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Beyond Skill Matrices: Enhancing Board Effectiveness Through Director Purpose Declarations

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How world-class resumes fail to match the skills and bandwidth for good governance.

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The past twelve months have seen an array of high-profile boards clash with shareholders. Directors and chairs engaged in public battles include those from Walt Disney Co., Tesla, and more recently BlackRock. It's unclear if these are the symptoms of systemic governance issues, boards unfit for purpose, or one-off events. To better examine board best practice in the face of public debate we use the Walt Disney Co. case.

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Disney: Then and Now

After years of languishing returns and failed succession planning, shareholders of the storied Walt Disney Co. are justified in feeling frustrated and conflicted. Such discontent has culminated in activist shareholders, Nelson Peltz's Trian Partners, and Blackwells Capital, staging an expensive battle for strategic transformation and seats on the board. In response, the incumbent directors defended their prestigious positions and welcomed the public support of J.P. Morgan Chase's Jamie Dimon, and activist investors ValueAct Capital instead. However, this 'support' came as no surprise. Since 2014, J.P. Morgan Chase and ValueAct have received fees from Disney of $160m and $95m respectively. The main event, the shareholder vote, concluded on April 3 2024. While news reports portray a resounding victory to CEO Bob Iger, the share price movements around the vote day appear to support the activist engagement. The market support is reflected in the rise in value since Trian

Partners released their short report (+19%) followed by a sell-off (-5%) post-vote. With this divergence of opinion, the situation remains one of lingering doubt concerning whether the board is fit for purpose.

On paper, the board aligns with the theory of best practice – it has a diverse board, a skills matrix, highly experienced individuals from global companies and directors who are fulfilling their meeting attendance requirements. Digging deeper, however, we reveal a board of slow action or inaction that if it's not beholden to a charismatic CEO then it may not have the bandwidth to focus on the complexity of Disney.

Excluding CEO Bob Iger, there are twelve directors on the board. The Chair, Mark G. Parker, is also the Executive Chairman of Nike, another global behemoth that would undoubtedly demand significant time and attention. Other directors include CEO's of General Motors, Oracle, WE Family Offices, and Lululemon, along with the Executive Chairman of Morgan Stanley. Altogether, this means that 50% of the board are in roles that reasonably place significant demands on an individual's time and resources, limiting their ability to assess and guide Disney.

Of the remaining six members, half are serial board members, leaving three which would presumably have suitable time and resources to dedicate to the operation of Disney. While serial directors are not uncommon, our research indicates that they would require key skills and networks to add value and insight into a company as complex as Disney.

From an upfront skills perspective, it is challenging to ascertain what specific value that a CEO of a car company (General Motors) or, an athleisure company (Lululemon) would provide for an entertainment conglomerate that turns children's stories into products and services. Assuming these individuals had enough time to dedicate to the Disney board , then shareholders have the right to know the insight and strategic guidance that they could provide. Scholars in expertise research have long highlighted how difficult it is to transfer accumulated knowledge from one domain to another one - analogical reasoning is thought to do well.

Two critical skill areas for Disney are succession planning and media. According to the board's skill matrix, there are only five members with experience in these areas, and they have arguably proven unfit given the Chapek saga. As for media expertise, only two directors outside of Iger have direct experience within the media and broadcasting industries. Acknowledging that these directors have time taken by audit and compensation committees as well, it appears unlikely they'd be in a position to challenge Iger or drive more meaningful, disciplined conversations on strategy.

If we also consider the primary focus of investment analysts in drafting the company's earnings reports, then we need to consider the board's competence in strategic transformation, technology, and hospitality. Half of the board has experience in either strategic transformation or technology and given the challenges facing the business, it's surprising there is not a specific committee dedicated to transformation and change. Rather than focusing on forward-looking decisions and strategic oversight, the board is meeting on inherently backward-looking committees about audit, nominations and compensation. Disney, and the board, present a rearward-looking mix of skills and activities in formats that governance experts tend to *want* to see: charts and graphs on skills matrices and committee attendance, along with lengthy biographies of board members.

As Nelson Peltz's Trian partner highlights in their March 2024 whitepaper, both Nelson and Jay Resulo, their board candidates, are more aligned to the Disney skills matrix than either Maria Lagomasino or Michael B.G. Froman. This begs the question, are director skills matrices an appropriate tool for assessment?

A way forward: Prioritization and directors to proactively declare their purpose.

