



## INDIVIDUAL

# Position description for an executive director

The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles) provides the following definition for an executive director: "In the case of an internally managed listed entity, a director of the entity who is also an executive of the listed entity or a child entity and, in the case of an externally managed listed entity, a director of the responsible entity who is also an executive of the responsible entity or a related body corporate."<sup>1</sup>

### Developing a position description

Once the board has identified a need to appoint a new executive director, the next step in the recruitment process involves developing a position description for the role.

Executive directors have a dual role: that of company employee, usually a senior executive, and that of board member. Although they have the same duties and responsibilities as other directors, executive directors can add value to the board through their increased knowledge of the company's business and operations – including strategy, direction and competitive pressures – and having greater access to company information than non-executive directors. Since non-executive directors are more distant from the daily operation of an organisation, inclusion of executive directors on the board can bring valuable insights about the organisation to the table during board discussions.

The dual aspect of an executive director can, however, also lead to role confusion. Commissioner Hayne reaffirmed the importance of role separation between board and management in the Royal Commission into Misconduct in Banking, Superannuation and Financial Services Industry. He stated the "task[s] of the board is overall superintendence of the company, not its day-to-day management"<sup>2</sup>. Boards primarily set strategy and monitor management. Management implements strategy and reports to the board. Therefore, an executive director is a governor and manager, and an employer and employee. During board meetings, the executive director needs to focus on strategic issues rather than operational matters.

Clarification of the purpose of each role is important in developing a position description for an executive director. The process may be undertaken by the board as a whole or through a board delegation to the chair, the nominations committee or a smaller tasked group appointed by the board (which can include board and non-board members if desired). The drafting of the position description may also be done in consultation with an executive search firm.

1. ASX Corporate Governance Council, 2019, *Corporate Governance Principles and Recommendations*, 4th edition, February, p 35, <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf>, (accessed 10 September 2019).

2. K M Hayne, 2019, *Final Report Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry Volume 1*, February, Commonwealth of Australia, p 398, <https://www.royalcommission.gov.au/sites/default/files/2019-02/fsrc-volume-1-final-report.pdf>, (accessed 10 September 2019).

### Points to consider

- Directors do not need to have the same level of expertise in every area (and it is unlikely that this would be the case on a diverse board). For example, although directors need to be financially literate, advanced skills in financial responsibility can be taught and may not be a necessary requirement for a board appointment.
- Executive directors already have a full-time position. Additional time commitments related to their board role must be carefully considered to ensure the role of executive and director can be fulfilled without negatively impacting day-to-day responsibilities as an executive.
- Executive directors are not usually present for certain board discussions, for example when the executive director has a conflict of interest on matters being discussed, when the CEO’s performance or remuneration are being discussed or for board meetings with the external auditor.
- Ideally, every board should have a policy for dealing with executive directors who hold multiple directorships, to ensure that all directors and senior executives are aware of the other imposts on the executive director’s time.
- In addition to skills and competencies, any other personal attributes and behaviours that will align with the organisation’s values and culture.

### A SAMPLE POSITION DESCRIPTION FOR AN EXECUTIVE DIRECTOR

<b>Role:</b>	[Executive director]
<b>Reports to:</b>	The board of directors through the chair.
<b>Location:</b>	
<b>Current board:</b>	
<b>Chair:</b>	[Name of current chair] [Attach a brief synopsis of their professional background]
<b>Non-executive directors:</b>	[Name of current non-executive directors] [Attach a brief synopsis of their professional backgrounds]
<b>Executive directors:</b>	[Name of current executive directors] [Attach a brief synopsis of their professional backgrounds]

#### The role:

- Company X seeks to appoint an executive director to the board. This role has the same duties and responsibilities as other director roles, however it is anticipated that this appointment will provide the board with greater insights and awareness of important business and industry issues and be able to appropriately and thoroughly examine their impact on strategy.
- This is a newly created role.  
[or]
- This is created due to a vacancy.
- In addition to management responsibilities, the role requires attending approximately ten (10) board meetings per year and may involve serving on at least one board committee – and associated preparation.
- It may also be necessary to take part in monthly conference calls for management, financial reporting and general compliance issues (include time estimate if possible). There may be exceptions to attendance where real or perceived conflicts of interest arise. Unless otherwise advised, your role as an executive director will continue for so long as you are a member of the management team.

