Director Training Can Improve Board Effectiveness: Survey Gives Clues for Program Design and Focus

Director training programs have proliferated in recent years. Many open-enrollment programs aim to improve "board readiness" for director candidates or first-time directors, often marketing their content towards populations that have been historically excluded from boards. As boards face more pressure to perform effective oversight of increasingly complex issues and operations, the business sector must discard the implicit assumption that director training most benefits newcomers and outsiders.

Modern expectations about the role of the board along with less homogenous board composition require all directors to possess the knowledge and skills to contribute to a board culture that fosters engagement. More active monitoring may generate tensions both within the board and among directors and officers, while greater diversity commonly creates more friction in decision-making groups. Results from a survey of French board directors give clues for how board training, if properly designed, could mitigate potential negative impacts of this evolving board landscape. The survey – commissioned by Alexander Hughes Executive Search Consultants and conducted by EDHEC Junior Etudes (EJE) – suggests collective learning experiences focused on strategic understanding, emerging areas of oversight, and role expectations and collaboration could improve board effectiveness.

The Alexander Hughes/EJE Board Survey

The main portion of the survey, conducted in 2023, gathered input from 76 French board directors who provided quantitative and qualitative data in response to a questionnaire administered by EJE. Respondents included directors from companies of all sizes, including an almost identical number of CAC 40 large companies (24% of sample) and "intermediate" and small-and-medium enterprises (collectively 25% of sample).

Peter Dolan and Jean-Marie Simon of Alexander Hughes designed the survey to obtain directors' assessment of their board's oversight in five areas: ESG, People ("Human Capital"), corporate purpose, cybersecurity, and "understanding of the business." The survey inquired separately about the board's *capability or performance* and about the *importance* the board placed on each area. An additional question asked directors about the sufficiency of information made available to the board. Respondents had the ability to provide open comments for each question. The EJE consultants, Paco Gorieu—Petit-Pas and Timoté Plouzin, also conducted semi-structured interviews with seven directors serving on the boards of companies of various sizes, from SME to CAC 40.

A supplementary question gathered input from twenty CEOs (*directeurs généraux*), representing predominantly family businesses (55%) and SMEs (25%) who were asked if company management viewed the board as effective.

The sample size, while small, provides a basis for a preliminary qualitative analysis of gaps that training could address to improve board oversight.

Board Understanding of the Business Should be Practiced, not Presumed

Directors may underestimate the level of knowledge required to engage in strategic decision-making and effective oversight. The Alexander Hughes-EJE survey results reveal an apparent contradiction: Director-respondents overwhelmingly view understanding of the company's business (c*onnaissance des métiers*) as "primordial," yet few indicate that concrete practices exist to ensure this understanding. The director-respondents attributed an importance of 8.9 on a scale of 10 to understanding of the company's business, and 91% believed the board has a sufficient level of understanding.

Many of the qualitative comments on this topic, however, raise doubts about the basis for the confident self-assessment. One open comment clearly signaled concern: "it's never enough." Various interview responses suggest that, when it occurs within the board, discussion of understanding of the business is largely indirect. One interviewee, a director who represents the French state on the board of an SBF 120 company (among other board mandates), confessed their imperfect understanding. As an outside director, the person doesn't have a "global view on the various professional activities within the company" and the topic is not discussed within the board. Similarly, an independent director of an SBF 120 company indicated knowledge of the business is discussed only as an underlying theme of "more central" issues. Additionally, the CEO-Chairperson of a small company (approximately 30 employees) emphasized that board understanding of the business is particularly important in their knowledge-based business but warned that discussing every important topic is increasingly difficult.

Only two respondents described specific measures to assure sufficient understanding. One open comment indicated that the company considers the topic sufficiently important to organize board training sessions in advance of board meetings. In an interview, an independent director of an SBF 120 company (different from the one mentioned above) asserted that the board discussed the topic "systematically," with understanding of the business included as an explicit item in board strategy seminars.

Notwithstanding these two mentions, tangible board-level discussions of understanding of the business appear to be mostly irregular, indirect, or non-existent. It is possible that those who accept director positions already have a good understanding of the corporation's business prior to joining the board. Given, however, the evolving nature and increasing complexity of a business, it is possible that the standard outside directors generally hold for the level of understanding needed they need to perform their jobs is lower than regulators and other stakeholders would expect. To this point, one survey respondent described directors as simply "guardrails," a role that owuld not require deep understanding of the business.

