The Importance of Training and Development for Non-Executive Directors

by Oliver Parry, Institute of Directors

It is hugely surprising to me that within our complex and regulated economy, almost anyone over the age of 16 can become the director of an organisation with no preparation or training whatsoever.

This freedom may be the hallmark of a free economy but it shouldn't mean a directorship can be entered into without a full and clear understanding of the responsibilities that the role demands of the post-holder.

The reasons why more directors aren't trained before they set foot in a boardroom are probably many and varied, from lack of awareness that training is available, to not fully appreciating the complexity of their new role and the legal and regulatory requirements inherent within it. There may be an element of ego attached as well - having reached the exalted heights of sitting in the black chair, who needs training?

But no one should be under any illusion about the challenges executive directors now face having to juggle operational responsibilities with the need for ensuring proper corporate governance across their organisations. The latter requires (among other things) a general overview of its operational activities, an understanding of the exposure to risk, and the identification of the strategic direction of a company.

It is not an easy task, particularly with the ever-growing diversity of large organisations, which makes full and proper oversight extremely difficult. It was the failure of governance procedures in a number of multi-national financial institutions that lead to the banking crisis, as highlighted in the Walker Report and which in turn led to revisions to the UK Corporate Governance Code in 2010, 2012 and most recently in 2014.

The IoD runs one of the few dedicated professional director development programmes in the UK. Delegates who complete both the programme and associated exams achieve the status of Chartered Director. Around 6,000 course places are filled every year, not just in the UK but also overseas supported by local training partners. It’s interesting to see how Western values and corporate governance principles can be applied to very different cultures to support business growth in emergent markets. Companies from across the world, including parts of Asia, Russia, Continental Europe and the Middle East, have come to the IoD to train their directors to understand their

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fiduciary duties and governance best practice. Indeed, understanding these are relevant to both private and, in some countries, state-owned companies, and ultimately should improve international investor confidence.

The work of the IoD’s training team aims to help overcome the limitations imposed by existing offerings of corporate governance best practices, as well as provide support and training techniques and tools for directors across the globe, thereby hopefully helping to create new opportunities for British businesses overseas.

The IoD offers courses ranging from the director's role in strategy and marketing all through to the role of the director and the board. Most importantly, we offer a course on finance for non-financial Directors.

Although chartered directors do make up a small minority of NED positions in UK plc and beyond, the majority have no finance related degree and therefore it becomes important, if not imperative, that there is some deep understanding of finance, reporting and accounting. This course provides vital knowledge of the financial terms and concepts needed by all directors in today's business world. Whilst in no way a panacea, one cannot help but espouse the benefits of such training. And yet, as I’ve already mentioned, there is no requirement for NEDs to have minimum training. It is hard to say if such training and
development might have helped NEDs during the financial crisis, but it most certainly would have had some benefit.

However, legislation, regulation and codes of best practice can only go so far in shaping behaviour inside the boardroom. Of greater importance is the presence on boards of able and motivated directors with a detailed understanding of their distinctive role.

One way to take the guesswork (and any concerns about egos) out of how a board might operate better and/or might benefit from particular skills or experience is through a board evaluation. This can not only identify what the board is doing well and target areas for improvement, but also serve to identify gaps in the board's knowledge when looking to expand, train, or refresh the board.

Many new directors, however, are given precious little opportunity to learn about their roles before joining a board. For some, this can lead to a lack of confidence in speaking up about concerns for fear of 'saying the wrong thing' - something that can be tackled with an effective board induction.

All board members must also apply critical and independent thought to the challenges they face, avoiding where possible the perils and limitations inherent in 'group think' that may mean decisions are insufficiently thought through. One way to avoid this is through diversity, for example in terms of members' gender, ages or backgrounds.

Most organisations, however, still follow traditional paths of recruiting onto their board via the ranks of management, and this can lead to a very homogenous group. The appointment of a non-executive director from an entirely different background, which can neatly address this issue, is often dismissed as 'too left field' because of the perceived requirement for executive experience. But any shortfall in a candidate's experience can, at least in part, be plugged through proper training.

The value of high quality professional development for directors, we believe, should be considered an essential component in equipping first-time directors, and indeed be a requirement for established directors, ensuring they are up to date on the political, social and the ever changing business landscape.

Oliver Parry

Mr Parry's article coincides with the long-awaited report on HBOS which was of course released last week. Not the least germane aspect of his definitive views on the subject is reflected in the sorry tale of the non-executive directors of the once and former would-be banking colossus.

Many thousands of words have been and no doubt will be addressed to the story of the collapse; a very high-profile target is that of the non-executive chairman Lord Stevenson it being witheringly pointed out (albeit to be fair, with hindsight) that (and this is something he shared astonishingly with his chief executive) he had no background in banking. However, my favourite story is anecdotal and I didn't see any mention of it last week - that of an unnamed former non-exec of HBOS who heatedly told the board of enquiry that in terms of good judgement, gravitas and good fellowship he had never sat in a boardroom the likes of HBOS. Mr Parry has much to do.

Bill Johnston