

Seven Considerations for Aspiring Directors

Taking a board role can enhance your career, but before becoming a director it's important to understand fully your role and responsibilities

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Perhaps you are approaching the apex of your executive career in resources and considering a non-executive appointment and future 'board portfolio'. We counsel many executives in this process, particularly for ASX-listed companies. Here we suggest 'seven Rs' to consider before pursuing a board seat.

1. Responsibilities

This might seem like an obvious one. Every board member knows what their function and responsibilities are, right?

Actually, many directors have an inadequate understanding of the Corporations Act and in our experience, fewer than one in three boards have any board charter in place.

We are not suggesting unnecessary bureaucracy, just a basic understanding of what role the board should play, what roles it can play when required and what roles it should never play.

In our work with smaller resources companies we often see non-executive directors reach down into executive duties of building mines, raising capital and fixing distressed assets. While this is not in breach of any law or fiduciary duties, it is an area where poor practice could create reporting line ambiguity, leading to a lack of clarity and accountability. Responsibilities, expectations and best-practice need to be defined upfront. A short board charter, outlining the precise sharing of duties between board and executives, can avoid confusion and save time, effort and money.

Some questions to consider:

- What areas does the board delegate to subcommittees?
- Is there a regular review process to ensure director backgrounds are appropriate to intended strategy?
- Is the board practicing good governance and adequately representing all shareholders?

2. Relevance

Now that you understand the board's role, what contribution can you make to the board and company's strategy? Are your skills, experiences, knowledge and relationships fully appreciated by the board? Will you serve on any subcommittees?

If your contribution is limited to specific areas (e.g. technical expertise), then perhaps you could be utilised more effectively on an advisory board or in a consulting role. This may be a better outcome for both parties.

Consider also the relevance of this appointment to your future career. Does it complement your career or is it a distraction? Joining a board is a commitment and you must be prepared to spend time doing your board duties on top of your day job (for more on this, see point seven).

3. Risk

Every successful business has started with a vision and a great idea. The reality is often fraught with obstacles, and it is up to the savvy director to anticipate these while affirming the vision. Incoming directors should gather as much information as possible during their due diligence, weighing shareholder expectations and execution risk.

Directors carry a level of risk, as par for course. You should go in with eyes wide open, familiarising yourself with each risk. Some obvious and mandated areas of risk include financial and commercial, environment and community, and health and safety. Each of these areas carries legal responsibilities for directors. It is important to understand corporate and personal ramifications.

Even more important is to ascertain the board's recognition of the above and their openness to discussing reality and risk candidly. This leads us to our next area for examination.

4. Relationships

Quality of board relationships matter; the culture of the board sets a precedent for the company. Respect, aligned goals, shared values, direct communication and transparency are fundamental to a healthy board and company.

All too often, deterioration of board relationships cascades down through the company. As the saying goes, 'a fish rots from the head'. There are many reasons for this top-down deterioration, but it usually boils down to misalignment, clash of egos, defensiveness and communication breakdown.

You should ask good questions and trust your instinct at interview stage. Unchecked egos, myopic or group thinking, unilateral communication, lack of transparency or openness are warnings to be heeded. While no board is perfect, you want to make sure fundamentals are in place to have difficult conversations and address key issues.

Remember that most board appointments carry a fixed term commitment. 'Board-hopping' to take advantage of better offers as they emerge or exiting at the first hint of trouble will quickly lead to your own reputation becoming tarnished. Take a good look around the table and make sure you are comfortable working with your fellow directors through the highs and lows of the coming years.

5. Reputation

Is this a company and board whom you would like to be associated with, both now and in the future? How does involvement in this company position you for future opportunities?

Remember that the internet and public records have a very long memory. Use this to your advantage now and avoid it working against you later; research backgrounds of other board members, company history and performance. For private companies, and if public information is limited, you may be able to glean information from statutory authorities.

Where none of these are available, make sure get you comfortable with all stakeholders and ask for as much information as possible appropriate to the stage of the recruitment process. The sort of board you want to be involved in will welcome the request.

6. Remuneration

You should familiarise yourself with the board's processes and policies for reviewing director fees. The Australian Institute of Company Directors provides some best-practice guidance in this area. You should also be aware of remuneration benchmarks for peers across industry.

A director fee pool will normally be agreed by way of shareholder resolution at a general meeting. This pool represents the upper limit of fees which can be split amongst board members, depending on their responsibilities. Larger boards often allocate additional fees for subcommittees, as well as travel allowances.

You should also understand the board's policy on at-risk remuneration for directors. Directors should generally not be considered independent if they are rewarded with shares, options or performance rights. However, in many smaller companies, it is not uncommon for the board to 'align the interests of directors with shareholders'. Again, defining the responsibilities and the role of the board is paramount to avoid conflicts of interest and breaches of the Corporations Act or ASX Listing Rule 10, which covers transactions with persons in a position of influence.

Small companies often carry a disproportionate level of risk for the remuneration profile on offer. Directors motivated extrinsically by financial rewards, recognition and a 'portfolio career' will find themselves disappointed and dissatisfied in their roles. Those intrinsically motivated by professional interest and shareholder value will find great reward.

7. Restrictions

An area often overlooked when considering a director role is how your current executive career may be restricted by board involvement, or vice versa. There are actual conflicts and perceived conflicts to consider.

Many boards will have a conflict of interest policy, restricting director involvement in companies with competing interests. This may be geographic, asset types, services or product lines.

If you are in an executive role, or if you intend to continue your executive career, these conflicts need to be considered now to avoid a crossroad where one or the other company may ultimately be let down.

You also need to consider whether your existing board and executive committee would perceive an external appointment as a lack of focus or commitment. As an executive, your effectiveness is a product of time and focus. If either of these are being compromised, then you should consider deferring a board appointment until you have satisfied your executive goals.

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