greatly improved in recent years. Three quarters of the directors noted structured induction programs were in place.

ROLES AND WORKLOAD

Most felt that the realities of board work matched their expectations and that knowledge of the industry or experience on other boards helped in setting realistic expectations of the role and workload.

The major surprises were in the size of the challenge they faced.

> *"Until you get into big organisations it's difficult to know what it will take to effect change".*

> *"It's fine to diagnose, but harder to deal with the issues; you don't turn around complex organisations quickly".*

One younger director who had previously been in a management role commented on the difficult realisation that, as a director, she would have to let go her inclination to have detailed input into every decision.

In general, these directors saw their own workload as reasonable and sustainable. They expected to have to work hard and understood that the demands on them would vary, depending on the evolution of the company and the strategic issues that presented themselves.

Typically they saw themselves working at least 2 days each month per board when averaged out over the year in terms of board meetings, committee meetings, going over material and teleconferencing on issues. But when the heat was on it could be more.

As a new director in a company at its formative stage, one interviewee found herself heavily involved with developing board policy and charters; then moving into an acquisition, and then a takeover. The workload had tripled soon after she arrived and had now settled down into a consolidation phase which was sustainable. There were similar ‘start-up’ experiences.

Another director with a full-time executive role was very conscious of the difficulty of taking on much board work and had stepped down from a number of other commitments in taking up the ASX 200 opportunity. In contrast, a woman with a portfolio career thought that she would have taken on an extra board had she understood the extent to which the work ebbed and flowed.

Those who were chairing audit and risk committees were particularly conscious of a higher workload and responsibility than their fellow directors.

At the same time that they felt their own situation was manageable, many of these directors acknowledged the growing demands on board members and the potentially negative impact that might have on attracting good people.

> *“I think it is going to be an issue going forward and over the next few years you will see a lot of older directors retiring because of the demands and increasing regulation… as well as general workloads.*
>
> *I’m hearing complaints that the workload is ridiculous and that the papers are so great you can hardly carry them… People are rethinking… we are losing some good minds. Some people are retiring who would stay if it wasn’t so demanding”.*
>
> *“Generally I have no doubt that the work required of directors is greater than it was 12 years ago but, having said that, I have always taken the role very seriously and spent the time that I thought it required. I do observe that not all directors seem to put in the same amount of effort as I do on some of these things”.*
>
> *“If you were a consultant you’d be earning five times the amount so why would you hang in unless you were passionate about it. If I were in my retirement years I wouldn’t spend my time thinking about sitting on boards”.*

What helped in managing heavy board workloads?

Directors commented on the need for effective systems of compliance, risk management and reporting which reduced the need to pursue more detail.

They praised competent chairs who kept the focus on future strategy and the high priority matters, and secretariats that produced quality relevant information in a timely fashion. They also pointed to sensible committee structures and appropriate numbers on the board to share work and roles.

REMUNERATION

A 2003 survey by Ernst and Young in collaboration with the Australian Institute of Company Directors claimed that 63% of directors felt they were not being paid enough for the growing responsibilities and risks associated with their role[2]. They saw their companies phasing out a range of benefits such as lump-sum payments in line with ASX recommendations.

The concern that the remuneration non-executives receive has not kept pace with the increasing responsibilities and demands of the role has been echoed in more recent research and commentary[3].

In 2006, the Mercer Company’s report on director’s remuneration found the median remuneration for ASX Top 50 companies to be $187,000; Top 51-100 companies to be $135,000 and Top 101-200 companies to be $96,000.

It is difficult to compare remuneration levels based on publicly disclosed information but the median for the directors interviewed was $134,000.

Remuneration experience and satisfaction varied amongst the people we interviewed. At one end of the spectrum was a younger woman with a portfolio who was delighted by the stimulation of the board and felt it was a bonus to be paid for the work. Likewise, a director who had left the public sector and had a number of paying boards stated:

> *“I’ve never had it so good; earnings in the public sector are not that good”.*

In contrast was one director who felt strongly that a board with a public sector history paid inadequately and others who commented thought the risk was outweighing the rewards.

