

Behind Directors Certification Programs: Key Points To Consider

One of the best ways to demonstrate commitment to career growth is by obtaining industry-recognized certification. This is true for finance, accounting, insurance, and legal professionals, but is it also applicable to board directors? Certification programs trigger debates among corporate governance experts: some are strongly against it, saying nothing can replace real boardroom experience, while others see it as a valid method for improving the knowledge and skills of directors. In April 2013, we raised this question with over 70 director training organizations to better understand the benefits and challenges of certification and to compare experiences, including pioneering work in Brazil, the Caribbean, France, India, Mauritius, Morocco, New Zealand, Slovenia, South Africa, the United Arab Emirates, and the United Kingdom.



Global
Corporate
Governance
Forum



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Background and Rationale

Effective governance training programs can exponentially improve national capacity to achieve wider adherence to corporate governance best practices. In 2008, the IFC Global Corporate Governance Forum launched the Corporate Governance Board Leadership Training Resources (BLTR) to strengthen the expertise and skills of corporate governance trainers, who in turn work directly with company directors. To date, over 750 participants in 75 countries have successfully completed the BLTR Training of Trainers (ToT) program.

The BLTR and other similar resources have been used to develop both certificated and non-certificated training programs. However, it is important not to confuse certification programs with non-certificated training programs, which imply a different objective, design, and mindset.

Traditionally, many institutes deliver a “certificate of attendance” to participants who attended all sessions in the course. This is not the same as actual certification. A certification program is normally associated with verifying that the participant has acquired a certain level of knowledge, skills, or understanding.

Sometimes training organizations will engage “accredited certification bodies” to certify their training processes and outputs and evaluate their trainers against official standards.

We are witnessing a growing demand for certification and accreditation coming from various sources:

Governments. Many of the recent Reports on the Observance of Standards and Codes (ROSCs) produced by the World Bank have recommended that governments encourage the establishment of directors institutes to build capacity and enhance skills of company directors. Mauritius established its Institute of Directors in 2008, and by 2013 it had gained more than 850 members.

Institutes often see certification as a good way to enhance directorship as a profession and further promote sound corporate governance. IoD Southern Africa established the “Chartered Director” designation, “CD(SA),” to assess and credit the mastery of directors while enhancing their skills. This recognition is intended to result in better directors, better boards, and better business in the interest of South Africa.

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ABOUT THE FORUM

IFC Global Corporate Governance Forum supports corporate governance reforms in emerging markets and developing countries. The Forum develops advanced knowledge and training products promoting good practices in corporate governance and facilitates capacity building of director training organizations engaged in implementing corporate governance reforms.

The Forum partners widely with international, regional and local institutions, and draws on the guidance of its global network of private sector advisors and academic research network.

The Forum is part of the IFC Corporate Governance Group, located in the Environment, Social and Governance Department. It is a donor-supported facility, co-founded in 1999 by the World Bank and the Organisation for Economic Co-operation and Development (OECD).

What is the Corporate Governance Board Leadership Training Resources (BLTR)?

The BLTR is a five-part curriculum package that offers comprehensive content resources and teaching methods to enhance corporate governance training. It comprises:

- 17 corporate governance modules that progress from the basics to advanced techniques and practices
- A Training Skills Guide with practical and user-friendly instructional tools and techniques
- A Training Program Providers Manual to orient trainers and training organizations on the content, structure, and use of BLTR materials
- An in-depth case study to enhance learning and leadership skills

The Resource Kit has recently been supplemented with training materials on Governing Banks, a number of customized country and regional programs, multiple case studies. Corporate Secretaries training materials are currently under development.

Directors. Many of the participants in director training programs have indicated that they would like to have had the opportunity to demonstrate their new skills and knowledge through an effective assessment framework. Does having certification mean that the director is a better director than a director who has not been certified? Not always. But it does enable directors to demonstrate their commitment to professional development and to benchmark their own knowledge against clearly established standards of good practice.



Participant discussion at the global workshop for board leadership trainers in Sao Paulo, Brazil, 2009.

