

BOARD SKILL AND TRAINING BENCHMARKING ANALYSIS

October 2012

INTRODUCTION

Benchmarking the performance of ICANN's board to principles and practices of other like-minded organizations can lead to overall enhancements in board effectiveness. Providing appropriate training to board members is critical to ensuring a board's long-term effectiveness. Incorporating best practices can pay great dividends in equipping new board members and getting them engaged from day one of their board service.

EXECUTIVE SUMMARY

The following report reflects some of the best and common practices in board orientation and ongoing training. Once new members have joined the board, best practices encourage organizations to provide an effective orientation process that quickly gets directors up-to-speed. The primary purpose for a formal orientation or board training process is to provide new members with an overview of the organization, its mission, history and work, along with reviewing the roles and responsibilities for board members. In addition, ongoing board training for all directors helps ensure the long-term effectiveness of a board.

Examining the role and structure of other like-minded organizations' boards is also a helpful benchmarking tool. A snapshot of board sizes, committee structures, term limits, executive sessions and governance issues is highlighted below in the Role and Structure of the Board section.

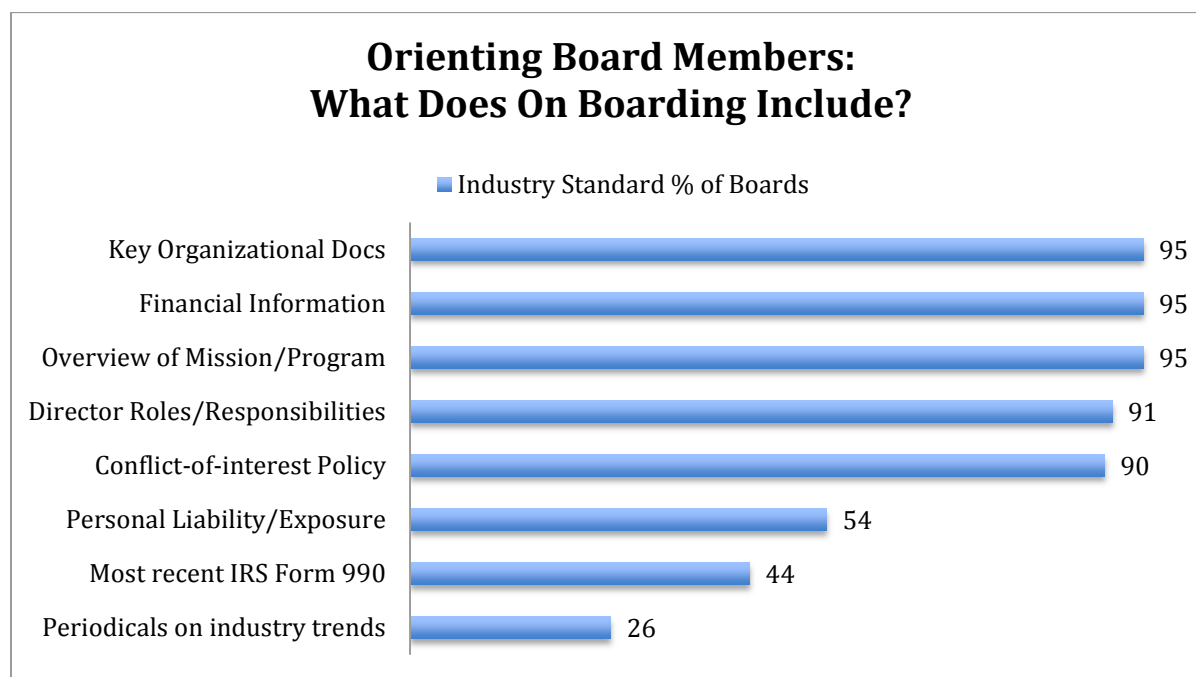
This analysis also identifies director skill set requirements sought by leading chief executive officers, chief financial officers, board members and other top officials of corporations, higher education institutions, trade and professional associations, social and human service organizations, religious organizations, cultural organizations, health care organizations, and not-for-profit foundations.