A SAMPLE POSITION DESCRIPTION FOR AN EXECUTIVE DIRECTOR *continued***Organisation's values and code of conduct:**

- Since the board is the culture custodian of the organisation, an executive director plays an active role in promoting and monitoring the desired organisational culture throughout the company.

**Note:** Include information (or a link to the company website) on the organisation's values, mission statement, purpose and strategic objectives and the board's code of conduct. This will provide an expectation of the behaviours, strategic direction and organisational culture, which candidates are expected to adhere to.

**Competencies and skills (role related):**

- **Knowledge of a director's responsibilities** – includes an understanding of the role as well as legal, ethical, fiduciary and financial responsibilities involved and ability to separate, where necessary, the role of director and employee;
- **Strategic expertise** – the ability to differentiate between operational and strategic matters, to review the strategy constructively and openly, contribute to the effective decision making of the board;
- **Accounting and finance** – the ability to read and comprehend the company's accounts, financial material presented to the board, financial reporting requirements and some understanding of corporate finance;
- **Legal** – the board's responsibility involves overseeing compliance with numerous laws as well as understanding the individual director's legal duties and responsibilities;
- **Risk management** – experience in managing areas of major risk to the company;
- **Industry and company knowledge** – experience at the company, in the industry and any other experience relevant to the board's composition;
- **Managing people and achieving change** – experience in current management thinking on engagement, strategic vision and stakeholder communication.

**Note:** The need for other skills, knowledge and experience will depend on the size and type of company, markets operated in and line of business.

**Competencies (personal attributes):**

- **Integrity** – fulfilling a director's duties and responsibilities, acting ethically, appropriate independence, putting the organisation's interests before personal interests. An executive director needs to be mindful of conflicts of interest and act accordingly;
- **Collegiality** – in most instances, an executive director will have detailed knowledge of the company and its issues, and greater access to information. The ability to reasonably share this insight with the board, and to raise matters for discussion, is an important aspect of this role;
- **Collaborative yet curious and courageous** – a director must be able to function as an effective team member but must also have the curiosity to ask questions, and the courage to persist in robust discussion with management and fellow board members where required;
- **Emotional intelligence** – as well as self-awareness and self-management, a director needs to demonstrate empathy manifested through strong interpersonal skills. A director must work well in a group, listen well, be tactful and yet be able to communicate a cogent and candid viewpoint;
- **Commercial judgment and instinct** – a director needs to demonstrate good business instinct and acumen and be able to assimilate and synthesise complex information;
- **Meaningful engagement** – a director needs to be an active contributor with genuine interest in the company and its business.

**Note:** The need for other personal competencies will be consistent with the composition of the board and its preferred working style.

**Educational requirements:**

- Tertiary education
- Completion of Australian Institute of Company Directors' *Company Directors Course*
- Other related education/experience

**Note:** In most instances, an executive director will require necessary educational qualifications, such as those listed above, that allow him/her to fulfil their functional role in the business.

A SAMPLE POSITION DESCRIPTION FOR AN EXECUTIVE DIRECTOR *continued***Remuneration and benefits:**

- Annual remuneration
- Travel and other expenses
- Other – such as non-cash benefits

**Note:** *In most instances this would be a nominal amount. In some cases, the amount might be covered by the executive compensation associated with the executive director's business role.*

*Remuneration information may be listed outside the position description. Remuneration information should be clearly listed in the director's induction pack or in the written appointment agreement.*

*The ASX Principles<sup>3</sup> suggests the board should take into account the roles and responsibilities of the executive directors, the market condition, nature of the business and the scale of the entity's business. It provide some guidelines for boards when designing the remuneration packages for executive directors:*

- *Fixed remuneration: a fixed amount that remunerates executive directors for fulfilling their directors' duties and executives responsibilities. The amount should take into account time commitment and their workloads.*

- *Performance-based remuneration: a variable amount that remunerates executive directors' performance against some clear and pre-agreed performance targets. These targets should align with the entity's performance objectives (short, medium and long term), values and risk appetites.*
- *Equity-based remuneration: executive directors can be remunerated with the entity's options or performance rights. These rewards should link to the entity's short, medium and long/-term performance objectives.*
- *Termination payment: an agreeable amount which remunerates executive directors in the case of early employment termination. No payment should be rewarded to directors who are removed for misconduct or unlawful activities.*

3. ASX Corporate Governance Council, 2019, *Corporate Governance Principles and Recommendations*, 4th edition, February, Recommendation 8.2 (p 30) and Box 8.2 (p 31), <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf>, (accessed 4 June 2019).

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