The Professional Board

By Roger M. Kenny

Whenever we start a new director assignment, we ask the CEO and chairman: "Who are your best directors and why?" The answer typically relates to what those directors do for the company between board meetings, such as visiting facilities, consulting with management on specific issues, and stimulating the company to actively take on the most important company issues.

In board meetings, they say that these special directors ask good, relevant questions and help reach consensus. They add value, and they are respected by their fellow directors, as well as management.

Henry Wendt, the former chairman of Smith Kline Beecham, and one of Boardroom Consultants' advisory board members, shared with us that, after reflecting on the ten or so boards he served on during his career, "most of the best and worst things that happened to those companies started at the board." This, of course, puts emphasis on having the right directors. It puts emphasis on having a very professional board. Getting this right makes a big difference.

Each board is unique. There is no one right way or even "best practice" that fits all. Each board must focus on its own current issues, its own current strategy, and its own priorities. That means each board has to focus on what is most important to them now. One way to do that is to design the annual board assessment to be tailor-made to those issues.

Director Summary: Any board that has a static model of best practices will end up going stale. The professional board knows how to re-assess its priorities, engage in critical self-assessments, and consult with management on strategy—and more.

Refocus the Role of the Board

When you think about it, there are typically only about 60 hours of "face time" with management each year for each board member, so every hour has to count. One of the more important results of each board's annual self-assessment is helping directors come to grips with their role, and specifically identify which of their responsibilities is most important for the company to focus on right now. The following are some questions that boards should ask themselves:

1. Do we formally evaluate the CEO, with emphasis on performance and results?
2. Do we evaluate the overall management team and their respective succession plans?
3. Do we add to bench strength to ensure CEO succession options?
4. Do we understand the company's strategic direction?
5. Do we understand the company's business, competition, and the drivers of compensation?

For each board, understanding where their priority roles are is the first step to improvement.

Succession Planning

Every board has to come to grips with one of its most important functions—driving succession planning. No board wants to be in a position of not having succession choices for the future. No board wants to replace a failing management team because, as it turns out, it's really the board's failure. Boards of directors want choices for the future in each of the key management slots. That means bench strength, and bench strength is expensive. However, today, the message for boards is "you can't afford not to have a strong bench," and this is a major shift. Benchmarking, both inside and outside the company, is now a part of the succession process, and benchmarking is one of the more important things a board can do to guarantee that there *are* choices. Eventually, benchmarking leads a company to identify the leading, proven general managers who could succeed to the key top positions.

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In addition to ensuring a well-crafted management development process that will position their organization for the steady infusion of new leadership, boards need to have an emergency succession plan in place and the directors have to be honest about it. What do I mean by honest? It boils down to asking what are the "non-negotiable" criteria, and does this person really meet all of them, no matter how much he or she deserves the position. Selecting CEOs on a "deserving" basis has been one of the big disservices in boards' responsibility for succession. Succession has to involve more than just the "hit-by-the-bus" scenario. It has to include bench strength and choices for the future.

Strategy: An Ever-Evolving Decision

When it comes to strategy, management is welcoming directors' input and inviting them to share their expertise. This is very healthy! Directors want to be more comfortable and clear about strategy and this takes dialogue, time, and commitment. At the same time, directors are anxious to learn more about the business, so they can make a true contribution.

Currently, Boardroom Consultants is doing an assessment of a board in an industry that is going through a lot of consolidation and bankruptcies, and facing other strategic issues. This particular board is getting up-to-speed quickly to help management. The directors need major indoctrination. This is where relevant experience of the directors can add real value. Even just one or two industry veterans can make a huge difference.

Boards should also strive for a diverse makeup. A culture that supports different points of view need not be contrarian; indeed, if it is engaged, it will tend to encourage management to stay the course on strategy. Too often, management believes that directors haven't learned as much as they need to about their particular businesses to be effective in helping them with strategy. Unfortunately, this is a shortcoming of many boards. Boards are struggling with ways to change this. New educational resources need to be provided, and directors need to take the time to meet the learning curve. The professional director will take the time to do so.