One of the key roles of any board is to continually ensure that it has the right set of skills and attributes represented in its board membership. Recruitment of directors who are committed to the organization and possess the skills, knowledge and attributes needed in order for the board to effectively carry out its responsibilities is paramount to an effectively run organization.

ORIENTATION FOR NEW BOARD MEMBERS

Bringing on a new board member is only the first step. An organized effort in making sure the board member becomes engaged in the work of the board and feels that his or her time is well spent is key. The purpose of orientation for new board members is to foster a healthy working relationship between new board member(s), current board members, and the organization. The following bullet point observations serve as benchmarks in best practices for board orientation. The findings come from a recent National Board Governance Survey for Not-for-Profit Organizations, published by Grant Thornton LLP¹ (nearly all data in this section can be attributed to the Grant Thornton study, however, additional sources will be cited as appropriate in endnotes).

- Not-for-profit organizations have become somewhat more rigorous in their approach to training over the past several years.
- 75% of organizations surveyed held orientation sessions for new board members.
 - Orientation usually took place as part of an annual board retreat where board members set aside a block of time (half, one, or two days).
 - However, fewer than half (47%) of respondents said their organizations have an annual board retreat.



Does ICANN include similar categories with respect to On Boarding New Board Members? (☑ denotes yes)

Key organizational documents	☑
Financial information	☑
Overview of mission/program	☑
Director roles and responsibilities	☑
Conflict-of-interest policy	☑
Personal liability/exposure	☑
Most recent IRS Form 990	☑
Periodicals to keep abreast of industry trends	☑

- Additional topics that a formal orientation may cover:
 - Defining the legal responsibilities of directors.
 - 91% of board members felt as though they were kept apprised of all legal matters affecting the entity.
 - Understanding the fiduciary duty of a board member.
 - Review of bylaws.
 - General history of the organization.
 - Clear explanation of organizational chart.
 - Articles of incorporation (if applicable).
 - Strategic risk oversight.

