

## Future-Proofing Boards to Drive Success

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*IFAC Comment: A strong governance structure is one of the key elements necessary for the successful growth of any organization. IFAC considers effective and transparent governance fundamental for building trust and for achieving its strategic objectives. Many of our member organizations have led the way on strong governance practices and diversity initiatives, but there are often opportunities for making further enhancements and for empowering others. It is important to periodically review and consider best practices, adopting those that would be most effective for your organization based on its values, mission, purpose, and strategy.*

*The cornerstone of strong governance is strong leadership, starting with the Board of Directors. The role of a Board is to provide strategic guidance and oversight of operations. This ensures an organization makes an unyielding commitment to integrity and takes purposeful steps to achieve its mission. Given the Board's key role, it is critical for the Board to collectively represent the best mix of expertise and experience.*

*In this Q&A article, we explore the important qualities any Board member should have and the key components of an effective Board. Joan Amble shares insights from her extensive experience on corporate Boards to help us reflect on our own governance structure, positioning our organizations for success, and being prepared for challenges. Joan offers her personal views, which are not attributed to any particular organization.*

### What are the key components of an effectively functioning Board?

An effectively functioning Board depends on several intersecting elements. The most important of these are the leadership skills of the Chairperson, combined with a strong governance structure, tone at the top, excellent General Counsel<sup>1</sup> and/or external counsel, and members who work collaboratively as a team.

**Leadership:** Strong chairing skills are particularly important for maintaining a respectful and collaborative atmosphere among Board members. Examples of these skills include being (a) respectful, (b) an active listener, (c) a good and timely communicator, (d) a team builder, (e) decisive and (f) having an unyielding commitment to integrity. These leadership skills create an effective and inclusive Board culture to ensure productive discussions and decision-making.

**Strong General Counsel:** In my experience, having a strong General Counsel, adept at proper governance, aids significantly in ensuring appropriate governance practices are followed. Periodically engaging outside counsel and other governance experts to assist in ensuring the organization's governance model is up to date with emerging trends and regulatory requirements is also a good practice and highly recommended.

**Agenda Topics:** An important responsibility of the Chairperson is to make sure that the right topics are on the Board's agenda and the Board is kept current regarding (a) emerging issues that impact the Board's mandate and the organization's strategy, and (b) how those emerging issues are addressed.

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<sup>1</sup> A General Counsel (GC) is the company's main attorney and primary source of legal advice in its corporate governance.

**Clear Articulation of the Board Framework and Board Value and Protocols:** It is also important to have a clear framework [i.e., a Board mandate or Terms of Reference] with established Board values and protocols. At a minimum, Board values should support a no-surprise approach to issues; respect for all members and the diversity of views they represent; open discussion of relevant issues; an environment conducive to collaboration; and an unyielding commitment to integrity, duty of care, and duty of loyalty. It is important that each Board member understands the organization, its mission, and the Board's mandate and protocols, as well as their respective roles and responsibilities. (Note: duty of care and duty of loyalty are further discussed below, along with the other key attributes of an effective Board member.)

**Orientation Program:** A well-developed orientation program for onboarding new Board members is a key instrument for establishing clear expectations and helping new members understand the Board's mandate and business issues. A periodic "refresh" of the Board's orientation approach, seeking best practices and lessons learned (including feedback from recently hired Board members) is a best practice. Personally, I have found an orientation approach that occurs over an extended period of time (for example, the first 12 months of being with a new Board) to be most effective, as it allows for better intake of the many important aspects of a new role and organization. Alternatively, when an orientation takes place over a period of one to two days or one to two sessions, it is difficult for a new Board member to assimilate a vast amount of new information in such a condensed period of time.

**Continuing Board Education:** Continuing Board education about the emerging topics and complex issues facing an organization also leads to high-functioning Boards. While it is important that the skills of Board members align with the skills needed to oversee an organization, it is equally important that the Board refresh their skills. The Board's mandate should encourage (if not require) ongoing Director education. It is prudent to have a well-defined Director education policy.

