

NACD Raises the Bar For Board Service

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Over the last two years, NACD has worked to define a standard for director education in response to the convergence of a fast-moving, dynamic business environment with changing expectations for the role of the board. NACD Director Certification, the first of its kind in the United States, aims to establish a new baseline for the knowledge every director should bring to the boardroom table.

While many organizations and universities in the United States, including NACD, offer some type of certificate or other recognition of director education, NACD Directorship Certification is designed to introduce a more rigorous and consistent education standard for both sitting and aspiring directors. The program requires participants to complete basic coursework validated by the passage of an exam, and to continue education thereafter.

NACD Directorship Certification reflects how the very nature of board oversight has changed. Boards face more scrutiny from a host of stakeholders, including the communities where their companies do business. Organizations also operate in a more intense competitive environment, where technology has reduced barriers to entry and social and demographic shifts have enabled new business models at an unprecedented scale. The numbers reflect this: According to a 2018 report by the American Enterprise Institute, only 10 percent of the companies that made up the Fortune 500 in 1955 exist today. A look to the future shows no signs of a slowdown in shifting marketplace dynamics that create new risks and contribute to both ambiguity and complexity. A 2016 report by the consulting firm Innosight estimates that about half of today's S&P 500 companies will be replaced over the next 10 years as a result of volatility in the business environment—factors such as increased competition, business model disruption, failures and bankruptcies, and mergers and acquisitions.

“Directors are under far greater scrutiny than in the past and are expected to more actively protect the company's business and reputation,” said Holly Gregory, cochair of the global corporate governance and executive compensation practice at the law firm Sidley Austin. “Boards and their members are responding to heightened scrutiny and expectations with far more active involvement in the oversight of business decisions.”

No stranger to governance standards, Gregory was part of the steering committee that produced the original governance guidelines for the Organisation for Economic Co-operation and Development in 1999 as well as subsequent updates, including the last in 2015. Continuing education has become a necessary for directors at all levels to refresh and advance their knowledge, particularly of emerging issues that may impact a company's strategy and risk profile, and to provide context for what those issues mean for the work of the board.

Julie Daum, who leads the North American board practice at Spencer Stuart, has seen this evolution firsthand in her decades-long career as a recruitment specialist. “Directors need to stay current,” Daum said. “Gone are the days when we just assumed that directors came to the table with all of the information and skills they needed to do the job. Being able to show that you're engaging in continuing education is critically important.”

As boards reconsider how to map their composition to long-term strategy, two factors have converged to cause a shift in thinking of who belongs at the table, both literally and figuratively. “On one hand, the pool of traditional directors is shrinking. It's getting squeezed from both ends. Being a CEO is more difficult than it's ever been, and being a director is more complex than it's ever been. You take those two things together and it's hard for sitting

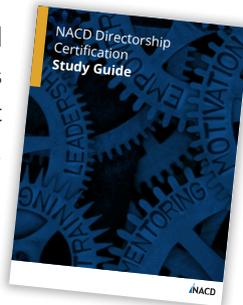
Certification will test, validate basic knowledge for directorship.

By Erin
Essenmacher

CEOs to serve on multiple boards,” said Daum. “On the other hand, you have increasing recognition that if boards want to find the skills they need to help a company stay relevant, they need to

Study Guide Helps Prepare Candidates For NACD Directorship Certification

The topics in the study guide, organized by chapters, cover the five areas directors should master in order to serve most effectively and includes a glossary of terms.



CHAPTER 1 The Role of the Board

- Topic 1: Directors’ Fiduciary Duties
- Topic 2: Corporate Governance Requirements
- Topic 3: Board Processes and Culture
- Topic 4: Shareholder Engagement

CHAPTER 2 The Board’s Standing Committees

- Topic 1: The Audit Committee
- Topic 2: The Compensation Committee
- Topic 3: The Nominating and Governance Committee

CHAPTER 3 The Board’s Duty to Select and Compensate the CEO

- Topic 1: CEO Succession Planning and Evaluation
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CHAPTER 4 Traditional Areas of Board Oversight

- Topic 1: Strategy Oversight
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- Topic 1: Oversight of Corporate Culture
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- Topic 3: Oversight of Environmental, Social, and Governance Issues

To learn more about NACD Directorship Certification, please visit NACDonline.org.

look to a new pool of candidates they may not have considered in the past.”

