The boardroom equation

STEPHEN HOWELL argues the need for boards of super funds to be "gap-free" in the skills and competencies required in a *Stronger Super* landscape.

We are all aware the reform of the superannuation industry will have a major impact on the management of superannuation funds in Australia. With the *Stronger Super* reforms, the development of SuperStream and the introduction of MySuper on 1 July 2013, together with the harmonisation of prudential standards across all APRA-regulated institutions, the boards of superannuation funds will find themselves in uncharted territory. Using poetic licence, I recommend we strive for 'GapfreeSuper' boards – ensuring superannuation fund boards and directors are gap-free and have the right skills and competencies.

With enhanced regulation comes greater scrutiny from the prudential regulator and super fund boards face a challenge to remove the regulators' belief, as pointed out by APRA's Deputy Chairman, Ross Jones, that "historically, there has been a resistance in this industry...to regulation". Ensuring super fund boards have skilled and dedicated directors to meet this challenge is the key to driving leading practice governance and providing quality management of funds for members.

Regulators, industry bodies and academics continually point out, and rightly so, that a diversity of skills, knowledge and experience around the boardroom table has a positive impact on the governance of an organisation. A board comprises individuals who can contribute critically needed skills, experience, perspective, wisdom, time and other resources to the organisation. Because no one person can provide all of the qualities required for a successful board, and because the needs of the organisation will continually change, a board should have a well-conceived method to identify the skills and competencies of directors and the numbers it requires to serve on the board.

This means that current board members, as well as board candidates, should ideally have; well-developed behavioural competencies; have, or be able to master, governance competencies; and be able to add expertise in the form of their technical experience and knowledge as well as industry-specific experience and knowledge.

Based on my experience in reviewing boards of directors across all industries and using research by Effective Governance gathered over many years, an analysis of board members' competencies can be attributed to the three specific identified areas, as illustrated in Figure 1.

How then do boards achieve this level of competence and skill and deliver 'GapfreeSuper' boards? The answer is simple; undertaking a board skills analysis, specially tailored to ensure the process will be constructive and meaningful for the requirements of the board.

Typically, a board skills analysis is administered online by an independent governance expert via a survey tool specifically designed for the needs of individual boards. The survey tool asks directors to assess their own competencies and those of their peers, across the three areas of technical (industry-specific), governance and behavioural. The survey also collects data on the maximum number of directors with particular skills and competencies and the number of directors required who possess this maximum rating required into the future. Data is collected in respect to each of the three areas outlined in Figure 1. All responses and data are analysed and ultimately provided to the board, after consultation with the Chairman, through reports to individual directors and an overall board report for discussion, review and action by the board.

We all know that no two boards are the same and it is difficult to assess board performance against individual boards, unless of course boards have common directors. We also know that specific skills and competencies required by boards will differ across industry, but the fundamental skills required by directors remain the same. For example, technical competencies may include legal, accounting, engineering experience and/or knowledge. Clearly, directors will not be strong in all the areas. Although the courts have made it clear that financial literacy is a given, specific technical skills, such as accounting or legal qualifications, are generally not a requirement for a majority of board members. However, industry-specific competencies including experience and/or knowledge of the specific industry sector will always be relevant to the organisation.

A typical technical and industry-specific self and peer assessment rating scale would comprise five levels;

1. no qualification and/or no professional or industry experience;
2. a basic or fundamental awareness and knowledge of essential concepts and processes, in the technical area;
3. operational and practical working knowledge and understanding within

