



Fit for the Job?

Directors & accreditation

When the Institute of Directors in New Zealand set about designing an accreditation programme for its members it scoured the world for examples of best practice. Several years, many submissions and several reviews later, we invited a panel of informed individuals to debate the relative merits of the newly launched director accreditation programme. Ruth Le Pla reports.

Director accreditation, according to a recent issue of the Institute of Directors' journal *Boardroom*, aims to "enhance corporate governance standards by providing a register of directors who can show evidence of their professional capability in terms of their knowledge and experience". That's the word from IOD president Rick Bettle who, along with a core group of others including IOD national councillor Denham Shale, has been plugging away at getting the programme off the ground for a couple of years now. Sounds innocuous enough. In fact, in the wake of high-profile corporate collapses and the resultant fall-out, it should be a welcome move.

Bettle, who holds directorships of a number of companies of different sizes, lists the two main objectives of director accreditation as the ability to showcase experienced directors who are still learning, and to widen the pool of potential directors as newcomers work their way up through the ranks. (See box story "At a glance" for more details on the programme.)

This second aim should help bust open the perceived lock-out by the "old boy network" and is being handled via the introduction of a second-tier "provisional accreditation" scheme.

Richard Punter, a full-time independent director and a fellow of the IOD, believes the new accreditation programme will both reduce risk and add value for shareholders as organisations strive to get the best possible directors on board.

Shale, who says the institute is the proper place to run the accreditation scheme, notes that while the programme "won't of itself lift standards" among directors it will hopefully be a means to do so.

Sandy Maier, a director of several companies, large and small, and a long-standing member of the Institute of Directors, describes the programme as a "good start" that is "directionally right".



Rick Bettle: Ultimately the market will decide.

So why the fierce debate over the new programme? For some, it seems, the devil is in the detail. Maier says the IOD has “missed an opportunity and given a signal that is open to quite serious mis-interpretation”.

He struggles with a key clause that states accreditation “is not intended to be a certification of the competence of a member” but will rather “set an expectation of behaviour and standard of conduct”. In particular, he takes issue with section 4.3 ‘power of dispensation’

Rick Bettle

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which states the accreditation board “can dispense with any of the criteria with respect to any application for accreditation”.

So while, in an ideal world, accredited directors should line up against all the relevant criteria listed (see box story “At a glance”), any or all of these things may be missing, he says.

“Now I find that strange,” says Maier. “If I went to a doctor and they said ‘well, maybe he went to a medical school, maybe he didn’t’ I wouldn’t go there for brain surgery. So why should I put my investment at risk?”

Comparison with directors’ institutes in the United Kingdom, Australia and Canada shows the New Zealand institute alone has this facility to waive its own stated requirements.



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“I made a journey as a child,” says Maier, “to the Museum of Modern Art in New York where they had these big paintings. One of them was a big can of Campbell’s soup titled ‘This is not a can of soup’. It strikes me that this thing has been positioned very cleverly as saying ‘this is not certification that anybody can rely on’ and it says so loud and clear in the words... We all know that this is going to be picked up on in the market as a certificate, as an authority, as some kind of seal of approval... You don’t like people joining the association and just paying some dollars. You actually want to give them a piece of paper that people can rely on. I think it’s way too clever by half to say right up there in the front ‘you can’t rely on it.’”

Bettle argues that critics line up on both sides: some saying the rules and regulations are too hard, others that they are too soft. “What we’ve tried to do is get something that will be reasonably well accepted [and] which the majority of people will simply use as a reference point. That’s all they’ll do. It can never be a certificate of competence.”

The power to waive any of the selection criteria was put in on legal advice, says Bettle, and is designed simply to give the IOD’s accreditation board the ability to handle any unforeseen circumstances.

In an outline of submissions on the accreditation proposal in *Boardroom* earlier this year, it was also pointed out that accreditation may carry a ‘moral hazard’ for the institute. “Accreditation lays the institute open to claim and/or reputational decline in the event of real or perceived inappropriate performance.”

AT A GLANCE

The purpose of director accreditation is to enhance corporate governance standards in New Zealand by providing a register of directors who can show evidence of their professional status in terms of their knowledge and experience.

It will allow accredited members of the Institute of Directors to demonstrate a commitment to professional standards and provide shareholders and stakeholders with reassurance that boards are knowledgeable, experienced and committed to their profession.

Accreditation is not intended to be a certification of the competence of a member but will set an expectation of behaviour and standard of conduct.

A register of accredited directors will be established. There will be two categories:

- Accredited director for qualifying, experienced directors, and
- Provisional accreditation for directors who have the requisite knowledge of the role and responsibilities of a director but do not have sufficient experience.