A Healthy Relationship with Management

The board of directors is not a group of supervisors. Directors are overseers in support of management. We have found that involving top management in the board's processes, including self-assessment, gives an important dimension of feedback to the board related to management's needs and expectations, and it will show the board how management would like to be treated, especially if there are any behavioral issues on the part of some directors that may border on being dysfunctional, or crossing the line into management's role. Management deserves, and must receive, respect from all members of the board and, at the same time, expects help from the board. Where this healthy balance exists, we find it much easier to attract directors, and the directors are in the best position to help management.

Strong Leaders

The lead director or its equivalent (presiding director) is a new phenomenon—just the last five or so years. It exists now in over 94 percent of all S&P 500 companies, according to Spencer Stuarts, U.S. Board Index 2007 Report. Three years ago only 30 percent had a lead director. Why did we think that boards never needed a leader of their own? That should have been answered by the General Motors and IBM crises of the early 1990s and later the Enron, WorldCom, and Tyco crises. The earlier scandals led to the "General Motors Guidelines," which were the pre-SOX guidelines for board governance. We've come a long way! Defining the role, and, yes, selecting, helping, and evaluating the lead director, provides important feedback that helps guarantee an independent board. The separate, independent, non-executive chair position remains the topic for discussion for professional boards today. The board should always reserve the right to create a non-executive chair if directors believe the situation calls for it.

Room for Dialogue

With limited meeting time between directors and management, we are seeing that there is a need to fine tune the board's agenda so that board meetings cover fewer topics, and especially fewer presentations. Today's professional directors want dialogue on major issues. They don't want presentations of material they have already read. Today, the need is "dialogue, or die as a board." That, of course, demands that the directors be well prepared for each board meeting. They had better be, or they should not stay on the board. There's just no time for rehashing material received prior to the board meeting.

A Board Succession Plan

Each and every board has timely needs to upgrade itself with new skills and relevant experiences, which are useful to management and aligned with the company's strategic direction. That's more easily said than done. The polite mores and culture of a board make change difficult.

Boards need mechanisms to help them upgrade and, from time to time, replace a few directors. Directors should understand that no board seat is forever. Let's face it, some directors outlive their effectiveness and should voluntarily give up their seats to new directors with needed skills before having to be asked to do so.

We believe that through a third party, positive, confidential feedback can be more easily relayed. Delegating this role to the lead director doesn't usually achieve the correct level of candor. This can be facilitated by a trusted, independent advisor, who, if it is appropriate, can say, "What we really need in this seat is a strong marketing executive or an IT expert" Our experience is that directors usually respond positively to this manner of communication.

The head of the nominating and governance committee has the job of making sure that the board does its own succession planning. He or she and the committee have to decide, in an objective way, what skills are missing, without exaggerating the experience of the collective board. Here again, a third party could help with this process as part of the annual board assessment. A process the committee can use includes starting with a blank sheet of paper and asking, "If we were putting a new board together, knowing our strategy, what experience and what skills would we need?"

The nominating and governance committee has to somehow anticipate future needs and be sure they will have people who can work with the management team and help make them better, as well as communicate with shareholders and regulators. Increasingly, director recruitment is an ongoing, long-term process, rather than one dictated by an event or retirement.

Annual Self-Assessments

There's a misconception about the annual board assessment requirement of the New York Stock Exchange. It's a board assessment process that is really very positive. It is not meant to be a report card. It's intended to make good boards better boards. Plus, a trusted third party helping with this process often does elicit candor, which adds value. Boardroom Consultants has witnessed this happening in numerous cases. Companies that don't employ this important assessment vehicle and avail themselves to a trusted third-party are not gaining full benefits for their board. A trusted, confidential advisor can speak for the board in many ways without giving attribution to anyone and without quoting anyone.

In the six-year history since the new rule has been in place, to our knowledge no company has been harmed by choosing to do the right thing by being self-critical about improving itself. The confidentiality of the process has been sacrosanct. Surveys seem to be the fashion, but they lack sufficiently candid criticism. Most companies have reported mixed, and not very candid, results with the use of internal surveys with check-off sheets. Confidential, third-party interviews with each director produces much more candid results… in fact, more than we ever realized, especially when it's absolutely clear that no attribution is given to anyone. ■

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