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GETTING BOARD APPOINTMENTS WRONG WITH DEVASTATING CONSEQUENCES FOR THE ORGANISATION

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The recent resignations of the CEOs of Eskom and South African Airways have again focussed the spotlight on board performance and effectiveness. Inevitably, the critical question arises: *why are these CEOs really leaving?*

In considering the answer to this question one must include a review of the board's composition and the extent to which the overall 'health' of the board may have influenced any decision to leave or not leave the organisation.

Board composition

Typically, on incorporation of an organisation, the appointment of the first directors comprises the shareholder's 'inner circle' of family, friends or other associates who have the risk appetite and experience to assist the shareholder in building their vision for a prosperous and sustainable organisation. At this early stage of the organisation's development, the board's composition is not necessarily based on the skills and competencies actually required to implement a longer term strategy for the organisation. This is a classic dilemma faced by a number of organisations which is further reinforced when the founding member (director) of the organisation ardently believes that they cannot outlive their time and usefulness in the organisation which they started. Often, the founding director refuse to make way for younger or more energetic thinking that is required to grow the organisation further.

It is quite rare for start-up organisations who establish boards to formalise the board appointment, let alone compile a board skills matrix that identifies the skills, knowledge, experience and capabilities required of the board members to ensure they are able to successfully steer the organisation through both its current and future challenges. In these cases, narrow-mindedness, including a lack of new, innovative and strategic thinking, often contributes to stifled business growth.

Board mapping

Before delving into the issue of the skills by an organisation's board over time, it is imperative to assess whether a candidate director is conflicted, not only in respect of their *financial interests*, but also their *competing interests*.

The principle task that underpins board mapping is understanding which other board positions the candidate director may have previously occupied (or continues to occupy) and which may result in competing interests or conflicts that would affect the individual's appointment and performance on the organisation's board.

An exercise of this nature should theoretically easily report all the board positions currently (and historically) held by the candidate director. However, the reality is that many regulatory systems which are used to record director appointments and removals are mired by bureaucracy, or worse, are outdated and therefore early warning alerts are not always available to unsuspecting boards.

In addition to a direct conflict of interest which may arise from being appointed as a director for a competitor, boards must also be alert to situations where a candidate director may have previously served in an executive capacity only. In these scenarios, regulatory systems cannot be relied upon to detect these potential conflictive circumstances.

Personal relationships to which the candidate director is directly linked are also just as important to check in the board mapping process. This exercise should be performed regularly to ensure that the director does not become conflicted after their appointment to the organisation's board of directors. Typically, the board mapping exercise will also record the director's spouse and other immediate family members' business interests, especially where they are appointed as board members, trustees, executive managers or similar leadership positions where they hold significant power.

Board skills matrix

In order to best understand the board's capabilities, and its ability to deliver on its mandate, it is essential for the board to develop a board skills matrix which identifies crucial criteria that ultimately speaks to the board's ability to properly fulfil its functions. Expectedly, a newly formed organisation may not have the luxury of drafting a board skills matrix, however, for boards that have undergone rotational directorship changes, the skills matrix becomes a vital enabler to accurately understand *what* leadership skills will be required as the organisation continues to transition itself for improved performance and operation.

"...SAA needs a new CEO with an unrivalled understanding of the industry. It is imperative that the SAA Board moves forward with the appointment of a fearless, non political, independent CEO with a strong track record in the aviation sector. The last thing we need is a political appointee with no airline experience. When Rome is burning, one needs the best firefighters one can get."

Source: Article - SAA needs new CEO with an aviation background - SAAPA (03 June 2019)

The board skills matrix clearly includes the information gleaned from the board mapping process, and selecting future directors onto the board is a finely tuned and tailored process that is meticulously crafted to suit the organisation's unique circumstances. Whilst the organisation must ensure the appointments of new directors falls in line with the organisation's constitutional documents, including its procedures, policies and processes, it must also ensure that an incoming director's experience and skills are aligned with the organisation's evolving strategy.

Panacea for performance

For many organisations who may have mapped the career paths of their existing and new board members, whether it be in a simple matrix or complex charts that span the wall of HR offices, there are two realities one must face.

Firstly, notwithstanding all the effort, time and resource spent on these exercises -- important as they are -- there is no guarantee that these painstaking efforts will guarantee an individual's performance, and that the board and ultimately the organisation will always be effective. Indeed, it is through the adoption and implementation of appropriate letters of appointment, performance contracts and various assessments (including board reviews) that the true value of the board selection process and individual director performance will be determined.

Secondly, the value of board mapping and matrixes can be completely thwarted if 'hijacked' or 'captured' by any person that has undue influence over the process. So for example, where the chairman of the board or a principal

shareholder was to insist on appointing their 'own' director to the board for whatever reason -- albeit just adding one director to an already smoothly functioning board selection and approval process; if the director is 'unfit' for the position or does not match the gaps reflected in the board matrix, then disaster is inevitable.

In South Africa, far too many directors who do not have the requisite qualifications, neither the skills nor experience to serve in these positions, have been appointed to the boards of state-owned companies and other similar entities. Such appointments blatantly disregard the interests of the organisation and its leadership requirements.

The appointment of incompetent individuals to serve as directors has over the last two decades not only resulted in dysfunctional boards, it has also in many instances resulted in a toxic relationship between the board and the shareholder, as well as within the board membership itself. Against this backdrop, it is not surprising to see premature board retirements, which are often cited under the auspices of ill-health or career advancements.

Clearly in these volatile circumstances, the task of compiling a board skills matrix is far more difficult, if not a total waste of time if the process is undermined. However, in terms of President Cyril Ramaphosa's "new dawn" philosophy, this situation is set to change with his commitment of ensuring a proper process is followed, where competent and credible leaders are appointed to lead South Africa and its various institutions. In this regard, board mapping and matrix processes can play a pivotal role in facilitating improved governance and leadership across all South African businesses.

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