Training Must Promote Collective Competence in Critical Areas

In addition to better overall understanding of the business, board oversight will be more effective when all directors (rather than individual experts) have the level of competence that allows them to engage in robust discussion of critical topics affecting the company. Directors may, however, lack the motivation to invest the individual resources necessary to develop specific knowledge and skills, when the board's role is circumscribed, as just discussed, or when the perceived cost to become competent is high. The Alexander Hughes-EJE survey suggests that cybersecurity oversight may be one such area.

Although director respondents view cybersecurity as important, they appear to struggle to provide effective oversight. The director-respondents attributed an importance of 8.9 on a scale of 10 to cybersecurity. Open comments reveal that some respondents view cybersecurity as the "most important" issue and that the "enormous risks" mean companies must pay more attention.

Yest, only 76% of respondents believed the board "correctly addressed" the issue. This self-assessment was starkly lower than those for the other oversight areas reviewed in the survey. Many open comments and interview responses suggest directors vary in their ability to exercise oversight of cybersecurity. A split based on company size is the most evident. For example, a respondent who serves as an independent director on the boards of several companies, including a CAC40 company and start-ups and scale-ups, indicated that the CAC40 company has a crisis center capable of restoring normal activity within 48 hours of a cyberattack. The respondent asserted that large groups are prepared because cybersecurity has strategic significance and that, while start-ups are also deeply concerned, they lack the means to implement cybersecurity prevention measures.

Another factor creating variability in cybersecurity oversight is the company's sector of activity. A director representing the French state on the board of an SBF 120 (among other board mandates) indicated that the company treats cybersecurity as a central concern with regular board presentations and a prevention mindset – "no risk is tolerable." The respondent indicated that this company is "comparable to a bank" and that the other boards on which they sit do not address the issue as rigorously. Similarly, the CEO-Chairperson of a small company (approximately 30 employees) indicated that cybersecurity is "primordial" because the company operates in the health industry; accordingly, it is regularly addressed in board meetings and, despite its small size, the company has in place the necessary measures to protect its data. In both cases, the corporation invests resources in assuring the collective competence of the board.

In other cases, respondents pointed out the challenges to effective oversight. One open comment explicitly stated that more resources are necessary for "highly competent cybersecurity" oversight. While resources may be a challenge in smaller companies, even many directors of larger companies lack confidence in their ability to engage in effective cybersecurity oversight. A theme that runs through the survey responses is a reactive rather than a proactive posture to cybersecurity oversight. Boards focus on the costs of prevention and *ex post* damage control. *Ex ante* strategy development and proactive monitoring would require directors to be cyber

literate. The responses suggest that directors do not endeavor to become cyber literate unless data security is a fundamental element of the company's reputation.

Enhancing Board Effectiveness through Collective Culture Transformation

While training can enhance board understanding and specific competencies, fully benefiting from more knowledgeable and competent directors requires a shift in views about the board itself. The managerialist approach to corporate governance, with empowered officers and dependent, deferential boards, has been receding as board professionalism and engagement become increasingly sought after. Fostering greater strategic involvement by outside directors, therefore, requires that officers and directors themselves abandon the traditional, and increasingly outdated, view of directors solely as "guardrails."

Companies and boards should, instead, seek to create interactive and inclusive board cultures to gather the collective insights of all directors. Board training should sensitize directors to the expectation that they will be engaged contributors to strategic discussions and oversight. Collective board training that includes inside directors (or, in two-tier structures, executive committee members) can reduce tensions that more vigorous oversight may create. In the one survey question addressed specifically to CEOs, only 14 of the 20 respondents believed the board performed its role effectively. One CEO viewed board debates as frequently a time drain. Another respondent viewed the board as ineffective because the directors were not sufficiently invested in the deliberations.

These complaints might be alleviated if the board members participating in these discussions were both knowledgeable and engaged. To counter the tensions potentially created by increasing oversight and increasing diversity, corporations should educate their governance bodies about the benefits of diverse and psychologically safe teams. Collective training in inclusive collaboration would allow the board as a group to identify any interpersonal or group dynamics that prevent full engagement and to address them directly.

Continuous board training is necessary in all contexts to provide outside directors with the understanding of the business necessary to fulfill expanded role expectations. Rather than relying on individual motivation, in areas where the company's strategic interests would benefit from varied perspectives and robust input, businesses can equip directors collectively. Company-provided training is essential in areas of high importance and high complexity, as directors may view as dissuasive the cost (measured in time or effort) of developing competence individually.

The best path forward to fostering an effective board is through corporate actors filling their board seats with people willing to engage in strategic oversight and empowering them with the knowledge and skills to co-create a collaborative board climate.

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