There are a number of ways to address continuing education, including (a) deep dives by management into complex areas or emerging issues; (b) periodically inviting external experts to Board meetings to address emerging issues and trends that affect your Board and organization; and (c) attendance by Board members at external Director Education Forums. Areas of continuing education may include cybersecurity, geopolitical affairs, activism, ESG, economic development, Board governance and regulatory matters, and so on.

**Understanding of Roles and Responsibilities:** Another key to functioning well is for the Board and management to understand their respective roles and responsibilities and act accordingly. The Board governs and oversees management to ensure they take the necessary steps to achieve an organization's goals, it provides advice and strategic input. The role of management is to manage the day-to-day operations of the organization and to keep the Board informed of significant issues on a timely basis. Management also plays a role in the effectiveness of Board meetings. Management's duties include providing input for agenda setting, reviewing the quality of papers and verbal presentations, and ensuring that Board materials are distributed well in advance to allow sufficient time for preparation. It should be presumed at the onset of a Board meeting that all members have read the materials. Management should then speak to the key issues in the materials, so time can be spent on discussions of the most significant matters, versus a page-by-page re-presenting of the Board materials. A highly effective addition to Board materials is an executive summary preceding each agenda topic. Areas to include in the executive summary include: (a) the *purpose* of the agenda topic such as a quarterly update, a follow-up item from a prior Board meeting, a deep dive into a new or complex matter, etc., (b) *key highlights* of the materials presented, and (c) *requests to the Board*, for example, that the materials are read-only; are for discussion only; or are for a Board decision. A well-written executive summary allows for a much more focused discussion and helps Board members understand why the materials are included and what is expected of them at the Board meeting.

**Follow-up:** It is also important that management tracks and provides follow-up on open items identified during Board and Committee meetings. A best practice is to keep an open items log (or actions list), noting the staff assigned to items and the anticipated date of follow-up, as part of the meeting materials.

These are only a few key elements to a successful Board operation. There are more, and I want to highlight that without a strong leader/Chairperson, a strong General Counsel and a robust framework, the Board's ability to function would be diminished.

### **What are the key attributes of a strong Board Chairperson?**

I have worked with many Chairpersons and the common attribute that the excellent Chairpersons share is strong leadership skills, as noted below. As mentioned earlier, leadership and the tone set at the top are so important for having an effectively functioning Board and a successful organization.

Strong collaboration between those in leadership positions (including the Chairperson, CEO, and General Counsel) also is essential, and while unanimous agreements are not always possible, mutual respect is.

The Chairperson should be well-versed on emerging issues and current trends, to ensure the Board provides the necessary guidance to management for addressing and responding to these emerging issues.

The best Chairpersons are good influencers, have strong listening skills, are excellent communicators, are transparent, and are very respectful and encouraging of differing points of view. Indicators of a strong Chairperson include:

1. The Chairperson (or Lead Director, if the CEO and Chairperson are same person) has a good working relationship with the CEO and provides feedback to the CEO following each Board meeting and executive session.
2. The Chairperson (or Lead Director) routinely conducts executive sessions with the Board only (absent management).
3. The Chairperson ensures that annual Board assessments occur, and action plans are put in place to address opportunities for the Board to improve.
4. The Chairperson manages meetings to ensure discussions do not deteriorate, meetings are as long or short as needed to address agenda topics, and Board decorum is always adhered to.

I have found that Chairpersons who offer a position or an opinion on an issue too early in the discussion are less effective than those who wait. Depending on the circumstance, premature judgment could inadvertently shut down discussion before important views are expressed or considered. This, in turn, may lead to either not making the best possible decision or not having Board members fully support a Board decision. While not all decisions need to be unanimous, it is important that all points of view are heard and considered.

Lastly, when necessary, the Chairperson should proactively provide feedback and coach Board members, to address any specific issue or performance matter. There is no need for the Chairperson to delay providing constructive feedback to a Board member to coincide with the annual Board assessment if an earlier and more timely conversation is more effective.

## What do you consider the key skills and attributes of an effective Board member?

In some respects, the skills and attributes needed are very organization specific. They can be very fact-and-circumstance qualities. The Nominating (and/or Governance) Committee is responsible for determining the skills necessary for Board members based on the organization's mission. It is possible that differing skills are needed based on the maturity of the organization, its financial state, emerging issues, and its industry, among other things. In many respects, the Board's skills should complement those of the leadership team and be relevant to the changing times and challenges facing the organization.