> *“I think the expectations of what a director has to do are right, but from a personal perspective it’s unlikely that when I step down from my executive role I will pursue a board career because I don’t think the rewards are there”.*
>
> *“Financially, it’s not commensurate with risk or expectation of shareholders”.*

Another also commented on financial risks and related how he had restructured his finances to protect his assets on taking up the appointment.

One director pointed to the particular demands on chairs and the chairs of audit committees. Whilst companies gave them additional remuneration, he thought there would still be problems in getting people with the right skills and experience to take on directorships at this level of remuneration.

Overall, remuneration was not a major factor short-cutting these directors' board careers.

AGE AS AN ISSUE

In gathering insights from directors fifty years and under, we asked about the relevance of age to contemporary boards of public companies.

Did age matter in terms of being able to fully contribute?

How was their age perceived by others?

To what degree were their boards explicitly conscious of the age profiles in making decisions about new appointments?

None of the 18 directors felt they had been personally hindered in influencing or contributing to their boards on the basis of their age. They saw effective participation involving a number of factors: relevance of expertise, personal gravitas, depth of experience and time to contribute. Age was integral to the extent that a director needed to have sufficient experience to bring to the table and older people had often done a lot more.

> *"I think the reality is that until you have had a range of experiences that you've been personally accountable for, it's hard to bring a broad perspective to board discussions".*

And lack of extensive experience perhaps influenced the time it took to feel confident about asserting opinions. However, it depended on the individual.

> *"I went onto a public board at 43. Was I ready? I think I had done enough to be able to contribute. Was I ready at 39? Probably not. Turning 40 made me feel as a business person that I'd come of age but there's nothing magical about it".*

On the other hand a few felt that younger board members could have an advantage in being more in tune with the issues faced by executives and be more familiar with some technological innovations.

The ideal was an age mix which drew on the best of both.

Some did acknowledge that others might have a reluctance to see younger people having as much to offer and that a group of older board members might discount younger appointments because their own networks were largely amongst an older generation. They also saw potential difficulties in relating to older board members, although had not experienced such difficulties themselves.

> *"I remember X said to me 'now it's great being on a board but when you're in your early thirties and they're all in their late sixties, it's the pits.' That's not been the case for me but I can appreciate the issue."*

> *"If you're a 35 year old female on a board of sixty plus [males] they do treat you differently than a 50 year old. The interactions are easier with 50 year olds but there are exceptions of course and I've worked with many very welcoming older board members... but others I don't feel there's much in common".*

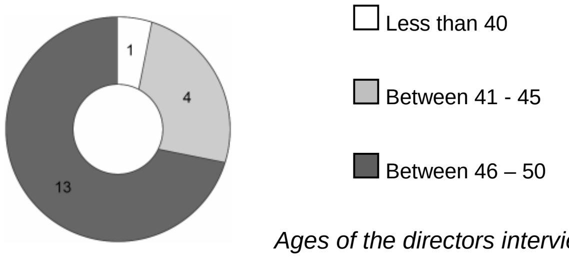
One third of the directors we interviewed mentioned that age was an explicit part of the board consideration of new appointments. Each board had clearly defined the skills and experience requirements and was not fixed on age as a criterion for appointment, but saw some advantages in looking for younger directors to be part of the appointment pool. This might be about the type of experience and the desire for people who would stay for a reasonable period of time.

There is also a sense among a few directors that they see retirement age appointees as having less commitment and energy. A director who had recently attended an AICD conference related a discussion about head-hunters which indicated boards were becoming more wary of older candidates.

> *"When the board is looking for new directors, age is part of the discussion but not in a discriminatory way. We don't think this person is too young or too old; we tend to look at [their] relative skill set, and then how long it might take them to get up to speed. But we do think about renewal and diversity. We're always looking for successors".*

> *"I think we made a conscious decision; we didn't want someone sitting out their career in retirement; we certainly weren't looking for someone in their mid-to-late sixties".*

> *"We were specifically looking for someone in their fifties as it's quite a young board".*



Ages of the directors interviewed

GENDER AND BOARDS

Boardroom Partners annual audit of female non-executive directors in the ASX 200 indicated that 10% of non-executive positions were held by women in December 2006.