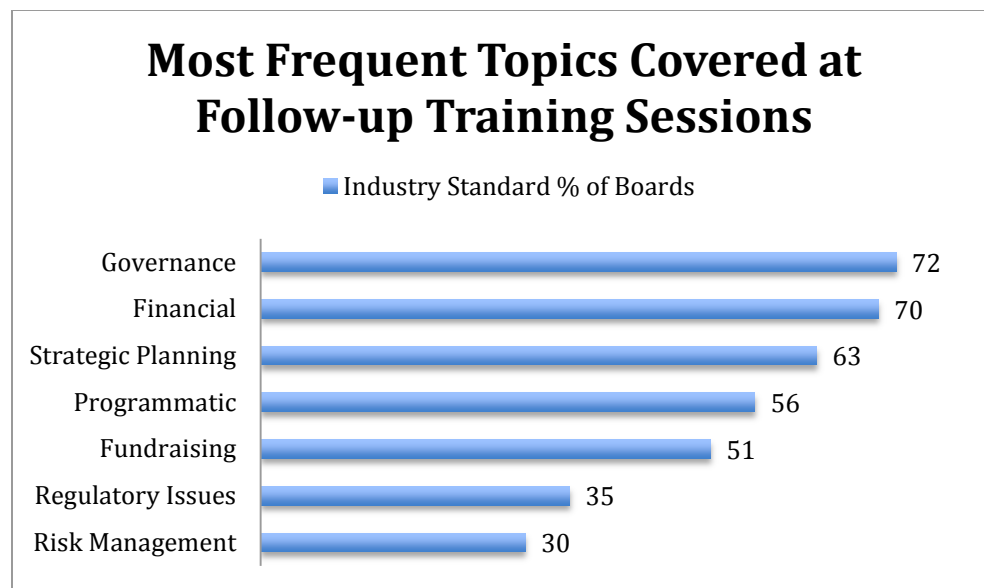
- Development of long-range goals and objectives vs. short-term goals and objectives.
- Voting rights of board.
- Explanation of Committees within the board.
 - Discussion of potential committee assignments with focus on synergy of interests, skills and preferences of the individual board member.
- Board approved mission statement consistent with stated purpose.
- Upon introduction of new members to all current board members, consider assigning a mentor board member to work with the new director for the first several months. This will provide informal opportunities for the new member to learn about the organization and ask questions in a more relaxed environment than a formal board meeting.²
- Incorporate tools such as a board handbook or manual as part of the orientation process.
- Board Focus – What is the most important focus of respondents' board?
 - Strategic planning (30%)
 - Fundraising (21%)
 - Ensuring effective programs (19%)
 - Planning beyond the recession (8%)
 - Recession/economy (6%)
 - Management performance (4%)
 - Investment management (4%)
 - Protecting reputation (3%)
 - Cash management (3%)
 - Enterprise risk management (2%)
- 24% of respondents indicated they are paying more attention to evaluating board performance than they did last year.
 - As part of efforts to increase accountability, boards have become more focused on scrutinizing the performance of the board, CEO, CFO and development director.
 - 30% of respondents indicated they are paying more attention to CFO performance than they did last year.
 - 14% of respondents indicated they are paying more attention to evaluating the executive director than they did last year.
 - Uptick in considering having board members complete annual self-assessments of their individual effectiveness.
- Form 990
 - In addition to the 44% (above) who include Form 990 in Board orientation programs, 55% of respondents have established formal policies for their board members to review the form.
- Understanding financial statements
 - 83% of respondents said they are comfortable reading, understanding and interpreting the financial statements of not-for-profit organizations in order to exercise their responsibilities.
 - 17% of respondents reported that board members lack a robust understanding of the organization's financial statements.
 - 57% felt their boards could use further training in responding to issues raised within financial statements.
 - 51% felt their boards could use further training in understanding the fundamentals of not-for-profit accounting and financial reporting.

- Respondents noted the differences in generally accepted accounting principles between commercial and not-for-profit enterprises.
- Post-Orientation Perceptions
 - 78% of management respondents reported that “the board receives a thorough orientation,” while only 69% of board member respondents agreed with this statement.

ONGOING BOARD TRAINING

Ongoing board training is viewed as a smart investment that can pay dividends to directors throughout their board tenure. Ensuring that board members receive ongoing training regarding the roles and responsibilities of the board, and their duties as members, is yet another helpful tool in achieving board effectiveness. Given the increased scrutiny non-profit organizations find themselves facing these days, the issue of ongoing board training and education has become a frequent topic.³ The following benchmarks related to board training again come from Grant Thornton’s National Board Governance Survey for Not-for-Profit Organizations.⁴

- Overall, respondents indicated that less emphasis was spent on continuing education for existing board members.
- 53% of the respondents reported that their organizations “offer the board focused training on key organizational issues and briefings on key industry trends throughout the year.”



Does, or has, ICANN included similar categories with respect to Follow-up Training Sessions (☑ denotes yes)

Governance	☑
Financial	☑
Strategic Planning	☑
Programmatic	—
Fundraising	—

Regulatory Issues
Risk Management

☒
☒

- Respondents stressed importance of setting time aside on regular basis to cover important topics, such as:
 - Effects of pending legislation.
 - Tips for understanding financial statements.
 - Effective fundraising techniques.
- Feedback from directors to ensure board members are receiving the right information and maximum benefit:
 - Board members are encouraged to submit a formal written document that provides feedback regarding what worked well and what could be improved upon in the future. Board members need to trust that the information they provide will be treated confidentially.
 - Board chair interviews the board member face to face.
 - Board member completes annual self-assessments of their individual effectiveness. This can be done through an online questionnaire that provides anonymity and allows Directors to express their views without fear of the comments being linked to them.

