

# Director Competencies for New Members of the Board

## Introduction:

New directors coming onto the Board will soon discover that the job is not what they expected. Our industry, once stable and predictable, now faces a profound transformation. Since we are only at the beginning of the utility restructuring process, most consumers are unaware of the magnitude of the changes that are coming, and no one knows precisely how the industry will evolve. But, in general, it is clear that we face a new legal and regulatory environment, increasing competition, and growing demands for customer choice.

In this situation every director's job is more difficult. This can only be more so for the new director. The job is more difficult because Boards must deal with a wider variety of issues, there will be less time to study issues, decisions must be made more quickly, and Board decisions will involve a greater degree of uncertainty and risk. Increasingly, there will be situations where quick decisions must be made in response to a competitor's action, to a customer's request, or to a new business opportunity. Nothing will be certain in the new environment, and little will be easy.

## II. The Study of Director Competencies:

Since the beginning of this decade, it had been clear that change was coming to our industry. New technologies offered new opportunities to consumers and utilities alike. At the same time, the increasing competition faced by every industry in the global economy had caused businesses to look more closely at their energy costs. Growing competition was not just a fact about our industry, but about every industry in the world.

Psychologists define "competency" as an underlying motive, trait or skill that leads to superior job performance. It is "underlying" in the sense that it is a motivator of behavior, and people who have the competency may not even be aware that it is why they are effective on the job. In discussing competencies, it is useful to distinguish three related concepts: knowledge, skills, and competencies.

- **Knowledge** entails understanding and being able to use basic information and concepts in some area. It is generally acquired by reading, by study, or by attending seminars. As we'll discuss below, rural electric directors are expected to have some knowledge about our industry.
- **Skills** are specific job-related abilities. For example, a director may have skill in using the Internet, or the skill to make a great speech. Skills are generally acquired by practice.
- **Competencies** are more fundamental than either knowledge or skills, and they are generally more difficult to acquire. A director may have knowledge about our industry and the skill to explain how the industry is changing. A competency is not the skill or the knowledge, it is the underlying desire by the director to want to understand and explain our industry. The competency explains why some directors work hard to understand the industry. That is an underlying motive. Having a competency means having the habit of doing or saying the right thing at the right time.



Competencies were studied using a recognized methodology known as "Behavioral Event Interviewing." A sample group of directors was identified, and they were asked to describe specific tough situations they faced on the Board: situations such as hiring or firing a manager, dealing with a conflict in the boardroom, or making a decision that affected the nature of the corporation or the business (i.e., a decision to create a subsidiary, or to pursue a consolidation with a neighboring system). The directors weren't asked to talk about competencies in the abstract, but instead to talk about exactly what they did in the various tough situations they faced. **How** the directors described these critical situations, and their role in them, is indicative of the competencies. How the directors described the situations indicated the kinds of habits they had to do and say the right thing at the right time.

### III. The 21st Century Director Competencies:

Eight major director competencies:

1. **Cooperative Outlook.** All of the directors who were interviewed consistently expressed the value of the cooperative form of business enterprise. This was most important when they talked about the co-op informally with members or the public. For these directors, co-ops are seen not as inferior organizations that exist only in places where it's not profitable for investor-owned utilities (IOUs) to serve, but as intrinsically valuable enterprises that have build-in advantages over other competitors. (As we will discuss later in this article, the intrinsic value enjoyed by co-ops also imposes some special obligations. In the public arena co-ops are held to a higher standard because of the kind of business they are.)

Other research verifies this viewpoint. Opinion surveys and focus group studies indicate that consumers value cooperatives as local businesses that represent local constituencies and that are able to add value by meeting local needs. Electric cooperatives are local in several senses:

- They are visible as homegrown enterprises, literally created in the area that they serve. They maintain an office, a fleet of vehicles, and the equipment that enable them to provide reliable electric service. In contrast, we are now seeing a decline in local visibility by investor-owned utilities that are closing district and area offices in order to cut costs.
- They employ local people who are friends and neighbors of their consumers. Co-ops are often as close to the customer as any business can be. This closeness typically translates to a high level of trust that the consumer feels toward the co-op.
- They are governed on a purely local basis. The new director will discover how true this is when he or she gets phone calls from consumers wanting to report outages or other problems. In contrast, it is unlikely that an average customer would ever know how to call a director of an investor-owned utility, who almost certainly is not listed in the local telephone directory.