This research tapped the views of eleven women who are part of that 10%, some of whom had extensive experience on boards, others who were recently appointed.

The proportion of women in this group of 'young' directors is far greater than the proportion overall in the ASX 200 (26% as opposed to 10%).

This indicates that women are more likely to be appointed to non-executive positions at an earlier age than their male counterparts. Some of these women have been appointed to more than one board and this again suggests that career paths for this group are possibly more accelerated than has previously been the case. These statistics indicate a trend that could significantly alter the composition of future boards in the ASX 200.

As successful women, these directors tended to see gender as a 'mixed bag'. They did not feel that they were experiencing discrimination or disadvantage in their current board work, although were conscious of some of the cultural tensions of being a sole woman or one of a small number on a board.

> *"There is still secret men's business when you feel excluded but being in a minority can be an advantage if you have the confidence to counter it".*

Like age, gender was one of a number of factors that might affect directors' participation but they did not single it out as a major factor.

However, they tended to be conscious of the overall position of women seeking directorships, the difficulties of being 'visible' to boards and chairs, and issues relating to somewhat different skills profiles and career patterns. They knew from the statistics that gender was still an issue in board participation.

Male directors were also conscious of gender representation and those interviewed welcomed more gender diversity, though spoke of the difficulties they perceived in tapping a pool of suitably experienced women and, in the executive sphere, of keeping senior women for long periods.

GOOD GOVERNANCE

What are the governance challenges facing current directors on ASX 200 companies? Our group of directors highlighted a number of issues.

COMPLIANCE ISSUES

ASX Principles

How did they see the compliance requirements and particularly the relevance of the ASX governance principles?

Overall these directors thought that their ASX 200 organisations had very sound governance frameworks and practice in place.

They saw the ASX principles as useful, reasonably robust and practical, although felt their own organisations had already embedded most of the requirements and that the ASX guidelines were probably more useful for smaller, less developed companies.

A few directors commented positively of Australia's "comply or explain" regime compared to other regulatory environments.

> *"If they are being honest with themselves, I think a lot of companies learnt an awful lot from having to implement ASX principles. There would be smaller companies still struggling.*
>
> *I think Sarbanes Oxley in the US went too far but what we have had to contend with here in Australia has done more good and certainly hasn't done any harm".*

Nonetheless, they also saw dangers in expanding compliance.

> *"Piling on the number of hoops doesn't necessarily deliver good governance".*

And they observed a trend for some boards to move into a compliant 'tick a box' mentality, wasting time that should be devoted to more strategic matters. They felt this wasn't necessary and boards that were on top of their governance responsibilities could use such principles where appropriate and keep their focus on the critical business issues at hand.

> *"I think that some of the regulatory frameworks go a bit overboard and you run the risk that directors stop thinking. It takes away the challenge of thinking about the critical issues, the critical exposures and how we address the problem.*

But having said that, you at least have a process that forces boards across the market to think about the generic issues and doing that doesn't stop them thinking about what they would do with a white piece of paper".

Growing Accountability

There were a number of comments in relation to managing the tension between increasing government demands for accountability and the appropriate role of the director.

A number of directors were concerned that recent decisions about directors' liabilities were forcing an untenable blurring of the lines of the board and management. They were being pressured to involve themselves in far more detail than they saw appropriate for board members.

One interviewee claimed he knew of directors who were standing down because of this tension.

"The general consensus at the moment is that directors should be more strategic, oversighting strategy, monitoring implementation of strategy and basically keeping out of the operational.

But the implications of the James Hardie case seem to be that directors need to know, and be involved in, the basics. This is out of kilter with the reality. There's no way a director coming in for a one day board meeting once a month can have that sort of level of detailed oversight".

