Building A Better Board

Inside you will learn:

- How the role of today’s board member has changed
- The four barriers to an effective board
- How to improve the relationship between the CEO and the board
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I. Introduction

After the ethics crisis of the 1990s and with the increased regulatory constraints that followed, the role of board members changed dramatically. Being a board member is no longer a ceremonial position; today directors are expected to actively participate in the governance of the companies they serve. The role of the CEO has also changed and many executives find themselves not as willing to assume the responsibility of serving on another company’s board. These two changes present a unique opportunity for organizations to re-create and rebuild their boards in a manner that will serve their needs in a greater capacity than ever before.

A. The Role of the Board

The development of the independent board of directors has evolved slowly over time. Since the late 19th century, it has been widely accepted that the principle role of a board is to jointly oversee the activities of a company or organization along with the CEO in order to protect and enhance shareholder value.

With today’s financial crisis, it is more important than ever to understand the role and the duties of the board. As Jack Welch shared in his January 2009 BusinessWeek article, “Shareholder activists may want board members to act like superheroes, honing in on detailed company operations like forensic accountants and cops wrapped up together in pinstripes.” Rather, boards should support the CEO and carefully measure his/her ability to navigate the choppy waters of today’s economy.

Welch goes on to define how to build a great board; companies should seek “members who, in very limited time, can exercise good judgment and act with courage. Members who have a special ear, the kind that can hear a presentation and discern between overpromisers and overdeliverers, between glib salesmen and those they would bet their own money on. Members who have skin in the game, know the company, and care about it deeply.”

B. The History of Corporate Governance

In order to develop a highly effective board, it is important to understand the changes occurring in the boardrooms of today. How have we arrived at this particular point and what is the motivation behind the transformation?
1. The Ceremonial Board

Up until the 1990s, most boards were operating under a system that garnered them the term of Ceremonial Boards. These boards were traditionally elected on a “who knows who” basis and performed a mainly compliance role. CEOs were rarely challenged on significant issues and meetings consisted of highly scripted presentations. The directors on ceremonial boards were largely anonymous to the public and expected to rubber stamp proposals put to them by management. Often little more than attending the board meetings was required to meet their obligations. Therefore, the power structure was largely in favor of the CEO. This often led to abuse of privilege, conflicts of interest, and lack of sufficient internal monitoring or controls.

From 2000-2002, public entities and shareholders alike began to recognize the need for substantial change when a large number of corporate and accounting scandals made the headlines.

2. The Board Post Sarbanes-Oxley

According to Senator Paul Sarbanes, scandals like the Enron debacle were considered by the Senate Banking Committee to be a direct result of “inadequate oversight of accountants, lack of auditor independence, weak corporate governance procedures, stock analysts’ conflicts of interest, inadequate disclosure provisions, and grossly inadequate funding of the Securities and Exchange Commission.”

On July 30, 2002, President George W. Bush signed the Sarbanes-Oxley Act into law, stating it included “the most far-reaching reforms of American business practices since the time of Franklin D. Roosevelt.” The passing of the Act had an immediate effect on the way that boards functioned. The job of CEO became more demanding and more was asked of directors than ever before. General interest media reported the name of directors to the public, adding the risk of lawsuits and loss of reputation should they fail to comply with regulations.

However, one of the most notable changes was the shift in power between the CEO and the board members themselves. The combination of more responsibility and greater transparency in the boardroom for everyone meant that the days of passivity and blind compliance were over. CEOs were forced to rely more heavily on directors by relinquishing authority to them and keeping them better informed. Members were encouraged to think independently and to take their obligations to shareholders more seriously, even if that meant disturbing the status quo.
3. Today’s Board

The implementation of Sarbanes-Oxley has sparked a new generation of board members. CEOs now expect directors to actively contribute to discussions and apply their talents in their area of expertise. Directors look to CEOs to guide the company but see their roles as innately supportive ones where their ideas are valued and their input is mandatory. While some boards still struggle to free themselves of the old ways, many took the passing of the SOX legislation as an opportunity to create a better working relationship between the CEO and directors.