Ongoing Compliance and Ethics Training

- The majority of firms do not have formal compliance and ethics training for directors.
- 24% of companies provide compliance and ethics training for the board.
- 95% of companies present periodic reports to the board concerning compliance and ethics.
- Of the 65% of Compliance and Ethics Officers who have a reporting relationship with the Board of Directors, two-thirds report to the Audit Committee and only 18% report to the full board.
- Increased training is defined as any activity used to inform Board members on compliance and ethics matters beyond traditional reporting or external consultants or counsel.
- Training fatigue and information overload are concerns with compliance and ethics training (some companies focus on tailored compliance every two years instead of every year).⁵

ROLE AND STRUCTURE OF THE BOARD

Board Size: How do other organizations match up?⁶

ICANN

- | | | |
|------------------------------|-------|-------------------------------------|
| • 16-30 Board members | (39%) | <input checked="" type="checkbox"/> |
| • 6-15 Board members | (37%) | |
| • 31-50 Board members | (15%) | |
| • More than 50 Board members | (6%) | |

Committees: What type of committees do most Boards have in place?

ICANN

- | | | |
|-------------|-------|-------------------------------------|
| • Executive | (88%) | <input checked="" type="checkbox"/> |
| • Finance | (83%) | <input checked="" type="checkbox"/> |
| • Audit | (65%) | <input checked="" type="checkbox"/> |

- Nominating (58%)
- Development/Fundraising (55%)
- Investment (42%)
- Program (39%)
- Compensation (35%) ☒
- Strategic Planning (32%)
- Governance (31%) ☒
- Human Resources (20%)

Term Limits & Composition

- 78% of respondents said that their board members or trustees have term limits.
- 22% of organizations reported not having term limits.
- Term limits seen as good to help boards from stagnating.
- Staggered term of appointments for the Board of Directors.
- The Board membership reflects the diversity of the community served by the organization.
- Board must be an odd number of members.
- Board composition should continue to evolve to suit a company's strategy.
- The average tenure of directors is not about seven years.⁷

Diversity

- An effective group will be diverse in many ways, including, not only professional experience, industry background and educational background, but also worldview, temperament, age, stakeholder knowledge and personal background.⁸

Executive Sessions

- 81% of respondents said their board has executive sessions without management (19% never convene in the absence of management)
- 43% of boards met in executive session 2-3 times per year.
- 28% of boards met more than three times per year.
- Audit committees tend to meet in executive session with less frequency than the full board.
 - Once a year (35%)
 - 2-3 times a year (30%)
 - Never meets in executive session (26%)
- 38% of respondents reported that their full boards meet with the independent auditor.
- 7% of organizations' audit committees never meet with the independent auditor.

Governance Issues

- Strategic planning and oversight continues to be the most important issue for respondents.
- Much of the structure of a board meeting is outlined in an organization's bylaws.
- Best practices would suggest at least four board meetings per year.
- Early stage growth companies may have a board meeting once a month, but as the company becomes more established the number of board meetings tends to decrease on average to 4-6 per year with perhaps more committee work filling in the gaps.

- The majority of private boards have separated the CEO and board chair positions.
 - 82.8 percent have a designated lead (or Chair) director.
 - Nearly all of those with a lead director found that the position enhances the board's effectiveness.
 - Lead director found to enhance board effectiveness by following six practices:
 - Consider the bigger picture.
 - Organize information for action.
 - Give a voice to every director.
 - Conduct effective executive sessions.
 - Plan for director succession.
 - Provide leadership in a crisis.