MAINTAINING THE STRATEGIC FOCUS

This is a perennial issue that has been part of many reports on the challenges facing directors.

For example, McKinsey's global Survey of Corporate Directors[4] in 2005 indicated three quarters of the 1000 directors they surveyed wanted to spend more time on strategy and risk.

The group of directors in this research also acknowledged the ongoing effort required to maintain a longer-term, strategic perspective.

For a number of these directors being able to tackle the larger strategic challenges was critical to retaining them on their ASX board. They were not interested in a 'maintenance' role.

"The biggest governance issue has been getting the balance between the financial performance of the company and the day to day operations and strategy. It's very easy to get waylaid with procedural things as opposed to strategy and setting a firm direction.

I don't think that quarterly reporting helps, because it's all about building a business long-term and the problem with the extent of reporting and quarterly reporting is that it focuses on the short-term."

Some of the companies were addressing the strategic governance issues that more frequently arose from operating internationally.

For example, one company had just acquired an offshore entity and was working through the structure and governance issues around taking the company international. Another was focused on some of the broader environmental compliance issues that arose from their expansion.

WHAT MAKES A BOARD WORK EFFECTIVELY?

Whilst a wide range of contributing factors was mentioned, some issues came out on top.

The chair, the chair, the chair!!!

Excellent chairing was the strongest theme that came out of the interviews. Directors looked to chairs with high credibility in the industry and their professional networks.

But more than that they pointed to the need for chairs to foster open, rigorous discussion, promote a culture of contribution, foster good relations with management and maintain disciplined decision-making.

They strongly supported the view of Jeffrey Sonnenfeld in "What Makes Great Boards Great?" that a virtuous circle of respect, trust and candour distinguishes exemplary boards[5].

"The chairman sets the tone, facilitates the agenda and structures the relationship with management.

I have two boards; one where the chair comes in and bangs the table and gives his opinion first so everyone else is frightened and no-one says anything. There's no debate and it's totally dysfunctional.

On another board the chair says very little, lets management say their bit, gets a good discussion going, holds off pushing his opinions too early but brings it to the right place. He shows real respect and everyone feels comfortable giving their opinions and better decisions are made that way".

Putting the hard work in

Directors acknowledged that each individual needed to be prepared to do the hard work; to give the time to build their knowledge of the business, to do their homework around issues for decision and be astute in the way they operated in meetings.

Getting the right mix

The right mix and diversity of skills, experience and perspectives made a critical difference to the capacity to meet the challenges on an ASX 200 board. Directors were acutely conscious of the risks or 'cloning' and a lack of diverse perspectives.

Ongoing improvement

Board evaluation processes were seen as positive and all these companies had processes in place, some focusing on both individual feedback and the effectiveness of the group.

There was an increasing use of external expertise to facilitate the discussion. Most thought their companies did this reasonably well but there were some who were less flattering about how evaluation feedback was handled.

> *"Some processes have been very effective, not so much in waking up and saying 'hey this is a whole area of business we haven't been focusing on' but it helps get a discussion going about how we can be more effective as directors".*
>
> *"Evaluation processes are archaic; boards don't know how to do it and most boards don't want to do it. We should get an external in to look at teamwork and how to use skills better, not how many meetings have you attended. There's too much focus on compliance".*

Succession planning

Board renewal and transition was high on the list of governance issues and directors were acutely aware of the need for conscious and careful succession planning, particularly in a context where directors' were increasingly under pressure.

Director development

This group of directors were aware of the need to support director's development, although few pointed to explicit processes to identify directors' needs and support them.

More commonly, boards supported individuals when asked but made no proactive overtures. They also saw some of their colleagues resistant to the idea; *"they think they are already perfectly formed"*. It was not a view they shared.

One suggested that explicitly making a development allowance available to directors would take away the need to go cap in hand for support.

FUTURE DIRECTIONS

How did these directors see their future?

Most intended to fulfil their expected term as director unless circumstances such as a takeover cut across. Otherwise they would only leave if they felt they had made as much of a contribution as possible, or felt their independence and effectiveness was being compromised in some way.

