Why do some organizations' boards fail? It might be how directors perceive their expertise and responsibilities

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While many of us can name a handful of CEOs, identifying directors serving on the boards of those same organizations is probably more challenging. The work of directors, whether they hold volunteer or compensated positions, is rarely publicized, and when it is, it is rarely good news.

Indeed, corporate scandals often prompt public scrutiny, focusing on the board's role and questioning how directors could have overlooked issues or been complicit in questionable organizational conduct.

Consider instances such as Valeant Pharmaceuticals' questionable accounting practices, which went undetected and unreported by the board. Or the loose oversight of FTX's board, which led to the collapse of its cryptocurrency exchange. Or consider the shortcomings of U.S. Gymnastics' and Hockey Canada's boards in the face of major scandals.

How can we explain these governance failures and the apparent inability of some boards to effectively safeguard the interests of the public or shareholders? Part of the answer lies in the way directors use their expertise and understand their role on the board.

What are boards of directors?

The board of directors is a group of expert individuals responsible for overseeing the management of an organization, setting its strategic direction and ensuring accountability in terms of financial and non-financial performance.

Often selected for their professional experience and expertise, board directors are chosen by an organization's members in the case of non-profits or by shareholders in corporations. They are expected to protect the interests of those who elected them.

To exercise their oversight effectively, board directors are assigned to various committees tasked with overseeing processes and issues such as finance and audit, corporate governance risk or human resources and management compensation.

Directors are typically placed on committees based on the expertise showcased in their resumes. For instance, a chartered professional accountant will probably sit on the finance and audit committee, while a human resources professional is more likely to sit on the human resources and management compensation committee.

Staffing board committees according to directors' areas of expertise makes sense and is a critical step to ensure board effectiveness.

However, and as highlighted by a field study I conducted, expertise in one area does not guarantee its use on the board. Here is what I found through in-depth interviews with board directors of Canadian public companies.

Being an expert or feeling like one

Some directors don't consider themselves as experts, despite what their resume states. Since directors don't choose the committees they contribute to, some might find themselves involved with topics and processes they feel are beyond their comfort zone and range of knowledge.

This often leads them to let other directors, who they see as more knowledgeable, take the lead, which limits their own contribution. Because of this, the conventional indicators of expertise like professional designations, credentials and business awards may not actually reflect a director's perceived competence.

Additionally, my study reinforces the idea that a board's culture and approach of the chair both influence how directors mobilize their expertise during meetings. Directors tend to follow the lead of the chair and observe how other board members act and interact to shape their own actions and practices on the board.

Directors also often prioritize maintaining positive relationships and collegiality over asserting their expertise through challenging arguments and questions.

To each their own oversight style

The interviews I conducted for this study also show that board directors each develop their own oversight style and interpretation of what their responsibilities are on the board.

While rules and regulations outline directors' official duties, there are no set requirements for how they should prepare for meetings or how much time they should invest in preparation.

Additionally, the verbs used to define the role of board directors in official guidelines such as "oversee," "supervise," and "making decisions " are elusive at best and unclear at worst.

This ambiguity contributes to a lack of clarity regarding what board directors should do in practice to fulfill their governance mission.

As a result, directors are left to interpret and determine which practices and tasks are sufficient on their own. This results in varying contributions to the board, with some directors reporting spending only a few hours preparing for meetings, while others dedicate days to reading material and formulating insightful questions ahead of time.

Addressing governance challenges

With directors not considering themselves experts and developing their own approach to board responsibilities, it's unsurprising some boards end up only engaging in symbolic oversight.

In essence, there is an empirical difference between having the status of an expert and feeling like one. The way directors embody their responsibilities is up to interpretation, which may explain why some boards fail to prevent or detect management errors, whether deliberate or inadvertent.

Addressing governance failures requires a multifaceted approach. Boards must not only focus on assembling a diverse and qualified set of directors, but also foster a culture that encourages active engagement, knowledge-sharing and commits to effective monitoring instead of a facade of oversight.

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