IDENTIFYING COLLECTIVE SKILL-SET REQUIREMENTS FOR BOARD MEMBERS

The combination of a Board, professional staff, volunteer policy and advisory bodies and Governmental advisory bodies – with a reach that spans the entire globe – makes ICANN a truly unique organization and the role of the ICANN Board particularly challenging. Nonprofit board members have two basic responsibilities – support and governance – each requiring different expertise and skills.⁹ The bullet points below include skill-set attributes sought by many of today's leading, global large-scale non-profit organizations, Fortune 500 companies and trade associations. Also included are ICANN-specific skill-set requirements that are unique to ICANN's board and structure.

General Skill-Set Attributes For Boards

- Accomplished persons of integrity, objectivity, and intelligence, with reputations for sound judgment and open minds, and a demonstrated capacity for thoughtful group decision-making.
- Ability to approve corporate / organizational goals, strategy and planning.
- Ability to preparing for meetings and be a good meeting participant.
- Ability to chair meetings.
- Presentation skills.
- Industry knowledge.
- International business knowledge.
- Ability to resolve conflicts of interest and minimize rivalry in the boardroom, including handling disagreements and competing agendas.
- Problem solving.
- Decision-making.
- Financial management - reading budgets, financial reporting & accountability.
- Delegation skills.
- Risk management.
- Leadership skills.
- Communication skills.
- Knowledge of competitive landscape.
- Knowledge of global stakeholder landscape.
- Resource management.
- Evaluating board performance and self-assessment – overall and individual members.
- Establishing process and systems.
- Influencing without authority.

- Accepting responsibility.
- Articulating goals.
- Working with partners and alliances.
- International diplomacy skills.
- Multi-cultural sensitivity.
- Developing the appropriate working relationship with professional staff.
- Understanding and accepting their role of fiduciary oversight.

General Skill-Set Attributes For Leaders (in addition to all of the above):

- Succession planning.
- Governance.
- Recruitment and selection of board members.
- Identifying core competences of board members.
- Ability to understand and ensure appropriate financial disclosure.
- Performance evaluation.
- Maximizing board productivity and cooperation between its members and the management teams.
- Taking reasonable steps to ensure appropriate ethical tone at the top.
- Leading constructive, consensus-building board meetings with time-efficient agendas.
- Understanding how interactions among the directors and their backgrounds can impact decision-making and outcomes.
- Ability to perform necessary risk management analysis.

ICANN-specific Skill-Set Requirements

Cumulatively, criteria for selection of ICANN Directors should include:

- Persons with an understanding of ICANN's mission and the potential impact of ICANN decisions on the global Internet community, and who are committed to the success of ICANN.
- Persons who will produce the broadest cultural and geographic diversity on the Board.
- Persons who, in the aggregate, have personal familiarity or understanding with the operation of gTLD registries and registrars, with ccTLD registries, IP address registries, Internet technical standards and protocols; policy-development procedures, legal traditions and the public interest; and/or the broad range of business, individual, academic, and non-commercial users of the Internet.
- Experience in helping the Board develop a long-term vision for ICANN.
- Experience in working collectively with a large group of peers, with diverse cultural backgrounds and expertise, to reach consensus on key issues, including being able to delegate tasks to experienced directors, and building collegiality amongst the Board.
- Internal stakeholder relations – ability to interact with the chairs of the supporting organizations and advisory committees.
- External stakeholder relations – ability to interact with external parties, including Governments, contracting parties, and large external organizations from around the globe.

Skill-Set Attributes Involving Corporate Strategy Review¹⁰

- Understanding the intricacies of the business model, how the company makes money, and the ways that a board can jeopardize a company.

- Identifying the information and metrics that enable the board to approve and oversee organizational strategy.
- Enhancing the board's role in strategic planning, goal setting, and initiating change.

Skill-Set Attributes Involving Regulatory Compliance and Reporting¹¹

- Formulating an external financial reporting and disclosure strategy.
- Covering increasingly complex regulatory and reporting bases, while ensuring the company is moving in the right direction.