Finding qualified director candidates often requires looking further down in the organization to those executives who have experience building and managing high-performance teams, scaling a key division, or using technology to transform a brand, product, or customer acquisition strategy. This approach can open up a rich vein of previously untapped talent that can help refresh boards to better align composition with strategy. In fact, 33 percent of those appointed to the boards of S&P 500 companies in 2018 were first-time directors, according to the 2018 Spencer Stuart Board Index. And according to data from MyLogIQ, 64 percent of public company directors in the 2018–2019 proxy season were first-time public company directors. For comparison, that percentage was 38 and 39 percent in the prior two proxy seasons, respectively. NACD Directorship Certification can provide this new generation of directors with a firm grasp of the core roles and responsibilities of the board.

Preparing Tomorrow’s Director

To create its certification program, NACD enlisted the services of The Caviart Group. The certification design organization has built programs for a broad cross section of professions, from doctors, architects, and engineers to those in audit, finance, and risk. While the specific elements of certification may differ by sector, all professional certifications share some important commonalities, according to Caviart’s founding partner, Clarence Chaffee.

“There are a couple of important factors that distinguish a true professional certification program,” he explained. “There must be an exam that tests professional competence informed by those in the profession. And certification lives and breathes. It involves not just passing a test, but understanding that certification holders are required to undertake additional education on a regular basis in order to keep the credential current.”

The program’s development was overseen by a steering committee of experienced directors and governance experts that included Myron Steele, former chief justice of the Delaware Supreme Court; R. Glenn Hubbard, dean of the Columbia Business School; and Simon Lorne, former general counsel for the US Securities and Exchange Commission and cofounder of the Stanford Director’s College. Sitting directors on the steering committee included Dona Young, lead director at Foot Locker and an NACD board member, and Michele J. Hooper, a past NACD board member and chapter leader who serves on the boards of PPG Industries, UnitedHealth Group, and United Continental Holdings.

Three components make up NACD Directorship Certification: preliminary director education to establish that a candidate



has the basic knowledge of the role of a director; an exam that tests the candidate's knowledge, skills, and abilities to competently serve in the boardroom; and a continuing education requirement after certification has been achieved. While NACD's three-day Director Professionalism course, which covers the roles and responsibilities of board members and key governance issues, will satisfy the preliminary education requirement, NACD will recognize some other director education programs offered by select institutions.

The exam portion is comprised of two sections: a number of multiple-choice questions that test critical knowledge, and questions derived from a series of case studies to test judgment in dynamic situations. The exam content was informed by the input of nearly 1,500 sitting board members. A group of 50 directors then used that feedback to develop the content, write the questions, and verify the answers. Simultaneously, in close coordination, NACD built a detailed study guide for exam preparation, drawing on its substantial thought leadership and practical guidance (*see sidebar, page 28*). The objective was to create an exam that reflects the underlying knowledge needed to serve on a board as determined by practitioners of the profession. As for the continuing education requirement, directors must engage in a total of 32 hours of continuing education every two years to remain certified.

NACD Directorship Certification was designed to support board readiness across the wide spectrum of governance environments, from Fortune 500 corporations to small- and micro-cap public companies, private companies, and large nonprofits. Scott Lenet, cofounder of Touchdown Ventures, a venture capital firm that partners with leading corporations to establish and manage their own venture capital platforms, sees a natural alignment between certification and board readiness for private companies. "In any other industry where individuals serve as professional fiduciaries, there are typically degree programs, mandated training, certification, and continuing education. This includes diverse fields like medicine, law, accounting, real estate, and so on," Lenet said. "It is definitely time to institute these practices for board directorships, and the leadership taken by NACD in launching a board director certification program is something that the private and public investing community should wholeheartedly support."