*Oregon Trail Electric Cooperative*

- They keep money in the community. A significant proportion of the consumer's electric payment stays there, while the payment to the IOU can be disbursed anywhere, with the profits ultimately going to investors who know nothing of the local service area.
- They do small things for community betterment --- from stringing community Christmas tree lights to providing scholarships to students entering college and for students returning to college. They provide scholarships for lines of work in our electric utility industry, i.e., Journeyman Lineman, and offer apprenticeship programs. Many IOUs are active in area economic development and related activities, but ultimately the IOU must evaluate every corporate investment in terms of providing a return to stockholders; co-ops are not driven by that imperative.

These factors are relevant to director competencies because no utility organization exists autonomously; it is always dependent on a set of public institutions and consumer perceptions that must be positively influenced as part of the organization's successful achievement of its mission. A new director may believe that all of the "action" occurs inside the boardroom where important decisions are made. In a narrow, legal sense this is true. **But directors should also recognize that how they describe and talk about the cooperative impacts consumers and the public. How they describe it makes a difference.**

A story may bring this point home. One director, asked to describe a situation where he made a difference, talked about a major storm that led to a multi-day outage for several hundred consumers. Because of the engineering design of his system, the power at his residence was restored before some others. Instead of just living with the situation, the director went to visit several consumers still out of power to explain what the co-op was doing, and why the design of the system may lead one consumer to be restored sooner than others. This is a demonstration of Cooperative Outlook.

2. **Organizational Well-Being.** Competent directors want their cooperative to be the competitive choice. They recognize that competition is a fact of business life and that it is increasing in our industry. But these directors bring an optimistic sense that competition does not doom us to failure and that we can compete by doing what needs to be done.

The directors who were interviewed talked about situations where competition was fierce and where the cooperative may have initially been at a disadvantage. But in each case they asked questions like, "*What can we do about it?*" "*How can we overcome that problem?*" "*What are the advantages that we have?*" Directors with this competency have a mentality of optimism and a belief that improvement is possible.

Organizational Well-Being is a competency that drives strategic planning. It is based on the assumption that there are things that can be done to improve the organization on a planned, step-by-step basis. A cooperative may have higher rates than a competitor, and it may be unable (or imprudent for it) to simply slash costs. But a plan can be put into place



that will gradually decrease a rate disparity over time. Organizational Well-Being leads directors to seek such plans.

Stories about two actual cooperatives make this point. In one case, a cooperative with a long history of poor, if not adversarial consumer relations, received a takeover offer from a neighboring investor-owned utility. The Board, highly factionalized, was never able to ask the question, "*What really is in the best long-term interests of our members, and how do we make sure those interests are served?*" (Note that attorneys claim that asking this question is not just a demonstration of a competency but a fundamental legal responsibility of the Board.) Instead, the directors argued over petty details. As a result, no one spoke up for the cooperative, it was sold, and the former members are now served by an investor-owned utility.

A different result occurred in the same state. Sensing blood in the water, another investor-owned utility sought to buy out a cooperative. But in this case some directors were forceful in saying "*We can compete.*" Prior to an important member vote, the directors promised to develop and implement a plan to deal with the rate disparity problem. The members trusted the Board to deliver on this commitment, and the cooperative is today on the way to recovery.

3. **Self-Management and Growth.** This is the most basic of the competencies, for it is based on the simple idea that everyone can learn and grow. As one director put it, "When you think you have nothing more to learn, it's time to retire."

**The issue of learning and education is particularly important today because directors, as fiduciaries, are legally expected to have the minimum knowledge and skills necessary to oversee the affairs of the corporation.** Directors must know enough to ask intelligent questions and to be able to evaluate the performance of management. The Board has to know that the cooperative is doing what is necessary to ensure that its debts can be paid, that reliable service will continue to be provided, that service rules and regulations are being followed, that employee and public safety are not being jeopardized, and that all legal requirements are being met. This is a tall order. But these requirements are now even more complex because of the structural changes taking place in the industry. There is much more to know and understand, and it is not surprising that many new directors feel overwhelmed when they come onto the Board. Many directors say that it takes about three years before they understand the issues they must address.

**The legal requirement is to have minimum knowledge and skills necessary to oversee the affairs of the corporation.** What equates to "minimum knowledge and skill?" A reasonable answer suggested by one attorney is this: **be acquainted with the "jargon" of the business, and always be willing to seek an explanation from management about why something is being proposed.** What is the "jargon" of our business? Basically, the common terms and concepts that make up the industry: load factor, kilowatt-hour, retail wheeling, and the like. Directors don't need to know the details of FERC Order 888; they should know that the Federal Energy Regulatory Commission is a federal agency with oversight over public utilities and that it has issued orders that are designed to open access to transmission and to increase wholesale competition.



