7 Practices of Exceptional Boards

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For a corporate board to be effective, it must first be focused on the right things. Specifically, board members must actively and productively participate in the work of governing. This is absolutely vital in today's competitive economy, which is full of volatility, uncertainty, complexity and ambiguity. Within this setting, boards have a harder job than ever before. When director performance expectations are higher and the most desirable board candidates are the least available, exceptional director performance is crucial.

Yet, currently more than a third of directors believe at least one of their peers should be removed from the board because of poor performance. For the past 5 years, directors participating in PwC's annual corporate governance survey have cited lack of preparedness, lack of expertise, and even age as factors impacting director performance. With incumbency rates over 90% each year, clearly there is a need to address the issue of board effectiveness. This article offers a suggested framework of focus areas and activities ("7 Practices") to aid board administrators, executives, and directors in their efforts toward the elusive goal of elevating director performance.

1. Identify the Cycles of Board Work

The work of boards is complex, demanding, and high-stakes. It is also cyclical in nature. Boards convene on a regular meeting cycle, deliver on a recurring set of annual responsibilities, and continuously work in a development cycle to refresh and strengthen themselves as strategic assets to the companies they serve. This board development cycle includes three distinct areas of focus, including (a) planning and recruitment, (b) orientation and onboarding, and (c) evaluation and retention. There is a great deal of emphasis placed on the recruitment and election of new members, but less so on the other areas. Also, contrary to popular opinion, these are not episodic initiatives. Rather, board development never ends, with director performance at the center. Today, the responsibility for setting and keeping that cycle in motion rests with the board's audit or governance committee.

2. Reimagine the Nominating Committee

Once a staple among a majority of boards, the "nominating committee" is increasingly becoming passé. In its place, fully-fledged "governance" or "board development" committees have emerged. The governance committee is an updated, expanded, and empowered next-generation of the nominating committee. The governance committee is charged with overseeing the ongoing development and engagement of board members, ensuring that governance is happening effectively, and taking steps to remediate gaps. Irrespective of its name, every company should consider having a committee that concentrates exclusively on that overarching purpose, asking such questions as:

- Given our strategic plan, do our bylaws and committee structure still make sense? Will they support or hinder achieving our goals?
- What does the board see as its primary purpose, and is that purpose explicitly being adhered to by directors?
- What does the board see as the primary opportunities, constraints, and risks? What additional insight or information should be provided to help the board take advantage of the opportunities and minimize the risks and constraints?
- Who are the right players to make the right things happen, and provide the right guidance to the CEO? How can we ensure the right mixture of talents, experience, diversity, and personalities on our board?

3. Recruit for High Performance

The committee charged with board recruitment should determine what types of board members need to be at the table over the next three to five years, and with deciding which candidates can best address the most important issues the company will face. To optimize director impact on company performance, boards need to be specific about the talents they seek. They should first ask "What do we need to accomplish as a board to fuel company performance?" and then communicate those needs, as would be the case for any other job.

Simply asking each director to mind his/her own networks might not be sufficient—rather, board recruitment deserves the same level of care the board would give to hiring a new CEO.

4. Orient for the Journey

New directors should be provided with a thorough orientation program—one that allows board members to engage in as much self-directed discovery as possible, and steadily come up-to-speed with the board's work and the specific ways they can add value. Additionally, assign each newcomer a "board buddy" or mentor to whom they can address questions and gain advice about how to fit into the board. That mentor doesn't necessarily need to be a current board member. Having a director who may have just rotated off the board serve as a mentor, with support from the staff, not only helps a new director gain comfort in the role, but retains the past director's engagement as well.

As new directors complete their orientation and take on more responsibilities, effective performance also depends on not overwhelming them with too much information at once. If the company uses board management software, proposed meeting topics can be posted there before each meeting, along with a quick online poll asking directors which topics they consider the highest priority for discussion and which ones could be covered by a written report. Asking board members what they want to talk about engages the entire board in thinking about the content for the meeting, and helps reduce the potential for board members to mentally "check out" or fixate on minutiae during meetings. Engaging the board in planning the content for the meeting also increases the likelihood that directors will review the full agenda and all reports in advance, and will be better prepared to have meaningful discussions.

5. Strengthen the Board-CEO Partnership

A strong, strategic partnership between the CEO and the board is vital to the company's success. Regular conversations and candid communication establish mutual trust, helping all parties support and get to know each other as individuals, and sets the stage for a shared governance model, the most effective options for strong performance.

It's also important for board members to personally connect with—in effect, build a relationship—with the company in the context of their work. Setting aside a few minutes at each board meeting for directors to share experiences they've had while interacting with the company—through sporadic site visits, engaging with customer service, chatting with the R&D or QA teams, etc.—can help keep the board grounded in what really matters. The more direct and personal the story a director can share with the rest of the board, the more the board will be able to tune out the noise and focus back on the most significant areas of opportunity and risk facing the company.

6. Cultivate the Sharing of Director Insights

Sharing perspectives that come from varied backgrounds and experiences also speaks to the importance of board diversity, another factor that fosters greater director engagement. In a more diverse group, people behave differently. They tend to dive deeper into topics, which often leads to better conversations and decision-making on behalf of the company's varied stakeholders.

It's also important for boards to have a balance of personality types among their members. They can't all be visionaries. Boards need some who say, "Let's get it done" and others who say, "Let's deliberate;" those who want to start something new, and those who want to vote and move on. Boards need all types, but at the end of the day, they need people who are working really hard to make good decisions, for whom "easy" is not good enough risk facing the company.

7. Codify Expectations for Director Performance

To ensure everyone is clear on where and how to focus their efforts, boards might consider having each member sign an annual agreement with a written set of expectations and goals—a "contract" that speaks to the individual director's expertise and passions, as well as the company's needs. An annual contract provides clarity and guidance for directors and the company alike, allowing everyone to openly ask, "Are we getting what we want from each other and our work?" The clearer board members are about what they want from the board and what the board needs from them, the more likely they are to perform well.

To ensure a high level of performance an annual board assessment is required. The governance committee should own the task of helping the board evaluate its purpose and priorities annually, along with facilitating each director's self-evaluation of individual performance. Ideally, this process is conducted anonymously using secure board management software, so that directors can provide candid feedback on each other's performance as well. The results—analyzed in summary and compared to the standards set by the strategic plan, board development plan, and directors' annual "contracts"—can help identify the board's development opportunities for the following year. An annual board retreat is the ideal time for board members to discuss the results of evaluations, determining what has been completed, what goals and activities are still important, areas for performance improvement, and what new initiatives the board wants to tackle.

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Conclusion:

Boards must rise to the challenge and develop creative, innovative approaches to helping their members become exceptional performers and stay engaged throughout their board service. Boards can no longer afford to have members follow a traditional board development timeline: a term to learn, a term to do, a term to lead. Directors need to make a contribution on Day 1, but to do that they need to understand what is expected of them and be given lots of opportunities for engagement in board work. These 7 Practices will help you navigate the fluid, yet rigorously demanding, landscape of engaging your board toward effective leadership.

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