A Global Trend

While NACD is offering the first true director certification program in the United States, director credentialing has been the norm in other countries around the globe, most notably in the United Kingdom, Australia, New Zealand, Canada, and, more recently, South Africa and Brazil.

The Brazilian Institute of Corporate Governance (IBGC) launched its program in 2009. It includes an exam, continuing education, an evaluation of professional experience, and in some cases, an interview. "IBGC's certification program has been recognized as a tool useful to those people who need guidance on how they can improve and become better prepared directors," said Adriane de Almeida, IBGC's director of development. "The commitment to the continuing education program shows that the director is up to date in a business world continuously in transformation."

The Australian Institute of Company Directors (AICD) has a process that includes participation in its governance program, two online exams, and completion of a 3,000-word assignment. The

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components are created and graded by an independent panel of practicing directors. Those who pass attain status as a Graduate of the Australian Institute of Company Directors (GAICD). Afterward, directors must demonstrate a commitment to continuous learning through ongoing professional development requirements, or risk losing their credential. Nearly 40,000 directors have been through the program over the past four decades, and the AICD has expanded its reach beyond Australia, offering the coursework and accompanying exam in Singapore, Hong Kong, and Dubai.

The Canadian model, developed by the Institute of Corporate Directors (ICD), involves a year-long body of coursework, an exam, and participation in a mock board meeting where candidate performance is evaluated by sitting directors before participants can achieve their Institute of Corporate Directors Designation (ICD.D). Toronto-based director, W. Graeme Rouston, who also is an activist investor and member of the ICD, went through the program in 2014. "It's a year-long program with an intense three-day session each quarter and coursework in between the sessions," Rouston explained. "The ICD mirrored it in such a way that it really looked like an executive MBA program, so it was a very familiar creature, so to speak, when you signed up for it."

In markets where director certification has had time to take root and mature, it has become a powerful indicator of how stakeholders judge director effectiveness. For example, a 2016 survey of more

than 200 Australian boards and nominating chairs showed that three-quarters expected new board appointees to hold the GAICD accreditation. In Canada, the expectation looks similar. “If you don’t have it, the question is why not?” said Roustan.

As both a director and an investor, Roustan sees how the benefits of certification extend beyond new board appointees, especially in an era of increased shareholder activism. “I challenged a company in Canada with nine directors. Three of those directors had their ICD.D, so in my communication with the board, I never questioned the qualifications of those three.”

Late last year, another key player in US corporate governance announced it would also undertake certification. The Society for Corporate Governance launched a credential aimed primarily at corporate secretaries and those who support the work of the board. Sidley’s Gregory served on the independent commission that helped inform the Society’s approach to its certification program.

“The quality of corporate governance is vital to a company’s success and also to our economy, and those who support and advise boards of directors play a key role in promoting high-quality governance,” she said. “The certification program is designed to recognize and further encourage professionalism of persons who support good governance by setting a baseline standard.”

A Recommendation From GNDI

The Global Network of Director Institutes (GNDI.org) comprises a growing number of director institutes, currently numbering 20 organizations representing some 130,000 directors around the globe. Among other activities, GNDI produces a biannual survey of corporate governance practices, including director education. In its most recent survey report, published in 2018, GNDI noted that 51 percent of all respondents said that their boards never or only occasionally engaged in director development. “All directors should undertake ongoing and regular education and professional development to update and refresh their skills and also their knowledge of the organization,” the report stated. “Professional development can help upskill for current and emerging needs around the board table. Boards should consider whether they have enough information about capabilities and experience to make an assessment of current and future needs. Many GNDI member institutes provide training and development opportunities in their countries.”

Source: Principle 7, *Guiding Principles of Good Governance*, GNDI perspectives paper, 2015

Building Bench Strength

Certification can help foster board diversity by creating a mechanism that provides confidence that a new generation of directors from nontraditional backgrounds can come to the boardroom table ready to serve in all dimensions, both fiduciary and strategic.