There are, however, universal skills and attributes that many Boards seek in their members. These include the following:

- **Relevant experience:** Board members' experiences should be a good fit for an organization's mission and strategic objectives, bringing relevant perspectives, lessons learned, and best practices.
- **Technical skills needed to address a Board's mandate:** Board members should have baseline skills that include a working knowledge of risk management, operations, finance, internal controls, corporate governance, and strategy. Every Board should have a skills matrix. Depending on a Board's skills analysis, specific expertise might include ESG (environmental, social, and governance), financial and regulatory reporting, technology, data analytics, cybersecurity, supply chain, and so forth.

When thinking of specific skills that would prove beneficial in the current environment, expertise in communications and/or brand management could be a desirable addition to a Board, particularly if the Board is confronted with a crisis. Expertise in human capital is another area becoming more critical due in part to the pandemic, the changing dynamics of the workforce, and other social and economic factors impacting society and the workforce.

That said, if Boards were to add a new Board member each time new issues emerge, the Board could grow larger and less effective. This is when having members on the Board that have many connections can be useful. I have heard of Boards adding "expanded network" or "connector" on Board member's skills matrix. This could be an interesting best practice. I know from personal experience that being able to easily access the right person for their perspective can be invaluable.

- **Soft Skills and Personal Attributes:** It is especially important to think about what is essential for your organization's leadership to represent. Qualities that I value in my fellow Board colleagues include a high level of integrity, self-awareness, intellectual curiosity, open mindedness, critical thinking, and good listening skills. A Board member should be someone you enjoy working with and from whom you will learn; someone who is not afraid to voice a contrary view; and someone who considers others points of views. Making the proactive effort to stay current on transitions in the market—whether those transitions are geopolitical, cultural, technological, economic, or related to some other market issue—is also an important quality in a Board member.
- **An understanding of and unyielding commitment to Duty of Care and Duty of Loyalty:** Duty of Care speaks to making reasonable decisions based on due diligence and knowledge of the topic at hand, so that members can critically evaluate the positions they take and the advice they give. In short, a Board member should be prepared to do the work. Duty of Loyalty speaks to integrity as well as personal, political, and economic independence regarding the positions one takes. Board member decisions must be on behalf of the organization's best interests.

## What is your experience in dealing with some of the tough decisions the Board must make?

How Boards resolve challenging situations reveals how well the Board functions as a group.

Over 16 years, I have observed Boards manage various difficult decisions. The roadmap or playbook for achieving a successful outcome should be well grounded before actual issues emerge, by creating processes and procedures. For example, when an issue or particularly challenging decision needs to be made, the following should be known:

- What the chain of command is;
- Which in-house or external experts can be called upon, depending on the circumstances;
- The role and responsibility of leaders in the organization and of the Board;
- How, what, and when internal or external communications should be managed and monitored; and
- When the Board should be informed.

It is also important for the Board to have identified their own outside law firm (independent of the organization's) if a circumstance arises requiring the Board to utilize their own outside counsel.

Examples of challenges Boards may have to address include decisions on acquisitions; the succession of the CEO (and the related timing); potential litigation, or regulatory or compliance investigations; and personnel matters. While the specifics of managing difficult matters may be unique, these situations highlight the importance of independence, Duty of Care and Duty of Loyalty. These situations also highlight when external expertise for challenging members' thinking may be useful. Seeking outside counsel or expertise is something I personally have found quite helpful when dealing with legal or personnel matters, to make sure I am thinking about an issue correctly and objectively.

As with other Board issues and decision making, creating an open forum for concerns is important, so that everyone has an opportunity to express their point of view. As with other Board decisions, not all difficult decisions must be resolved unanimously by the Board. Respectful dissenting or abstaining on a position is reasonable, and may demonstrate a members' independence, something which is critical to high-functioning Boards. Still, it is important to ensure the Board understands and has risk-assessed dissenting views.

