What is a competitively differentiated board of directors?

What is the purpose of this article?

1) Enable investors, founders, the board of directors, and C-Suite discuss the value of a competitively differentiated board as well as the process for creating and maintaining this differentiation.
2) This article only considers those companies where all decisions are made by the board as a whole. This excludes companies with: controlling shareholders, shareholders agreements, golden shares, one director dominating and controlling board behaviour, etc.

What are the critical learnings in this article?

1) A long-term competitively differentiated company required a competitively differentiated board of directors, decision making processes, and supporting technology.
2) There are several components to the director selection process, concluding with an evaluation of their value contribution during a one-year period as a board observer.

Why do you need a competitively differentiated board of directors?

I assume that a competitively differentiated board results in a competitively differentiated company.

1) Directors are ultimately responsible for the long-term success of the corporation.[1]
2) It is difficult for your company to competitively succeed if your board makes poor decisions regarding: CEO appointment and termination, strategies, budgets, crisis management, etc.
3) Sometimes luck plays a role, but you must not depend upon luck to be successful.

How do you measure your company's competitive differentiation?

Competitive differentiation is perceived differently, by different members of your company's ecosystem. Every perception is a combination of facts, analysis, and emotions.

1) Investors may consider total shareholder return over a number of years, or at exit time if a private company.
2) Bond holders may consider their returns and no default.
3) Your company's economic performance is in the top quartile or even decile. You company may not be the #1 economic performer relative to your competition. Why? You company is balancing the sharing of economic wealth among ecosystem members such as: employees, local communities, overall society, etc. For example, I know companies with a fantastic economic result but: employees are not paid a living wage, there is zero concern about the impact on local communities, etc.
4) Employees may consider: alignment of company purpose, values, morals, and ethics with their own views, and compensation. Your employee's rating of your leaders and recommendation of your company to people they know is higher than the competition. Other companies poach your employees because you've been able to develop and grow them. This isn't a problem for your company, because it's easy to hire new people. People want to work for your company rather than your competition.
5) Customers: Market share increases because your company better understands customers and provides solutions from which the customer gets more value from, relative to your competition
6) Local communities and society think highly of, and trust, your company's board of directors and C-Suite.
7) Etc.

What are the characteristics of a competitively differentiated board?

There are three parts: talent, processes, and technology. Poor talent, combined with poor processes, and poor technology results in a poor board. A company with a poor board is counting on luck in order to beat the competition.

1) The board as a whole is competitively differentiated team.
2) Each board member has 1 or more characteristics where they are competitively differentiated.
3) The board has differentiated decision making processes.
4) The board may also have differentiated technology support.
5) Every single board member must have the required values, morals, and ethics.

What are your next steps?

1) Review the purpose of your company.
2) Identify the key members of your company's ecosystem.
3) Determine how the key members of your company's ecosystem currently measure your company's differentiation.
4) Decide what differentiation will look like to each key ecosystem member. You will have to do trade-offs – your company can't be the everything for every member of your ecosystem.
5) Determine what collective board decisions, actions, and behaviours will result in the desired perception of differentiation. Director actions and behaviours will be visible in many ways, including: at the Annual General

Meeting, management meetings, social media, and countless interactions with a variety of people and organizations.

6) Outline the board's decision making processes, for both the board as a whole and each board committee. The intent is to have a better process than competitors.
7) Based on the above, define what relevant past experience, skills, and expertise are required for the board as a whole, for each board committee, and for each individual director. Assess each individual director for: cognitive skills[2], fluid intelligence[3], and perseverance. Behavioural interviewing and psychological testing are key. Director candidates should also undergo a simulation. This results in competitively differentiated directors.
8) Value, morals, ethics, and integrity are mandatory. Warren Buffett supposedly said "..looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if you don't have the first, the other two will kill you."
9) Each potential director nominee should spend one year as a board observer, with their value contribution being assessed prior to being nominated and elected.
10) Establish an ongoing process to understand how ecosystem members perceive your company's competitive differentiation. This must be done yearly as well as when any major external changes or crisis occur.
11) Regular assess: the board as a whole, each director, the board decision making processes, and supporting technology. Every year, you need to make the decisions on whether or not your have the best directors OR if should exit some directors. This is the same concept as zero based budgeting.
12) Your crisis management process must include the board of directors. E.g. every year, run a simulation with the board using a potential crisis. I assume that you have a crisis management process, a leader (or team) supporting the process, and a crisis war room.

Footnotes

[1] Professor Didier and Estelle Metayer, "Does your board really add value to strategy?", IMD, Global Board Center, https://www.imd.org/research-knowledge/articles/board-strategy/

[2] What are cognitive skills?
https://www.mindmattersjo.com/what-are-cognitive-skills.html

[3] Fluid vs crystallized intelligence
https://www.simplypsychology.org/fluid-crystallized-intelligence.html