“When boards seek a director with a nontraditional profile who brings a background and perspective that may have previously been missing, such as a younger candidate with digital expertise, they will most likely be bringing on a first-time director,” said Michelle Edkins, managing director and global head of BlackRock’s investment stewardship team. “Many boards primarily look for traditional candidates with prior director experience, and this can be an obstacle to achieving the diversity they are aiming for—even though every director was a first-time director at some point. A formal training program can help broaden and deepen the pool of effective director candidates.”

Lorne, who served on the NACD Directorship Certification steering committee, agreed. “Up until now, there hasn’t been an easy way to identify the people who have taken the time to understand what’s involved in being a corporate director, and that led to boards made up of people the sitting directors already knew,” said Lorne. “Certification helps break through that process by giving younger directors a way to identify themselves.”

Roustan has seen firsthand how Canada’s director certification makes this possible. “In today’s world, where diversity on boards is recognized as important, you get backgrounds from all over the spectrum, and on a board now you have diversity not only in where you come from, but also in what your experiences are,” he said. “The ICD program gives everybody that baseline set of information and knowledge. It creates an even playing field, makes the board more effective, and it speeds things along. For example, understanding financial statements. A lot of director candidates who come in from different backgrounds and industries—people from creative, social media, marketing, or human resources domains—perhaps they’ve never seen or read a balance sheet. Others may need to understand the regulatory landscape. By sending those people to a program that provides the fundamentals—so that at a board meeting, when the audit report or human resource issues are being discussed, these people can be more effective and better directed because they have the baseline knowledge—it’s the common denominator that every director should have.”

In addition to establishing a standard for individual directors, certification is intended to enhance board effectiveness, which is viewed as a competitive advantage for companies. “We hear from directors, experienced and novice alike, that it takes a year

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Test Your Knowledge

Below are some sample questions from the exam, as they appear in the Study Guide.

1. Which best describes the two most important fiduciary duties of a board member?
 - a. The duties of financial responsibility and accuracy
 - b. The duties of loyalty and care
 - c. The duties of being prepared and responsible for board work
 - d. The duties of ethics and integrity
2. Which function is the primary role of the audit committee?
 - a. Proposing the processes used by outside auditors
 - b. Directing that the financial statements are filed in a timely manner and meet the requirements of the US Securities and Exchange Commission
 - c. Providing oversight of the financial reporting process, the audit process, and the company's system of internal controls
 - d. Confirming that each major transaction meets applicable accounting and regulatory standards
3. Which required disclosure to investors contains the Compensation Discussion & Analysis?
 - a. The proxy statement
 - b. Form 10-K
 - c. Form 10-Q
 - d. The annual report
4. During a review of the company's strategic plan, which factor would raise the greatest concern?
 - a. Lack of adequate capital (human and/or financial) to meet the needs of the plan
 - b. Lack of detailed 10-year financial plans
 - c. Lack of consideration of acquisition targets to generate growth
 - d. Lack of management unanimity
5. Which line item of the income statement is necessary to calculate gross margin?
 - a. General and administrative expenses
 - b. Interest expense
 - c. Cost of goods sold
 - d. Sales and marketing expenses
6. How should directors communicate with proxy advisors such as Institutional Shareholder Services and Glass, Lewis & Co.?
 - a. They should not independently communicate directly with proxy advisors on behalf of the company.
 - b. They should only discuss publicly disclosed information with proxy advisors.
 - c. They should only discuss information with proxy advisors in a public setting.
 - d. They should only discuss the industry with proxy advisors.
7. What US Securities and Exchange Commission filing must be submitted within 10 days by anyone who acquires beneficial ownership of more than 5 percent of any class of publicly traded securities in a public company?
 - a. Form 4
 - b. 13G
 - c. Schedule 14D
 - d. 13D
8. What role do Glass, Lewis & Co. and Institutional Shareholder Services play in the proxy vote?
 - a. They advocate for board disruption to force refreshment.
 - b. They advise shareholders on director nominees, compensation, and governance.
 - c. They recommend increases in compensation to promote board stability.
 - d. They sell research to corporate boards in exchange for high company valuations.
9. Which is an essential element of an effective crisis management plan?
 - a. Competitive analysis summary
 - b. Communications plan
 - c. Employee pension plan document
 - d. Internal audit contingency plan
10. Which action by a corporate director is most appropriate?
 - a. Directing the vice president of talent management to terminate an employee
 - b. Speaking to the media about a company press release
 - c. Directing management to utilize a specific vendor
 - d. Meeting with an investor in the presence of executive management

(Answers appear on page 32.)