Building on governance scholarship and practice, we know that boards need to have both a rearward orientation and a future orientation. They need to effectively monitor what is happening within an organisation while keeping at heart the long-term interest of the shareholders. Through our research, we look at board skills concerning a director's ability to monitor yet guide the business strategy forward. We have identified, broadly speaking, two types of boards. The first type are boards that we call "traditional boards", where the monitoring function is prevalent and they see their most critical contributions as relating to punctuated events such as the CEO nomination and large capital expenditures. Directors from traditional boards tell us that their focus (apart from their monitoring function) is to select the most appropriate CEO and design an effective incentive system. The second type are boards that we call "progressive boards". These boards do deliver their monitoring function, but also believe the role of the board is to support the management teams with critical expertise in modern skills such as technology, transformation, and consumer understanding. Ideally, a board has a mix of director types with deep expertise relevant to the core units of the company along with the bandwidth for appropriate review and guidance. To summarise, the components that we have identified as part of progressive boards fall into three core categories;

1. **Bandwidth** – ability to offer requisite time, attention and resources to both monitoring and guidance
2. **Aligned skill set** – skills and knowledge related to a core and future-looking business activity
3. **Network** – willingness to provide resources by virtue of their connectedness to other firms, institutions, and individuals that will foster insight or value aligned to the business and business practices.

For Disney, building a progressive board would consist of directors with knowledge of historical successes and pitfalls in media and entertainment, of creating consumer digital platforms, of managing hospitality such as cruises or theme parks, and of managing complexity in the modern world. In practical terms, this would likely be a mix of recently retired CFOs, CTOs and CEOs along with seasoned directors. This is not Disney's board today.

Disney's board is underscored by its failure to produce returns or a reasonable succession plan, and this has been clearly evidenced by the presence of activist investors. In this instance, the overall recommendation may be for the rejuvenation of the board with a focus on getting industry-specific and forward-looking skills. Given the vote has been cast, the opportunity for this change has now passed and Disney's way forward, and path to a board beyond doubt, is for directors to proactively declare their purpose.

A purpose declaration (PD) should not be a jargon-full marketing statement, but a clear and concise statement on skills and purpose. A director's PD should include the value, insight and skills that the individual brings to shareholders, the board and the organisation. The statement must relate to a core business activity, risk, function or outside view and should include a forward-looking bias. This simple statement when combined with the professional record of the member will highlight why they have been selected to the board and alleviate concerns or worries about their contribution and the appropriateness of their appointment.

What could a good Purpose Declaration look like

A PD is very different from the traditional skill matrices that companies are increasingly using. A skill matrix is generic and backward-looking: it details how many people have executed some strategy before or at best whether they have engaged in some change management practice of any scale. Very rarely does a skill matrix discuss the specific skills of each individual director. By contrast, a truly effective PD should be both future-looking and action-oriented: it should provide details on what specific areas the director is going to support the management team in to take the company forward. Further, it should not be generic (eg. "I'm going to support the incoming technological transformation") but specific (eg. "I'm going to offer my expertise in helping out the change management necessary in complex transformation such as wide adoption of blockchain technology"). Taking Disney as an example, a poor PD would be for a director to say that they are the CEO of a Fortune 500 company. On the other hand, a more effective PD would be for the director to explain how they plan on aiding Disney focus on sustainability, succession planning, or digital capability. Better yet, would be for a PD to be even more specific. For example, the director could state that their purpose on the board is to use their extensive experience in cruises and real asset transformation to monitor and guide the sustainability of the parks and cruises business. This is very much akin to what a good strategy looks like as explained in Roger Martin's work. Another helpful indication of what constitutes an effective PD is by conducting the Opposite Test: if the opposite of your statement is true, that is, it can be applied to any other director, then it is not a statement at all!

With such a statement, shareholders and market analysts would be able to reconcile statements with the activities of the business, and the needs for its strategy and future. In the case of Disney, this would bring clarity to the purpose of directors such as the CEO of an automotive company.

Importantly, the PD approach is simple, cost-effective to deliver, and creates board accountability to shareholders. When considered collectively, the board's PDs reveal the alignment of directors to both the business and to shareholders, and highlight any apparent gaps - such as succession planning or expertise in media and entertainment. Further, we believe that PDs will help Disney work with activists, shareholders and executives in a simple and powerful way.

Overall, directors are responsible for oversight and are appointed by the shareholders to act on their behalf. They are the stewards of capital and should be held accountable to the shareholders they represent. It's not just about past experience or the glory of prior boards, committees or executive positions held. It's about having skills that add value and time available to use them. A business as large and complex as Disney needs directors with time and energy to dedicate. A board beholden to charisma, or prestige will fail to provide the governance needed to survive the threats of the modern world.

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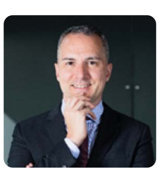

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