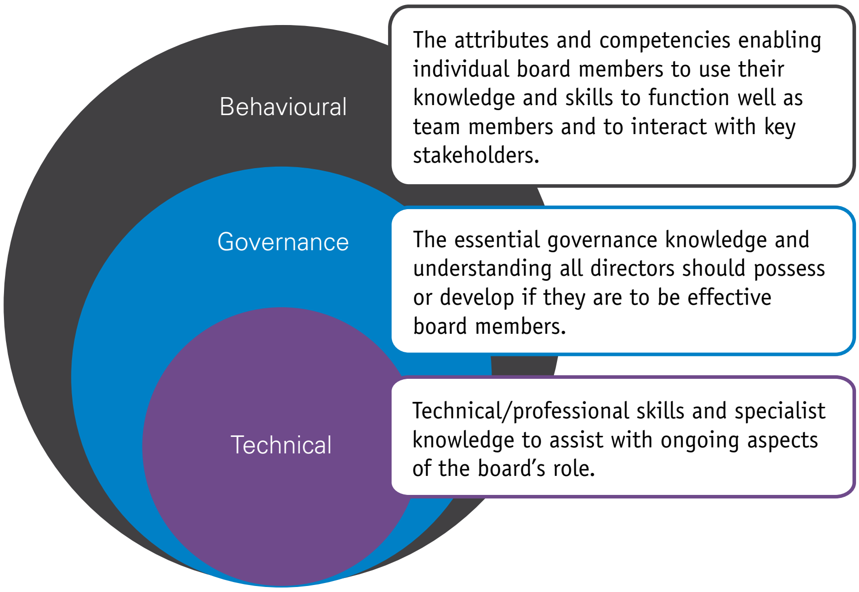
the technical area;
4. extensive or comprehensive knowledge and understanding of the technical area; and
5. expert or sought-after ability to provide oversight and acknowledged high level advice in area of competence.

Further developing director competencies, the identified governance competencies relate to individual board members' understanding of the duties, responsibilities and accountabilities of their particular board. Governance competencies are different from technical competencies in that the specific competency refers to developing it in a governance setting. For example, a director may have no formal experience or training as an accountant but, having served on some other boards, attending director training and then joining the audit and risk committee of the board, the person may feel that they have developed a 'strong' governance competency in accounting. In other words, they feel through governance experience and training that they have developed a competency in the area of financial literacy as required of members of the board.

Governance competencies can also be developed by sitting on other boards, through exposure to a board as a senior executive or through a professional capacity as a company secretary, legal adviser or similar. Almost inevitably, a person who has a high level of technical competency in an area will have at least a strong level of governance competency in that same area. However, it is possible to have no competency in an area from a technical perspective but still have some or even significant competency from a governance perspective.

Similar to technical competencies, directors assess their self and peer governance competencies using a scale that includes, but is not limited;
1. very weak or has limited or no experience in this area of competency;
2. weak or some knowledge and understanding in this governance area of competency and may have received some informal training or guidance in the area of competence;
3. acceptable or has demonstrated knowledge and understanding of the board's role in the area of competence and may have received some formal training or guidance in the area of competence at board level;
4. strong or has demonstrated advanced knowledge and understanding of the board's role in the area of competence and may have proven experience in the area; and
5. very strong or consistently demonstrates highly advanced knowledge and understanding of the board's role in the area of competence and has proven leadership experience in the area of competence.

Figure 1 – Board competencies



© Effective Governance 2012

On the other hand, behavioural competencies are those personal and interpersonal competencies of directors that ensure the dynamics of the board are focused and driven. Personal and interpersonal competencies provide the platform for most skills and governance roles. These competencies include having common sense and sound judgement, being a team player, having the ability and willingness to challenge and probe and also, importantly, having integrity and high ethical standards.

Likewise with governance competencies, directors assess their self and peer governance competencies using a similar scale;
1. not a strength or has never demonstrated this competency;
2. some strength or has displayed this competency on the odd occasion;
3. a strength or regularly displays this competency;
4. significant strength or always displays this competency; and
5. outstanding strength and always displays this competency, provides leadership in this area and encourages others to develop their own strengths and abilities in this area.

What this all means is that an annual independent review of skills and competencies, together with analysis of the number of directors required with a particular skill, now and in the future, will assist boards to perform their roles and provide assurance to members, regulators and other key stakeholders of the competence and level of appropriate oversight provided by the board in ensuring a high performing superannuation fund.

The use of a robust board skills analysis is one of the tools available to boards in continually improving and enhancing leading practice governance. It also has an added advantage for APRA-regulated entities required to comply with the prudential standard of ensuring fit and proper requirements, in that this process will not only assist with compliance but will also enhance it.

Ultimately, we are all striving to achieve good governance. With the challenges of enhanced regulation, closer public and regulatory scrutiny, increasing compliance costs and a mandate to ensure a high level return for members, investors and stakeholders – ensuring directors have the requisite skills and competencies to deliver is imperative. A structured and professional board skills analysis will provide assurance to boards, regulators and key stakeholders when you achieve a 'GapfreeSuper' board. **SF**

Stephen Howell is Senior Advisor, Effective Governance Pty Ltd.