New directors should recognize that their fiduciary responsibility does not include becoming an expert in the business. That is the role of management. **Directors have an oversight role, a responsibility to plan for the future of the business, to set policy, and to evaluate the results. Good Boards ensure that the right results are being achieved, and are not involved with the specific ways they are being achieved.**

Directors demonstrate Self-Management and Growth in three ways: First, they have the habit of speaking up when they do not understand something; they are not embarrassed to ask for help. Second, they have the habit of studying and attending seminars if that is what is required to get the understanding. (There is a corresponding management competency whereby managers actively seek to get the appropriate education for their directors. Directors shouldn't feel that it's only up to them.) Third, they recognize that they must establish a trust relationship with the manager. This trust is earned, and does not exist automatically. Managers earn this trust by clearly explaining what they are doing and what they propose, and by delivering on the goals to which they have committed. By doing this consistently, managers gradually earn the right to run the business responsibly, responsively and flexibly, in accord with the requirements to meet competitive pressures.

4. **Collaboration.** Of all of the competencies identified, this shows up most strongly among rural electric directors, more strongly than among other business groups studied. Competent directors intuitively know that as volunteers on local, not-for-profit Boards, they can work effectively only by demonstrating positive regard for their peers, by respecting differences of opinion, and by seeking decisions that meet the broadest needs.

Collaboration is a style of interacting and decision-making based on a "win-win" model. Directors with the competency of Collaboration consistently seek to understand the viewpoints of others, they try to foster teamwork in spite of differences of opinion, and they try to build alliances that strengthen the entire network. Collaboration says not "my way", but "let's find a way that is best for all of us." It actively seeks the team solution.

The interview situation that best described this competency involved a Board that was deeply divided about a manager. This manager was perceived as competent in many areas, but as having overstepped the bounds. A director who strongly supported the manager was able to articulate the view that the manager should be given one more chance. That decision was agreed to, but in a short time yet further doubts were raised, and finally the Board decided that a dismissal of the manager was necessary. At that point, the director who supported the manager could fight on, or say that the good of the whole required supporting the majority view. That is Collaboration in the sense that the director recognized the need to maintain the alliance and unity of the Board. (A situation reported on in the press makes a similar point. There was a proposed merger of the Boeing Co. and the McDonnell Douglas Corporation. Both Boards, including McDonnell Douglas' Board, agreed that the new company would be called Boeing Inc. The McDonnell Douglas name will disappear. The directors must have regretted the result, but they apparently concluded that this was the best overall decision.)



5. **Decisiveness.** This describes the desire to help the Board make good decisions. The decisive director recognizes that a planning process is necessary to identify the long-term goals that must be achieved, and tries to keep the Board focused on those goals. This director will work to get closure on critical issues; he or she will say (assuming that the majority of the Board and the manager agree) that they have studied an issue long enough and that a decision must be made. As we noted in the introduction of this article, competition will increase the number and variety of the issues that must be addressed and the risks that will be associated with them. This is a fact of life. The competent director tries to help the Board deal with this fact of life.

Because of the growing risk and uncertainty in our industry, some decisions will not turn out as expected. In this situation some directors will be motivated to second-guess the decision, to raise doubts about its wisdom. This temptation may be particularly strong for directors who opposed the decision in the first place. But decisive directors won't yield to this temptation even if they opposed the decision. **Nothing is more destructive to effective working relationships on a Board than when individual directors challenge and criticize some decision after the fact out in the hallway or worse, when talking with consumers.** This is a cardinal rule for all new directors: You may challenge any issue in the boardroom up to the time when the decision is made (but also demonstrate the competency of Collaboration when making that challenge). After that time, the decision must be supported and the Board must speak with one voice. This is not to say that the decision process was perfect. If a process should be changed, then introduce that topic to the Board for discussion. But support decisions after they are made.

6. **Leadership.** There are at least three components of Leadership. At the most basic level, directors must follow legal standards of duty, including the duty of care, which says that directors must exercise good business judgment, as any prudent person would, and the duty of loyalty. **This duty says that when serving on the Board, any director must be loyal to the corporation and not to outside or competing interests.** This raises the question of conflict of interest, which can occur anytime a director deals with an issue about which he or she has a personal interest. For example, directors are generally prohibited from having significant ownership in any competing business. Candidates for the Board should discuss these duties with a qualified attorney prior to taking a seat on the Board, and anytime when a potential conflict of interest is raised.

A second aspect of Leadership relates to the desire to be an effective role model for the cooperative. This implies recognition of the need to follow standards to ensure that there is always the appearance as well as the reality of proper behavior. This is particularly important for cooperative directors because, as we noted when discussing Cooperative Outlook, cooperatives are commonly held to a higher standard.