Companies. Companies increasingly recognize the value that board directors can provide to their organizations. In particular, some companies seek to identify current and aspiring directors who proactively focus on improving their professionalism through certification programs that demonstrate their knowledge and understanding and suggest the willingness for continual learning in what is an increasingly demanding profession. In some markets the director training institute maintains a database of certified directors, and companies can

subscribe to it. For example, the Slovenian Directors Association invites members who hold positions on supervisory boards of listed companies to become a “chartered supervisory board member” by passing an examination. All candidates who successfully complete the examination are listed in a national register of supervisory board members.

“Although there are benefits of becoming a certified director, no published study has validated the correlation between certification and higher performance on the board. However, the U.K. Institute of Directors’ unpublished study of those directors who failed the certification identified that 18 months later over 50 percent of these directors were no longer on the board or the company no longer existed.”

Mature Director Training Institutes

In recent years some of the more established director training institutes, such as the New Zealand Institute of Directors and the U.K. Institute of Directors, have begun to rethink their role and change their image so that they are generally perceived as a professional institute rather than a membership organization.

A professional institute typically has the following features:

- Composed of individuals with annual membership subscriptions that focus on professional development needs, rather than of corporations that use it for corporate lobbying purposes;
- An exclusive rather than an inclusive membership, with full membership typically associated with passing examinations;
- Providing professional director development activities and programs;

Case study: Institute of Directors in New Zealand

The IoD in New Zealand has over 6,250 members. The Chartered Director program is designed to transition the IoD from a membership organization to a professional body. The program will offer members meaningful recognition for their experience and expertise, and to the market it will assure the quality of IoD members. The program was developed after extensive consultation with members and stakeholders. The new structure of the professional body involves six categories; the three most relevant categories are:

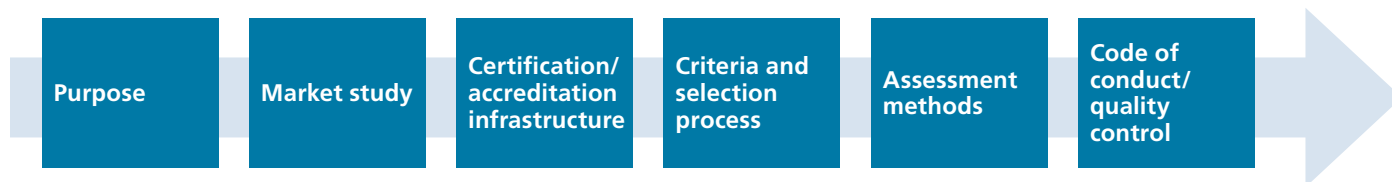
- Associate—required to meet all current membership requirements and subject to the IoD Code of Practice
- Member—nominated by a sponsor (experience guidelines, currently being developed, measure the quality of minimum experience levels using the IoD’s Director Competency Framework); must engage in continuing professional development
- Chartered Director—nominated by a sponsor and subject to a higher level of experience guidelines; requires references and meeting with an interview panel.

- Membership behavior requirements (normally involving a code of ethics or standards) with expulsion powers for those directors who do not comply;
- Developing thought leadership in the area of director activity and corporate governance in general; and
- Providing continuing professional development services to update the knowledge and skills of their members following qualification.

Newer Training Providers

Some of the newer training providers, such as Hawkamah in the United Arab Emirates, the Caribbean Institute of Corporate Governance, and the Moroccan Institute of Directors (IMA), have begun to use the BLTR as a basis for developing certification programs. They do not have entrenched legacy programs so can more swiftly respond to user demands. For example, IMA, which is only a few years old, conducted a feasibility study to determine the training preferences of its members: 88 percent of respondents thought that a fully-fledged chartered directors program would be useful, and 77 percent of companies that responded have a training budget for staff and board directors.

Process and Key Points to Consider



1. The purpose of certification

Different stakeholders are likely to have alternative expectations relating to a certification program (see Table 1).