All suitable applicants will be interviewed by a panel of the accreditation board. This board will be the judge of what constitutes sufficient relevant practical experience to become an accredited director but as a guide applicants must have a minimum of five years'

experience within the last eight years as a "director" of an "entity" of "substance".

"Substance" normally requires at least one of the following criteria to be met:

- a minimum annual operating revenue or budget in excess of \$10 million;
- total employees in excess of 20;
- total assets in excess of \$10 million; or
- a party to a listing agreement with the Stock Exchange.

Provisional accreditation is aimed at encouraging the development of prospective directors. As a guide, applicants must have had either a minimum of three years' experience within the last five as a "director" of an "entity", or have:

- been a chief executive, managing director or comparable position in an "entity" for a minimum of three years, or
- been a senior executive of an "entity" and have had regular interaction with a board for a minimum period of three years.

Once accredited, all members will have to undertake professional development relevant to their directorships. As a guideline members will be expected to undertake around 20 hours' formal continuing professional development and 20 hours per year informal development.

For more information see the accreditation pages on www.iod.org.nz

An initial requirement for directors to have a tertiary or other suitable qualification was dropped following this same round of consultation with IOD members who pointed out that this would preclude many individuals who were otherwise potentially significant contributors at board level. This makes sense from a practical perspective. It also draws on lessons gleaned from experience in the United Kingdom, says Bettle.

"I don't believe you can have an exam or anything else that says 'this person is a surefire winner for your firm as a director'. There's no academic exam that can give you that. Britain has clearly failed with its chartered directorships.

"... Why would we go for a chartered director like the UK? The equivalent here would be five directors after five

years. There are only 200 [chartered directors] in the UK. Two hundred. It's a failure by any measure."

Is the director accreditation programme a means of generating income for the IOD, as some critics have suggested? Not according to Bettle, who notes the programme will cost the institute "something like \$60,000" in its first year and requires re-investment of funds from the non-profit-making incorporated institute to get it up and running. "It will at best break even but that will be after a couple of years."

However, Maier points out that, from a member's perspective, it effectively doubles fees. "I pay \$310 a year and to be accredited is going to cost me \$250 plus \$150 a year each year."

Maier also fears the newly launched IOD accreditation programme will drive out of the market the possibility of other



Richard Punter: The programme will reduce risk and add value for shareholders.

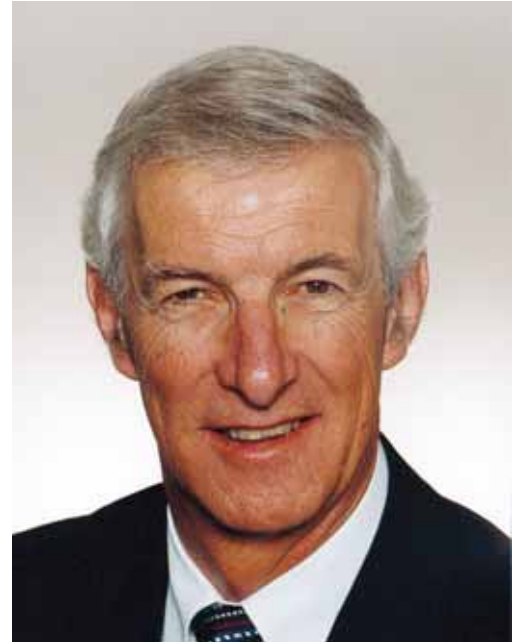
commercially available certification systems. “That’s what happens. Debasement happens. So a soft deal – the can of soup that’s not going to look like soup – tends to take over because many people really do think that this will be relied on.

“... I worry about the PR impacts of the programme. I worry about the lack of transparency.”

As an alternative, Maier proposes posting online an outline of each accredited director’s credentials. “We’re not in the mediaeval age where people need to gather information in, process it at great cost, pay people to do it and then put out a list that says ‘these people have passed’. We live in a technological age. ... I don’t for the life of me see why you could not take all this information that’s been gathered – the references, the CVs, checked or not – post them and say to people ‘now, let me provide a service to shareholders’.

“... I would welcome the opportunity to see on a website under my own name a CV and say, ‘I’ve got those directorships and here’s my statement about what they are, what I’ve learnt and why I have them’. ... That’s the additional value that I think you’re inches away from.

“... I think people should have to post. It should be more visible: what people have done, how well it came out, what their assertions about their own conduct is. And the more of this good stuff that you have – the courses, the values, the continuing education – the more you can say ‘hey, Joe did it. Fred didn’t. Pete hasn’t done it in 10 years. Sam died last year’.”



