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Directors face tough tests

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"When you're offered a position on a board, you sort of grab it," the late Derek Bonham, a former chairman of Imperial Tobacco, candidly told Andrew and Nada Kakabadse in their book *Leading the Board*.

Who wouldn't want to grab the chance to gain admission to the boardroom? For company executives, it is a sign that you have won the admiration, or at least the grudging respect, of your colleagues. It is not just about getting a bigger salary and a guaranteed parking space – although these are nice too. Being appointed a director is the highest professional accolade. It is called the top table for a reason.

For non-executives who want to "go plural" and establish a portfolio career, one juicy offer might well lead to another. Understandably, some non-executives will grab and grab again until their diaries are full to bursting.

That, at least, was the story until relatively recently. But a high tide of corporate governance activism looks set to sweep complacent thinking about directorships away. The recent bust-up between Marks and Spencer, the UK retailer, and some of its big shareholders over the proposed appointment of Sir Stuart Rose as executive chairman, confirms that the pressure to comply with what is seen as best practice continues to rise.

This is an international phenomenon. The Sarbanes-Oxley legislation in the US has established a new trading environment where financial reporting, along with other corporate activity, faces much closer scrutiny. And in Europe, recent shareholder unease at actions by Philips and Nestlé has helped bring about boardroom reform.

So before grabbing the hand of a chairman who has suggested a new directorship, perhaps towards the end of a leisurely meal at a rather nice restaurant, it would be worth stopping to think harder about what you are letting yourself in for – not least as far as the legal liabilities are concerned.

As Mr Bonham said: "You don't necessarily understand the legal consequences of what you are doing. So I think there needs to be some sort of induction programme that reminds you of your legal obligations and board structures and ways of working."

What if that is not enough? Businesses – even modestly sized ones – face increasing levels of complexity as far as compliance and risk management are concerned. Where should an aspiring director turn for an up-to-date, robust preparation for the role he or she is hoping to perform?

One place you might not expect to find cutting-edge advice on the issue is the august, Grade 1-listed John Nash building that is home to the UK's Institute of Directors, a venerable employers organisation.

The outward appearance may not suggest modernity. But the IoD has gone further than any other institution to codify the director's role, and offers a meaningful and relevant qualification – that of the Chartered Director (C Dir) – that should help both executives and non-executives prepare for the demands of the job.

Launched at the start of the decade, the C Dir is not a pseudo-label that can be acquired by sitting through a few lectures and sending off a couple of vouchers in the post. An aspiring C Dir has to clear several high hurdles before being awarded the qualification. To date, 660 have achieved the title, fewer than 100 a year since its inception.

"Getting my PhD was a doddle compared with this," says Suzy Walton (left), an occupational psychologist, non-executive director of several organisations, former member of Tony Blair's delivery unit in the UK cabinet office – and a newly minted C Dir. "These were the toughest set of exams I have ever done. I practically had to move into the IoD while I was preparing for them. I know all the best places to sit and work there."

Across the board: how companies are governed around the world

UK: The most analysed and debated governance environment anywhere. The unitary board model survives, but since the recommendations of the Higgs report in 2003 there are more non-executives (and fewer executives) around board tables than in the past. The chairman and chief executive roles are usually kept separate.

US: Also a unitary board model, but with chairman, chief executive (and president) roles more often than not being held by the same person. A longer tradition of non-executive dominance of the boardroom. There is, however, a growing sense that Sarbanes-Oxley went too far and needs to be refined.

Germany: The post-war German settlement enshrined the "two-tier board" in German corporations – a supervisory board and a management (or executive) board. The supervisory board includes worker representation, laying the foundation for "Mitbestimmung" or "co-determination", a consultative approach to managing the business. This model, too, is under pressure today, criticised for hampering organisations' ability to change fast. That presupposes that changing fast is necessarily always a good thing, of course.

Japan: Traditionally

The transition from novice to C Dir involves several stages. First you must pass a "certificate in company direction". This requires a period of study followed by an examination that tests the candidate's competence under seven headings: finance, strategy, marketing, human resources, change management, law and the role of the company director and the board.

"If you fail just one module of the certificate exam you can retake that module, but if you fail more than one you have to do all the formal training again and re-sit the whole suite of exams," Ms Walton explains.

The aspiring director then moves to the next level, the diploma, which widens and deepens the subject areas to be studied. Another exam must be passed. Then you submit a "portfolio of evidence" to show your experience as a board director in a range of areas. After a final viva to assess further the breadth and depth of your experience, the C Dir may – or may not – be awarded.

A serious amount of knowledge has to be mastered. "On the finance course I was sitting next to finance directors who were actually resitting that part of the exam," Ms Walton says. "That was pretty intimidating. You could find it hard to motivate yourself when you discover how much material you have to learn and how hard it is to pass." The IoD says there is a 25 per cent failure rate at the certificate stage.

This qualification provides the breadth of knowledge that is too often lacking in directors today. If there were more C Dirs in the boardroom, discussions at that level would be more soundly based.

Traditionally most students have to specialise in either arts or science subjects at a very early age, a narrowness of approach that many carry through into adult life. Like the baccalaureate, the C Dir forces you to have broader-based expertise. This should mean the professionalisation of a role that has often been undertaken with a large helping of the amateur spirit.

A final word of warning. Being a C Dir formally marks you out as a senior (and therefore potentially legally liable) director, ahead of MBAs or colleagues who have no other equivalent professional training. You will not be able to plead ignorance if and when the insolvency lawyers come knocking.

Ms Walton is not concerned. She has had many more job offers and greater interest from headhunters since she began the process of getting qualified. "It has been enormously hard work," she says, "but undoubtedly worth it."

characterised by very large boards of “insiders” – loyal and seasoned careerists who have stayed all their careers with the same company – the Japanese board has provided stability but also the risk of stagnation. Outsiders have long predicted that this model would have to change and one day the predictions may even come true.