Table 1: Expectations Relating to Program Certification

Stakeholder	Perspective
Director's perspective	<ul style="list-style-type: none"> • Recognition of the participant's level of achievement at the end of the course • A process to diagnose strengths and weaknesses, which can lead to remedial action or extended learning, if required • Consolidation of the learning so far • Building confidence and credibility in the participant's likely future performance • Determination of aptitude to perform the duties of a board member
Regulator's perspective	<ul style="list-style-type: none"> • Focus on the process of quality assurance and conforming to the requirements that the external regulatory bodies have set • Need for directors in the banking sector to pass "fit and proper" tests evaluated by the regulator
Company's perspective	<ul style="list-style-type: none"> • Professionalization of boards • Identification of potential board directors and assistance in searching for non-executive and independent directors • Continuing professional aspect, which ensures that the company's directors are regularly being updated on current issues, trends, and practices
IoD's perspective	<ul style="list-style-type: none"> • Evaluation of a participant's progress during a course • Diagnosis of strengths and weaknesses of the course • Building a market and demand for continual learning • Leading to a higher recognized calibre of director members

2. Market study

A rigorous market study is important from the outset to ascertain the potential appetite for a chartered directors program. The study should analyse the needs and the risk-related considerations as well as determine a pricing policy that is adequate to the market and demand. For example, responding to price sensitivities identified in its market research, Hawkamah covered the voluntary examination in the course fee rather than establishing a supplementary fee.

Case study: The U.K. Institute of Directors

Over a decade ago, the U.K. Institute of Directors conducted a market survey of its members to learn whether they were in favor of establishing examinations for the existing development training program. The results were narrowly in favor of having a voluntary examination: 51 percent for and 49 percent against!

The members against the proposal were mainly experienced and successful directors who did not perceive any value to the qualification and expressed fear that, if the assessment were rigorous, they might fail, which would be harmful to their reputation among their peers!

The members in favour of the proposal were mainly aspiring directors who felt that having evidence of their knowledge levels of corporate governance and board matters would help them obtain their first seat on a board.

In addition, some of the tutors were against the proposal that the examination be voluntary, because they feared that it would lead to an emphasis on "teaching to the exam paper" and that any topic not on the exam papers would not be taught.

3. Development of a certification/accreditation infrastructure

Many institutes have commented that once they decide to go down the certification route they need to develop and build up their project management structure. Unlike regular director training, certification programs that involve professional accreditation entail stricter organization and program management, for many reasons: 1) candidates are trained over a long period—several months, sometimes more than a year; 2) candidates are building comprehensive knowledge and skills on different corporate governance topics; 3) the program—course content and delivery across different cohorts or classes—must be administered consistently; and 4) examinations need to be standardized and subject to control.

Institutes must therefore develop, monitor, and control course content and delivery through different governance models and bodies. For example, IMA in Morocco set up a number of committees to manage the project:

- A project management committee's principal duties include identifying sponsors as well as education partners, approving the course outline and certification methods, selecting the coordinators of each module, and assisting the management of IMA in all activities related to program launch.
- A pedagogical committee comprises each module's coordinator as well as representatives of partners and executives of IMA and of the International University of Rabat. Its duties are to review and approve the pedagogical content of each module as proposed by the module coordinators.
- An admission committee is composed of executives of IMA, the International University of Rabat, and the module coordinators. It is in charge of reviewing the application packages.

The examination process itself requires defining a number of standards and monitoring measures, especially with regard to security and confidentiality.

Often, institutes team up with an academic partner, such as a reputable university, to administer the exam and deliver the diploma. This partnership also allows the institute access to valuable logistical support (facilities, computers, Web-based applications, and management of the admission and exam process). IMA teamed up with the International University of Rabat, and eventually the university also became a partner for the administration of the chartered director program as a whole. Similarly,

Examination Checklist

- Is there a conflict of interest concerning the trainers' setting the exam questions and thereby leaving themselves open to accusations of teaching to the exam paper?
- Does there need to be an examination committee with responsibility for all aspects of accreditation?
- Do procedures need to be drawn up concerning organization of the examination? For example, how to handle exam disruptions, cheating, and so on.
- Should there be identity checks so the institute can ensure that the right person is taking the examination?
- Does an appeal process need to be designed to address any participants' grievances over results?
- Do allowances need to be made for learning disabilities, such as dyslexia?
- Do examination centres have to comply with disabled rights legislation?
- Is there any need for honorary awards?
- Is there any need for "grandfather" provisions?
- Are there any legal requirements to register accreditation with regulatory bodies or ministries, such as the Ministry of Education?
- Has the process been properly priced? For example, cost of exam rooms, exam setters and markers, and so on.