Denham Shale: The IOD is the proper place to run the accreditation scheme.

Shale points out that posting information online could create a false impression. “We have now a lot of people who say ‘you’ve got 10 directorships – that’s too many’. And we know that in Australia there are points given to these

Sandy Maier

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things. Having it on a piece of paper doesn’t mean anything. All people do is count them. You can have directorships that aren’t necessarily involving any of your time.”

Shale has first hand experience of others making such assumptions, being the sole New Zealander on the New Zealand subsidiaries for two global organisations. “[Yet] we have [just] one meeting a year.”

If nothing else, says Bettel, the newly launched programme as it currently stands will push directors into refreshing their learning. “I’m a reasonably experienced director. I’ve spent plenty of time studying what I ought to know. When I knew I had to go for accreditation what did I do? Did I just bowl along thinking I knew all the answers? Or did I go and get a copy of the best practice statements and read them all again? Did that do me any harm? Was that really dumb? Isn’t that what most people will do?”


“That’s 90 percent of it. It’s to say to people ‘think about it’. If people want to be a director, think about what your chances will be and go and get some form of accreditation which says, yes, you have thought about it, yes, you take it seriously, yes, you’ve applied because it’s a service to our members.”

Punter – who recently put in his own application to become an accredited director – says that his “olders and betters” have “almost to a man” said they will not go for accreditation. Many, he says, are deeply offended by having to ask for written references to back up their applications. “It’s quite an offence to their dignity.”

Bettle agrees that by far the most negative feedback has come from older members of the IOD who are affronted by the suggestion that they have to back up their status. “If they determine to band together and refuse to accept it, two things can happen. One is that the programme will fail. The other is we’ll get a lot more new and better qualified directors.”

On the other hand, the majority of younger members of the IOD think this is the greatest thing since sliced bread, says Bettle. “Why? Because they see it as an opportunity to separate themselves out and actually get known as a) keen to be a director and b) recognised by experienced directors as being capable. I think a lot of the old boy network dissatisfaction is precisely because they’re worried about that.”

Maier says he’d like to make them more worried and that posting specific details online will add the necessary degree of transparency to the early stages of thinking when it comes to appointing new directors.

Ultimately, as Bettle says, the market will decide. “I’m ecstatic with where we’ve got to at the moment but that doesn’t mean we’re not listening. It doesn’t mean we’re not willing to review – because we will. ... We will live or fail by what happens. This will only raise standards if people take it on.” 

appointments

Rt Hon Jim Bolger

The Rt Hon Jim Bolger, Prime Minister of New Zealand from October 1990 until December 1997, has been appointed to the main board of directors of Trustees Executors. He also chairs the state-owned NZ Post and Kiwibank, the Gas Industry Company, the US-based World Agricultural Forum and the NZ/US Council.



Dr Allan Freeth

TelstraClear’s chief executive Dr Allan Freeth is the new chair of the Sytec board. His appointment allows existing chair Luigi Sorbello to focus on his new role as TelstraClear’s chief operating officer.



Henry van der Heyden

Van der Heyden, chairman of Fonterra Co-operative Group since September 2002 and a founding director of the co-operative, has joined the board of directors of the New Zealand Exchange (NZX).

Steve Gentry, Graham Coe

Building Research has appointed board member Gentry as its new chairman and Coe as deputy chair. Gentry has extensive consulting engineering experience in the building industry and is one of IPENZ’s

two nominees on the board. He has recently retired from the boards of ECNZ and Meridian Energy. Coe has many years of experience owning contracting companies and has served on the Master Builders Federation board.

Andrew Moss

Moss has been appointed chairman of the Cement and Concrete Association of New Zealand (CCANZ). He replaces Rex Williams who remains on the board as deputy chairman. Currently marketing manager of Golden Bay Cement (GBC), Moss has been a board member of CCANZ for the past two years, and has over 12 years’ industry experience.

New directors at Carter Holt Harvey

Carter Holt Harvey has announced changes to its board of directors following the final settlement of the sale by International Paper of its 50.5 percent stake to Rank Group. The new directors are Mark Burrows, Thomas Degnan, Tim Hardman, Graeme Hart and Bryce Murray. Bob Grillet, Andrew Lessin, Brian McDonald, Jonathan Mason and Maximo Pacheco have resigned as directors.

Humphry Rolleston

Rolleston, a Christchurch businessman, has been appointed as a director on the Sky Network Television board. He is also a director of Broadway Industries and is a member of the Fairfax New Zealand advisory board.