The majority of the companies had some form of cap on the number of terms or years of directorship and the directors we interviewed generally felt this was a good thing if used with some discretion and flexibility. The caps were typically 7-10 years. The perceived benefits were that it forced a focus on succession planning and facilitated renewal. It took some of the subjectivity out of the process of deciding who had contributed enough. At the same time directors did not want a total lack of flexibility where skills and experience were jettisoned, leaving the company vulnerable.

Not everyone was planning to continue a board career. One director felt strongly the rewards were not enough for the demands made and had no plans to continue. The other directors saw board roles as a key part of their future, either seeking out another top company board or building a mix of directorships.

The majority were also interested in future chairing roles, although a few ruled this out because they thought the demands would limit their flexibility or because they wanted a change in their careers.

Those without CEO or senior executive experience also queried whether they would be taken seriously by other ASX 200 companies.

Those who saw themselves as potential chairs contemplated a number of ways of preparing themselves: chairing smaller boards as a way of gaining greater experience, joining other boards to work with successful chairs, and expanding their committee responsibilities to get broader exposure to key issues.

The second factor that directors saw as determining their future was being able to find an organisation which would be challenging, a good fit, and where they could bring their passion. They were interested but the circumstances had to be right.

CONCLUSION

Ernst and Young's study of fifty directors under fifty in the United Kingdom made the point that its participants undertook board work in a quite different context than their predecessors.

> "*They represented an interesting sociological and economic phenomenon not present 15 years ago:* ***Choice*** *Each participant has the intellect, experience and financial wherewithal to opt out of a traditional FTSE career path and pursue other areas of interest and reward."*

The group of directors interviewed for this project are making very clear choices in their board involvement. They are at stages in their lives where 'the right fit' is paramount and there are other options they could pursue if board work were less satisfying.

They are looking for a balance in their careers and in the level of risk and reward for board work. They place high value on well functioning boards, high integrity and effective chairing.

As younger directors, they see a number of tensions and pressures which may be discouraging good people from joining boards or may be persuading some to step down – tensions around increasing accountability of directors, increasing workloads, and the pressure towards more operational oversight at the expense of the strategic.

They themselves are optimistic about the place of board work in their futures. The majority could see themselves as future chairs of ASX 200 companies and are optimistic about the place of board work in their careers.

Their experience highlights those factors which will sustain them in board work and some of the concerns which may affect their decisions to stay on that path.

NOTES

[1] Ernst & Young and the Australian Institute of Company Directors, Board Committees Best Practice Survey, 2003

[2] Ernst & Young and the Australian Institute of Company Directors, Board Committees Best Practice Survey, 2003

[3] Guerdon Associates Non-Executive Director Remuneration Updates, April 2006. Cf commentary in Company Director magazine vol 23, no 3. April 2007

[4] McKinsey Company, Global Survey of Corporate Directors, 2005

[5] Jeffrey A Sonnenfeld, What makes Great Boards Great, Harvard Business Review, September 2002

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METHODOLOGY

Information about the top 200 ASX companies was gathered from publicly available data, correct as at December 2006. Property Trusts, Overseas based companies and subsidiaries were excluded (14 companies).

The survey was therefore conducted with the remaining 186 companies. These boards had 1109 non-executive director positions between them (an average of 6 per board).

107 of these non-executive director positions were held by individuals known to be aged 50 or under at the time of this research (9% of the total pool).

Invitations to participate in this research were issued to each director in this group, and eighteen directors (holding twenty ASX200 positions between them) agreed to be interviewed for this research. This represented 19% of the available cohort.

Participants were interviewed individually, each taking part in a one-on-one interview ranging from 45 minutes to an hour and a half. All were asked to outline their views and experiences relating to the areas highlighted in the report. They were also asked to give broader comments and were given the opportunity to raise any other relevant issues relating to governance and careers as non-executive directors.

SEPTEMBER 2007

We welcome comments on our findings & would be happy to
discuss any aspect of this report with you.
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Look out for details of our next Research Paper on our website
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