I have learned not to negotiate away or dilute my views **before** the conversation has started. Not too long ago, I had an opinion regarding a difficult personnel matter that I thought would differ from the other Directors'. The trepidation I felt voicing my perspective in this instance was unnecessary. Once a potentially contentious view was raised, others chimed in—several in agreement. Lesson learned: you can be thoughtful, respectful, and still voice your opinion. If it is met with controversy, keep in mind that it is *not* personal, it is business. Make your point, listen to others, and let the conversation take its natural course. An important role of the Board Chairperson is to create an environment in which differing views can be brought forth and discussed respectfully and without retribution.

Listening skills, courage of one's conviction and respect for other opinions are wonderful and timeless attributes, which is why it is so important to vet these qualities during the selection process of prospective Board members and in Board assessments.

## What questions do you find most effective for evaluating candidates' suitability for Board service?

It is important for the Nomination Committee to **establish a strategy** before the interviews occur. An effective strategy I have observed is when each interviewer looks for different skills and attributes of the candidate, whether it be the candidate's people skills, experience, interest level, or qualifications. This helps determine which questions each interviewer should ask and allows for a more focused discussion during the interviews. Once the interviewing process is complete, the Nominating Committee's discussion can be more purposeful regarding the candidate's suitability.

**Pre-work and a plan** for executing the strategy is also important *before* the interviews occur. Examples of the types of pre-work and plans that have been found effective follow:

1. **Interviewers with similar cultural backgrounds:** Having a Board member interview a candidate with whom they share a cultural background can be helpful, even if that Board member is not a member of the Nomination Committee. Why? Because these Board members may have valuable insights into the candidate's background that others lack.
2. **Learning from the past:** Periodically evaluate "hits and misses" on Board selection and learning from this to better evaluate potential candidates.
3. **Review of Board assessments:** A refresher on the output from the last few Board assessments may better inform the committee of skills or attributes to focus on for incoming members. Providing input to questions included on the Board Assessments can also help discern the needs of the Board for future candidate selection.
4. **Background/reference checks:** The references provided by the candidate may not always be the most objective. Consider the types of questions you pose to references to ensure the skills and attributes you seek were and are evident in the candidate.
5. **Skills matrix:** Last, but not least, is understanding specific gaps in the Board's skills matrix that need to be closed with the next candidate.

**The Interview:** When conducting an interview, I have a general idea of the types of questions I would like to ask, which may change over the course of the interview depending on the candidate's responses. As part of my personal strategy, I try to ask open-ended questions and pay attention to the candidate's tone of voice, body language, interest in the position and the quality and concision of their responses.

The types of questions asked are in consideration of the candidate's background and the specific area of expertise the Board is seeking. In addition, there are several types of questions I like to explore for all candidates which address the following areas:

**Prior Experience:** I find it particularly useful to have candidates talk about their current and past positions and what they found most enjoyable and most challenging. This helps me learn a lot about how the candidate will fit in.

1. **Level of Interest:** Asking what interests the candidate the most about the Board role and their potential concerns are good indicators of their suitability.
2. **Value to the Board:** Questions regarding how the candidate can add value also indicate suitability.
3. **Management of Difficult Situations:** Asking a candidate to share an experience they had managing a difficult situation or crisis in their organization can be very telling about their management style.

Inquiring how they would manage a situation where the position taken by the Board is completely different from what they strongly view as the best way to operate can also be telling.

Of equal importance is the preparedness of the candidate and the questions the candidate poses. This too can be an indicator of their ability to communicate effectively, their level of interest in the role, and their knowledge of the role of a Board member.

### **What is your advice for increasing gender diversity on Boards?**

Research shows that diversity points to better performing organizations.

Increasing diversity, gender or otherwise, can and should be achieved with an open-minded view on what the organization needs and should be an objective of the *entire* Board. It requires intentionality, commitment, and a strategy. That strategy needs to encompass the “how” to increase gender diversity and the “how” to create an environment that is supportive of diversity.

I have developed some key learnings regarding increasing gender diversity from the experiences I have had as co-founder of W.O.M.E.N in America<sup>2</sup>.