Certification award ceremony for French directors, September 2013.

a consortium in India—involving Hunt Partners (an executive search firm), PWC (the audit firm), and Board Evaluation Ltd (a specialist consultancy)—formed an alliance with S P Jain University (a top-10 Indian Business School) to develop its assessment processes.

An existing curriculum may need to be developed or adapted to accord with certification requirements, and some institutes use this opportunity to introduce innovative elements into their training. The French Institute of Directors (IFA) launched its directors' certification in 2010 in partnership with Sciences Po and the CAS (Quebec). One module is a board simulation. Following a case study, the participants are placed in a real board-meeting situation and play the directors' and committee members' roles. These sessions are led by professionals, chief executive officers, managing directors, and directors in office. This "real situation" practice is considered particularly beneficial for participants who do not have experience attending board meetings. The module, which occurs at the end of the program, is the one that creates the greatest link between the participants and illustrates the issues of collegiality, the risk of conflict of interest, and the need for board diversity and complementary skills and experiences among board members.

4. Criteria and selection process

The next step is for the institute to establish a clear set of criteria and a selection process. For example, the entrance criteria for the Chartered Director (South Africa) assessment requires that the applicant:

- Has been a practicing director of a company or has held an equivalent position for at least three years during the five years prior to application;
- Be a member of the IoDSA;
- Be at least 30 years old;
- Demonstrate a certain minimum level of educational achievement or be able to demonstrate experience of at least 10 years as a director; and
- Be sponsored by two members of the IoDSA, acting as proposer and seconder.

An admission committee should be set up to review the application package to ensure that the minimum requirements are met. For example, the IMA admission committee awards suitable candidates places in a relevant cohort, depending on the candidates' profiles, to ensure diversity of skills, expertise, background, and gender in each cohort. As far as possible, no more than two candidates sitting on the same board should be in the same cohort. Ideally, if applications from suitable candidates from the same company are received, they are distributed in different cohorts.

According to many of the institutes, directors from outside of the listed sector presented a number of assessment and selection difficulties. In particular, directors from state-owned enterprises (SOEs), nongovernment organizations (NGOs), and small and medium enterprises (SMEs) often worked under different regulations and legislation. The curriculum and the assessment had to take this diversity of experience into account; otherwise the system would be seen as unfair, comparing directors of SOEs, NGOs, and SMEs unfavourably with directors in listed companies.

5. Assessment methods

An institute can opt for one or more assessment methods, including multiple-choice questions, essays, and face-to-face interviews. For example, the U.K. Institute of Directors requires the prospective chartered directors to follow a three-step process. First, the candidate takes a series of courses, backed up by a set of e-learning modules (10 days total) and leading to a three-hour certificate examination with 60 multiple-choice questions. Next, a candidate takes a three-day interactive course, resulting in a diploma in company direction. Finally, the candidate undergoes a professional review, including an interview by two peers drawn from an IoD panel consisting of chartered directors, members, and fellows of the institute.

Several institutes recommended that the method of assessment take into account language skills and cultural issues (for instance, is the language that the assessment uses the second language of the participants?). Also, many directors are not enthusiastic about being tested via a formal and traditional examination. One respondent noted that quite a few of the directors had not written anything more than a paragraph in the last decade, so how could they be expected to complete a university-type written test lasting three hours?

For the participants' ease, some institutes introduced online certification exams. Since 2009, the Brazilian Institute for Corporate Governance offers online examinations twice a year. The exam is made up of 60 questions divided into four themes—corporate governance, corporate finance, regulatory environment, and strategic management—of which 60 percent are technical questions and 40 percent are based on a case study.