Co-ops are public organizations; their consumers are their owners; they exist in a community setting and claim legitimacy at least in part because they are designed to meet community needs. On the positive side, this is why consumers trust us; but on the negative side, that trust can be broken if the Board is perceived as not being upfront and open. This is why directors must be especially cautious if the Board is tempted to do things that can lead it to be perceived as stone-walling, as closed, or as self-serving. One piece of advice that might be considered is this: never do anything in the boardroom,



even in executive sessions of the Board (especially in executive sessions!), that you would not be comfortable being written about on tomorrow's front page of the newspaper. In today's world there are very few secrets.

The third aspect of Leadership is the desire to want to make a difference, to get something done. This goes beyond acting properly in terms of legal standards and in terms of ensuring that the Board is always perceived positively. It implies actively working to make a difference. It is when times are tough that leadership is most needed. We noted earlier that a competency is the habit of saying the right thing at the right time. It is during the tough times that the Leadership habit is most needed. Leadership in this sense is closely related to the final two competencies.

7. **Initiative.** Initiative means putting oneself on the line to get something done. It means speaking up about important issues and becoming recognized as an advocate for a particular point of view. **Initiative is not a preemption of the manager's role. The manager still must run the business.** But an effective director may still be a collaborative but forceful advocate for change and improvement.
8. **Perseverance.** Perseverance means following through to make it happen in spite of initial obstacles. **It means being willing to make unpopular decisions because they're right for the organization, and sticking to them.** It is based on the recognition that creating positive change through Board action is a long-term proposition.

Leadership, Initiative and Perseverance are closely related because they all grow out of the motive to help guide the organization during times of change. And as we discussed in the introduction to this article, change is today the most fundamental characteristic of the electric utility industry.

It is well known that many people resist change. Change implies a shift from the known to the unknown, and the unknown is always potentially threatening. It should not be surprising that resistance to rather than the embrace of change is the more common response. Some directors want to be active on the Board, to help guide it through the change process. These competencies speak to that motivation.

#### IV. Conclusions about the 21st Century Director Competencies:

The development of a competency model is not an indication that anyone is incompetent. That is not the point. Competencies are the underlying motivations or skills that lead to superior performance. Everyone needs basic knowledge and skills, and as we noted, this is a legal requirement for corporate directors. Competencies move from the basic level to the superior level, to the truly effective. They represent the best or highest standard, the level that individuals can aspire to. In reviewing these competencies, there are a couple of points that directors might keep in mind:

First, competencies, although described in the language of psychology, really come down to common sense habits and behaviors. These can be related to specific - statements or questions that can be expressed by directors at specific times:



**Cooperative Outlook:** *"As locally owned and controlled co-ops, we bring real value to our service area."*

**Organizational Well-Being:** *"How can we ensure that the co-op is the competitive choice, no matter what?"*

**Self-Management and Growth:** *"How can you make me understand this better? This is something I really want to know about, so I will do what is necessary to learn it."*

**Collaboration:** *"Help me understand your point of view. Let's see if we can come up with a solution that meets all of our goals."*

**Decisiveness:** *"How can we make the best decision that we can all live with?"*

**Leadership:** *"Let's make sure we don't do anything that we will be embarrassed about later on, even if it looks like the easiest thing to do now."*

**Initiative:** *"I believe in this and would like the Board to really consider it."*

**Perseverance:** *"This may be an unpopular decision for a minority of our members, and it will take a lot of time and effort to get this done, but it's the right thing to do, so let's stick to it."*

These competencies represent behaviors that are demonstrated at important times. It is when there is some crisis or conflict when the competency needs to be displayed. It is when the boardroom discussion is most heated that there is the greatest need for Collaboration; it is when the cooperative is under attack that the Cooperative Outlook and Leadership need to be expressed. These are the critical times that matter. In such times it may be hard to display the competency, but this is why they must be developed as habits of behavior, available when they are needed. In the meantime, it is a matter of effort.

Finally, competencies can be learned by directors who want to develop the habits that lead to superior performance.

#### **V. Schedule of Expected Director Meetings and Training:**

- **Twelve all-day monthly meetings – usually held the fourth Tuesday of each month (Two to three hours of reading before each monthly meeting)**
- **OTEC's annual meeting – on a Saturday around the first of May**
- **NRECA Region IX, NWPPA or NRECA Annual Meeting – each are four to five days plus travel time. Directors attend at least one of these meeting a year**
- **Credentialed Cooperative Director (CCD) – requires five 1-day courses plus travel time, the Director is expected to achieve this credential in three years**
- **Board Leadership (BLC) Certificate – requires earning the CCD and then completing a total of 10 additional credits**
- **Board subcommittee meetings – held throughout the year as needed**
- **Miscellaneous state and associated organizations meeting – 2- to 3-day meetings plus travel time**