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or so for a new director to get up to speed,” said Edkins. “Having a strong foundation built on formal education, combined with mentoring and guidance from incumbent directors on the board, can help first-time directors contribute and fulfill their fiduciary duty sooner.”

When done right, the continuing education component helps sitting directors obtain the knowledge necessary for ongoing, effective board oversight. “The evolution of the board’s role in corporate governance means that directors need to be continually learning. Most directors acknowledge that the role has evolved and is in

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—MICHELLE EDKINS

many ways more challenging than it may have been in the past, which means that directors themselves also need to evolve,” said Edkins. “Continuing education, both formal and through directors’ own experiences, can help boards stay on top of key emerging trends and best practices so that they can most effectively contribute to the company’s long-term strategy and fulfill their fiduciary duty as representatives of shareholders’ interests.”

Roustan shared a specific example of how continuing education has helped Canada’s certification keep pace with the business environment. “When I attained my ICD.D in 2014,” he said, “we definitely talked about cybersecurity, but today the threats to cybersecurity are much more heightened, so the program has evolved accordingly. My sense is that the people at the ICD and NACD spend a lot of their time thinking about how to help us stay ahead of the trends and the issues that boards need to discuss.”

While one argument in support of certification is rooted in the long-term value creation that a diverse, engaged board can bring to an organization, there may be another financial benefit. “If you want D&O insurance in Canada, you have to talk about how many board directors have ICD.D. The insurers want to know that your directors have gone through the program, because if

they haven’t the price of insurance goes up,” Roustan said.

The jury is still out on whether it will lower director and officer insurance rates for boards in the United States, but the investor community sees value in the new credential, both in terms of content and anticipated impact.

“NACD is well placed to offer a professional proficiency training for directors, particularly since it’s able to glean insights and perspectives from its members, who serve on boards all around the world,” said Edkins. “That wealth of knowledge can be really valuable for new and current directors. The proposed program has a good balance of foundational knowledge, including legal responsibilities, fiduciary duty, and board processes, and thematic focus, such as oversight of strategy, financial performance, and risk management, assessing corporate culture, and engagement with investors.”

There may be detractors among more experienced directors who don’t see the link between certification and board effectiveness, or who resent having to prove their readiness for board service. Pressures within the governance and business communities, however, may temper their reservations. From a director recruitment perspective, as witnessed by programs in other parts of the world, certification may provide added assurance to nominating and governance committees of a candidate’s ability to serve. Gregory put it this way: “The process of achieving certification through a well-developed and accredited program should provide an individual with a solid understanding of the role of a director and the tensions and conflicts that are inherent in governing. It will remain to be seen whether certification becomes a valued credential by boards in seeking a director.”

Lorne also acknowledged that widespread adoption of director certification may take time, but he believes that investor pressure will ultimately influence acceptance. “I believe that a few years from now, when you look at a proxy statement it will identify the directors who have been certified by NACD,” he said.

Anne Simpson, investment director at the California Public Employees’ Retirement System, and former head of the International Corporate Governance Network (ICGN), a leading convener of investors and others committed to good governance, said she believes NACD Directorship Certification “will increase investor confidence that board members, especially new board members, have the right skills and proper understanding of what it means to be a director—to provide effective oversight of their companies.” 

Answers to practice test questions on page 31: 1. b; 2. c; 3. a; 4. a; 5. c; 6. a; 7. d; 8. b; 9. b; 10. d