CORPORATE GOVERNANCE

Are You Ready to Serve on a Board?

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Corporate boards are under increasing pressure to diversify their ranks – adding more women and minorities, as well as executives with different cultural and functional backgrounds – to better represent the people their organizations employ and serve. At the same time, the bar for "board readiness" has never been higher: directors are scrutinized for their ability to understand more complex businesses, demonstrate technical know-how, deliver effective governance, and generate sustainable long-term performance.

What can leaders aspiring to board roles do to prepare and position themselves for success? How does one develop what we call *boardroom capital*?

Unfortunately, the capabilities that power C-suite careers are not the same as those needed to sit around the top table, specifically in a non-executive capacity, because you no longer have all the levers of operating power at your fingertips. That is perhaps bad (but not terrible) news for obvious board candidates: they'll simply have to work to develop the right skills. It's unquestionably good news for non-obvious candidates – that is, those who didn't or couldn't ascend to the ranks of top management, which continue to be male- and majority-race dominated around the world. They will need to work hard, too, but they can start on a more level playing field.

As Charlotte Valeur, a Danish-born former investment banker who has chaired three international companies and now leads the UK's Institute of Directors, says, "We need to help new participants from under-represented groups to develop the confidence of working on boards and to come to know that" – while boardroom capital does take effort to build – "this is not rocket science."

To better understand what makes a director successful today, we conducted interviews with more than 50 board members representing some of the world's leading companies. We found that boardroom capital is built on five different types of intelligence: financial, strategic, relational, role and cultural. The categories might not surprise you, but it is important to understand why all are necessary and to think about how to improve in each area.

Five Types of Intelligence

Financial. Can you talk in numbers, not just in words? Directors cannot fulfill their fiduciary duties without being able to quickly draw an informed opinion on to the capital structure of the company; its financial gearing, the sustainability of cash flows, or its risk envelope. These fundamentals have become even more important in wake of numerous audit-related scandals and increased scrutiny from regulators. But this mandate doesn't require you to have been a CFO or conducted an audit. "It's definitely not a discussion about the technical aspects of accounting," says Crawford Gillies, who serves as senior independent director on the boards of Barclays and SSE and holds chairman roles at other public sector and private organizations. "For me, the key issue is to be able to interpret an income statement and use that to understand what is going on in the business: what may be going well and not so well." You might want to crack open some old accounting textbooks. But more important is showing that you know enough about the balance sheet to listen attentively to a CFO, ask smart questions, and hold him or her to account if the financials aren't clear enough.

Strategic. Being fluent in financials is one thing. Can you then translate them into strategy and back again? Ruth Cairnie, former executive vice president of strategy and planning at Royal Dutch Shell and former non-executive for Rolls-Royce, who is now chair at Babcock and sits on the board of ABF, outlines the way directors need to think: "Does the strategic thinking pay adequate attention to key trends and external realities? Are we being honest about our competitors' positioning and competitive advantage? Is there a real credible link between the strategy and the projected financials?" Having ensured all the numbers add up, the conversation turns to how the strategic whole might in future equate to a number *exceeding* the sum of the accounting parts. ESG (environmental, social, governance) issues are now a top priority and an area in which any board aspirant must be knowledgeable. In our research, we identified four different ways that directors have pushed companies to understand, articulate, and measure sustainable value:

- economies of capital (financial markets)
- experience (employee and customer value propositions)
- reciprocity (who you do business with and how)
- materiality (delivering what you say you are going to deliver).

Boardroom capital requires taking responsibility for looking beyond short-term value realization, to what Joseph Bower and Lynne Paine have described as a company's health, not wealth.

You should also be familiar with new business models and evolving sector-specific strategies (be they services, software, technology or digital to name a few recent examples) and be comfortable with a faster pace of change than boards have ever faced in the past. Some organizations like the Guardian Media Group in the UK boast of being able to tear up and replace their strategic plans every 13 weeks. As Fabiola Arredondo, non-executive director at Burberry, Campbell Soup Company and National Public Radio observes, "it used to be that boards would hold a strategic planning session once a year. Now I more typically see boards seamlessly introducing strategic discussions into each board meeting, with a deep dive once or twice a year."

Relational. Stepping up to the board requires you to take a step back. The role is to scrutinize, encourage, and advise, not operate. You need to build successful working relationships with other directors, the company's top executives and wider stakeholders, each of whom come with their own experience and opinions. In the boardroom, where the pressures are high and the egos numerous, success turns on the ability to clearly communicate with others and, perhaps more importantly, understand what people are trying to communicate to you.