6. Development of a code of conduct and quality control issues

A large number of institutes require their successful award holders to comply with their code of conduct/ethics code. Failure to comply can lead to revocation of membership as well as of the certificate.

Many director training institutes have recognised this as a key quality control issue that needs to be carefully managed. Mature institutes have often found that significant additional monitoring is often required so as to identify whether each and every award holder is abiding by their commitment to keep up to date with new developments through the institute's continuing professional development scheme. In addition, some institutes have recognised a need to develop an additional committee to deal with any complaints concerning an award holder's professional behaviour and activities. So far, these committees have yet to deal with many complaints but this may be due to the fact that the numbers of award holders are still relatively low. Other professional bodies in the fields of law, accounting, and medicine report that dealing with professional misconduct can require important resources such as the development of robust disciplinary procedures being in place (including a clearly identified appeal procedure) before any complaints occur.

Case study:

New Zealand IoD offers a chartered professional director pathway encompassing three stages

	Early career	Mid-career Broadly equivalent to Accreditation	Mastery Broadly equivalent to Fellow
Entry Thresholds	<ul style="list-style-type: none"> • Pass 2 out of 4 IoD Essentials courses and submission of “fit and proper” portfolio • Qualifying experience of 2 board years or • Commensurate senior executive experience 	<ul style="list-style-type: none"> • Pass Company Directors’ course and ethics assessments • Interview • Peer review • Submission of “fit and proper” portfolio • Qualifying experience of 4 board years 	<ul style="list-style-type: none"> • Pass a “Mastery” IoD course assessment • Interview • Peer review • Submission of “fit and proper” portfolio • Qualifying experience of 10 board years on more than 1 type of entity
Activity	<ul style="list-style-type: none"> • IoD Company Directors’ course or equivalent • IoD Ethics course 	<ul style="list-style-type: none"> • IoD Chairing the Board course or equivalent • IoD Ethics course 	<ul style="list-style-type: none"> • Service to the profession – e.g. mentoring, participation in IoD working groups (SIG, etc.)

Other tips for setting up a certification program

Continuing education. Many institutes require their successful award holders to undertake continuing professional development (CPD) on an annual basis. This activity can provide an important regular stream of additional income for the institute. The U.K. Institute of Directors requires its chartered directors to undertake over 30 hours of CPD each year.

Standards. To encourage less-confident and less-experienced directors to start on the development pathway, institutes should not place the certification bar too high initially. Once the critical number of certified directors has been reached, the bar can be raised. Continuing professional development allows the institute to raise standards gradually over time.

Demand side. There is a tendency for institutes to focus solely on the supply of certified directors. Equal effort needs to be made to get companies to hire them.

Networking opportunities. In addition to obtaining knowledge and accreditation, certified directors will expect to be able to connect with their peers and feel that they are part of a “club.” Follow-up networking and learning events targeted specifically at certified directors will add value to the certification program.

Membership engagement. Development of certification provides an opportunity for greater member involvement, and membership engagement is generally regarded as a key to the success of an institute.

Benefits. There is a need to clearly articulate the value addition of the assessment process, particularly in regions where assessments at the director level are unheard of.

Directors database. For institutes just starting in the field of certification, the certified-directors database is an important tool to attract suitable candidates. Making the database freely available to the public may not be the best option, as it might “trivialize” the database and make it difficult to track the use of the information. Other possible options include 1) offering fee-based access; 2) providing free access to the database through a registration process; 3) signing protocols with large institutional investors and executive search firms, giving them “privileged” access to the database; or 4) setting up reciprocity agreements with other institutes to give certified directors access to potential employers in other markets.

We are grateful to all the institutes of directors and corporate governance organizations that took the time to complete the survey and provide us with the insights and information to write this paper. We might not have surveyed all existing programs and similarly not each survey example is cited herein, but all responses were instrumental in building the rationale and key thinking points for the paper.

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