What I have learned is this is an opportunity that requires *active* engagement from an organization. As it relates to increasing gender diversity on Boards, it requires active participation of all Board members. It requires work and creative ways to access diverse candidate pipelines through engagement, networking, and development of relationships with candidates. Days when there were concerns about having a pipeline of diverse candidates are now gone. Pipelines exist. Below are some tips that could prove beneficial in identifying those diverse candidates:

**Engagement of the Full Board:** It is most helpful when all Board members take an interest and share recommendations and candidate referrals. Relying solely on external firms to present candidates is not always the most effective strategy.

**Engagement with Organizations Comprised of Diverse Candidates:** Further diversifying members requires engagement with organizations that have members who may have the requisite Board skills or members who may *through mentorship* develop those skills over time. Mentoring and sponsorship of potential candidates within these organizations can be used to identify diverse Board candidates.

*Potential candidates also need to be proactive* in their career development. They need to own their careers, engage, and develop networks so others may see their potential.

While the development of a strong network of diverse professionals and the cultivation of relationships with those professionals takes time, I have found it to be rewarding, enlightening and enjoyable. It is something I highly recommend to all. Plus, it is something each of us can do.

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<sup>2</sup> W.O.M.E.N in America (WIA) is a leadership program designed to enable promising female executives achieve their highest potential and increase the number of women as CEOs, in the C-suite, Board room and other prominent leadership roles.

*IFAC Comment: We consider diversity, and in particular, gender diversity, very important for future-proofing our Board and other IFAC groups. It has been an important target on our agenda, as part of the journey towards achieving the UN Sustainable Development Goals (SDGs). Currently, and for the past three years, IFAC has had a majority female Board. This represents sizable progress from just a decade ago, when there were only two female Board members. Once we set our goals, increased communication to raise awareness among our stakeholders, and made additional outreach efforts, this change became possible. I also want to attribute this progress to our member organizations, who support IFAC in its diversity efforts and nominate their top talent, including female candidates, to serve on the Board and other groups.*

*Joan's wealth of experience concerning good governance and effective Boards is very beneficial in terms of us taking stock of where we stand collectively as a profession, and by way of ensuring that we are well prepared to face whatever challenges might lie ahead.*

**Joan Amble** has substantial financial industry experience. She started her professional career as an accountant with Ernst & Ernst (currently Ernst & Young) in 1977. From 1984-1989 Ms. Amble served at the Financial Accounting Standards Board (FASB), specializing in pensions, derivatives, and other financial instruments. She then spent 14 years with the General Electric Company (GE) in various leadership roles, including CFO GE Real Estate, COO and CFO GE Capital Markets, and as Vice President and Chief Accounting Officer for GE Financial Services (1989-2003). From 2004-May 2011, Ms. Amble served as Executive Vice President and Principal Accounting Officer for the American Express Company (Amex) and, until the end of 2011, as Executive Vice President of Finance for Amex.

In December 2011, Ms. Amble completed a four-year term as a member of the Financial Accounting Standards Advisory Council (FASAC). She completed two three-year terms as a member of the Standing Advisory Group (SAG) for the Public Company Accounting Oversight Board (PCAOB) from 2015-2020. From 2006 to 2008, she was a member of the Board and chaired the Audit Committee of XM Satellite Radio and following the merger of XM Satellite Radio with Sirius Satellite Radio, she was a member of the Board of Sirius XM Satellite Radio and chaired its Audit Committee until 2021. She served as an independent advisor to the Audit/Control and Risk Committees of the U.S. affiliate of Société Générale, S.A. from 2016 to June 30, 2022.

She has been a member of the Board for the Zurich Insurance Group Ltd since April 2015; Booz Allen Hamilton Inc.'s Board of Directors since 2012, and the BuzzFeed Board of Directors Audit Chair since 2021.

Joan speaks at Director events on Corporate Governance, Excellence in the Board Room and the Audit Committee and Corporate Culture. Joan, passionate about helping women develop professionally, also speaks at business and other women's forums and co-founded and is Chair Emeritus of W.O.M.E.N in America ([www.womeninamerica.org](http://www.womeninamerica.org)).