The ideal, as one of our interviewees described it, is “one big team together, all from different nationalities, different places in the world, different backgrounds, [working as] a unit of people together and enjoying it.” But that is not always the reality, Valeur notes, and board relationships require careful management. Being effective involves listening carefully and being able to grasp, process, react positively, and adjust your thinking quickly to the direction of the conversation and to suggestions you may have not previously considered from peers. “The one thing you need to be mindful of coming from a less well-represented group is that you are disrupting the boardroom by simply being who you are,” she adds. Her advice is to observe the behavior of more tenured peers while still serving as a diverse voice.

Role. Board members must be clear on their contribution to the conversation. As one experienced boardroom player explained, “We have eight meetings a year. You probably get the opportunity for one, or, if you’re really lucky, perhaps two questions per board meeting. That’s around 10 questions annually, so you need to make sure you think about what constitutes a material intervention.” Ask yourself why you’ve been picked for the board and on which issues you can add the most value. Mike Clasper of Coats and formerly Which? Limited, notes, however, that the difficult thing about being a non-executive director is not asking a [first] question probing an underperformance issue or challenging the strategy but knowing when to ask the same question again.

Cultural. Mary Jo Jacobi, former senior U.S. Presidential advisor, former senior corporate executive, and current board member of The Weir Group and Mulvaney Capital Management, says that the duty of the board chair and other members is “to create an environment where the executives feel willing to be forthcoming, to admit if something is not going so well, and to seek the board’s advice and guidance on how to fix it. It is inappropriate to foster an environment where the execs have to be seen as successful and right and that everything is going great when that is not always the case.”

Any director can help his or her board chair in these efforts. That level of transparency, trust, and rapport flows from careful preparation and orchestration, an ability to quickly evaluate and understand the culture of a group and, if it needs improvement, to develop a plan for finding allies and slowly steering the group toward change. As Ruth Cairnie warns, “I have experienced plenty of organizations where you have very capable people but don’t get anything like the best out of them because the dynamics and chemistry are not right.”

Building Those Skills

The wisdom of our experienced crowd suggests you do not have to be the finished article before embarking on a boardroom career. But, if becoming a company director is one of your ambitions, you should begin to build board-relevant experience as soon as possible.

Here are a few ways to get started:

- ***Financial:*** If you haven’t already, obtain responsibility for your own P&L, observe carefully how assets, investments, and leveraging combine to drive free cash flows (FCF) and listen online to earnings calls.
- ***Strategic:*** Increase your exposure to your firm’s business model, understand how it relates to your strategy and operations and how changes release (and potentially put at risk or destroy) economic value.
- ***Relational:*** Seek out opportunities to talk with and present to your board and pursue potential decision-making opportunities at the top of internal business units or in external roles. Watch and learn from those you consider expert. Ensure that you enable the success of others on your team and beyond.
- ***Role:*** Focus on what role you have been chosen to play and where you add the most value. You can practice this in all your meetings and projects. Emulate others who bring that same precision to their work and interactions.
- ***Cultural:*** Work on your ability to read, get along with, and improve the culture of diverse groups of peers by joining cross-functional, cross-industry, and cross-culture groups.

It also helps to think about what kind of board member you want to be. In our study, we found that four common approaches (though the list is not exhaustive, and there remain further variations and combinations including the possibility of board members playing different roles at different times.)

- ***Police*** embrace the increasingly regulatory role board directors are compelled to fulfill; the best ones call executives to account without weighing them down with regulation and red tape.

- ***Data junkies*** are financially fluent, highly competent, and focused on targets, but should avoid demanding excessive information and acting with too much cold logic in their interactions with peers and executives.
- ***Architects*** want to lay firm foundations that will outlive the lives of their board tenure; successful ones recognize the delicate balance structure and flexibility and short-term returns and longer-term fiduciary and custodial responsibilities
- ***Pilots*** see everything from 30,000 feet. They understand and can articulate how value is created, enhanced, protected, and delivered but need vigilance to ensure smooth take-offs and landings.

Finally, we'd urge you to seek advice from experienced colleagues and contacts, expressing your desire, aspiration, and potential to lead at this level. When sharing your resume, the content you include should be different to what you have used to date. You should instead signal your potential by outlining your capabilities in each of the five areas of intelligence.

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