Skill-Set Attributes Involving Crisis Management¹²

- Handling unanticipated company crises, such as hostile or friendly takeovers, CEO departures, and reorganizations.
- Dealing with exposure to both known and unknown risks.

Skill-Set Attributes Involving Chairing of Meetings¹³

- The effective board meeting Chair should make sure that every viewpoint gets a full and fair hearing within the constraints that are imposed by time or other considerations.
- The burden of ensuring effective meetings does not fall on the Chair alone, but extends to every director.
- Achieving consensus is important, but many boards put forth too great an effort to achieve it. Lack of unanimity should neither increase nor decrease the liability of directors voting either way. Instead, it should oftentimes be construed as a sign of governance strength.

As evident from the expansive list above, highly effective boards possess collective knowledge and skills in a variety of fundamental areas. It is important to structure the work of the board (i.e. committees) in a way that will optimize effectiveness within board members' current capabilities and skill-sets. Highlighting critical skill-set attributes.

CONCLUSION

Once new members have joined the board, best practices encourage organizations to provide an effective orientation process that quickly gets them up-to-speed. The primary purpose for a formal board training or orientation process is to provide new members with an overview of the organization, its mission, history and work, along with reviewing the roles and responsibilities for board members. Periodic retreats or workshops to build board awareness of broader trends and to drill down on key issues can keep directors current and focused during their periods of service. This report sought to identify best practices in board excellence related to training, orientation and skill-set attributes. Moving forward, it's important to focus on how these pieces can help to advance the long-term value of a dynamic organization such as ICANN.

¹ 2009 National Board Governance Survey for Not-for-Profit Organizations, published by Grant Thornton, LLP.

<http://www.granthornton.com/portal/site/gtcom/menuitem.484ecb29dfc23197f22c5b10633841ca/?vgnextoid=1a93b174ccb36010VgnVCM100000308314acRCRD>

² Orientation and Training of Board Members, published by the Center for Public Skills Training. http://www.createthefuture.com/board_orientation.htm

³ CreatingTheFuture.org, Ongoing Board Education: Ensuring Board Members Have the Knowledge They Need,
http://www.help4nonprofits.com/NPLibrary/NP_Bd_OngoingBoardEducation_Art.htm

⁴ 2009 National Board Governance Survey for Not-for-Profit Organizations, published by Grant Thornton, LLP,
<http://www.grantthornton.com/portal/site/gtcom/menuitem.484ecb29dfc23197f22c5b10633841ca/?vgnextoid=1a93b174ccb36010VgnVCM100000308314acRCRD>

⁵ Corporate Executive Board, Compliance and Ethics Leadership Council for Board of Directors, www.celc.executiveboard.com

⁶ 2009 National Board Governance Survey for Not-for-Profit Organizations, published by Grant Thornton, LLP.

⁷ Bridging Board Gaps, Report of the Study Group on Corporate Boards, Sponsored by the Rockefeller Foundation, Copyright 2011 Columbia Business School.

⁸ Bridging Board Gaps, Report of the Study Group on Corporate Boards, Sponsored by the Rockefeller Foundation, Copyright 2011 Columbia Business School.

⁹ Board Roles and Responsibilities, GuideStar database on non-profit information,
<http://www.guidestar.org/>

¹⁰ Harvard Business School, Executive Education, Making Corporate Boards More Effective,
<http://www.exed.hbs.edu/programs/mcb/Pages/curriculum.aspx>

¹¹ Harvard Business School, Executive Education, Making Corporate Boards More Effective,
<http://www.exed.hbs.edu/programs/mcb/Pages/curriculum.aspx>

¹² Harvard Business School, Executive Education, Making Corporate Boards More Effective,
<http://www.exed.hbs.edu/programs/mcb/Pages/curriculum.aspx>

¹³ Bridging Board Gaps, Report of the Study Group on Corporate Boards, Sponsored by the Rockefeller Foundation, Copyright 2011 Columbia Business School.