Boards that wholeheartedly embraced the spirit of boardroom collaboration and worked to perfect the new structure have become known as Progressive Boards. These boards see their ultimate goal as adding to the long-term value of the company beyond the CEO’s reign. To achieve this, the directors work as a cohesive team, focusing only on key issues while holding to strict codes of congeniality and self-evaluation. The lead director acts as a liaison between the board and management and keeps sessions on target and running smoothly.

More often than not, however, boards have become stuck. Having been liberated from the rules of the Ceremonial Board, they are unclear how to best make the new transition and seek ways of becoming more effective. These Liberated Boards may have high functioning members; however, they are frustrated by what they see as a lack of structure and achievement.

C. Major Changes

In order for today’s board to realistically expect to navigate through the changes that have taken place since the 1990s, it is important for them to adopt the best practices of today’s Progressive Boards. They must have a clear understanding of the new regulation and modern views on self-governance to move beyond external regulation to self-regulation.

Governance from Within

In 1994, the General Motors Board published its “Guidelines for Corporate Governance.” This document began a widespread trend in corporations to redefine their roles and set clear objectives that would increase effectiveness. It became clear that in order to function properly, boards must:

- Create goals, objectives, policies, and bylaws
- Decide how funds will be allocated
- Develop the organization’s investment policy
Without clear guidelines regarding their responsibilities, directors can have conflicting expectations of their roles, resulting in confusion and underperformance.

- Prepare, approve, and monitor budgets
- Design a strategic plan and ensure that its goals are met
- Keep the board supplied with new skilled people

Ultimately, the trend towards building responsive governing bodies would not be built completely for another decade. However, while many activists pressed for reform, some companies began to make their transitions early on.

The good news is that today most boards provide a positive impact on a company’s performance and are well-positioned to act accordingly. The Harvard Business Review reported in November 2006 that most boards “have more independent directors these days, and nearly all of them (up from roughly a third just a few years ago) have appointed lead or president director to help ensure the board’s vigilance in company affairs.”

II. Four Barriers to Board Effectiveness

Identifying weaknesses within your current board is the first step in creating a board that adds value to your organization. A common complaint amongst today’s board members is that they waste valuable time on irrelevant minutiae, mismanage vital information, and allow meetings to run on too long without addressing key issues. There are a number of factors that contribute to this lack of effectiveness.

A. Unproductive Members

When unproductive members are allowed to stay on boards for too long, they place an unnecessary burden on other members and lessen the effectiveness of the group. Resentments easily rise amongst more productive members and the overall productivity of the group is affected.

B. Board Is Too Small

In order for a board to be effective, it must have enough members to offer a range of views, represent diversity, and make up capable core committees. If directors feel that they do not have enough resources to follow through on important issues, creativity and participation can be stifled. The average size of most boards ranges from 11 to 21 members, depending on the scope of the organization.
C. Lack of Strong Committee Structure

Without a strong committee structure, directors are left without a means to carry out their duties in detail and to expand their reach. Communication suffers and decisions made in the boardroom cannot be carried out easily. Members will not be given the opportunity to utilize their expertise. Therefore, general performance will be low.

D. No Clear Role for Board Members

Without clear guidelines regarding their responsibilities, directors can have conflicting expectations of their roles, resulting in confusion and underperformance. Resentments arise due to misunderstandings, and relationships among members may be strained.

III. How You Can Improve the Effectiveness of Your Board

To improve the effectiveness of your board, members will have to work collectively to share power, communicate clearly, train members sufficiently, and find sources of new recruitment. While these measures will have to be developed over time, consistent adherence to the following principles will greatly enhance your board’s ability to serve.

A. Build a Strong Relationship between the Board and the CEO

The relationship between the board and the CEO is vital to the health of the company. Friction can result in a loss of trust, inappropriate use of time, and the withholding of information. Therefore, it is extremely important that directors and the CEO work to maintain a constructive relationship.

The best way to achieve this is through two approaches:

1. Share Power

The ideal structure for your board of directors is one where power is shared between the board and management staff. Many boards have made the mistake of trying to micro-manage situations that are best left to those in charge of running the organization.

To avoid this, members should be reminded that the board is ultimately responsible for policy making and, therefore, should not interfere with the daily operations of the company. Once they are given clear, well-written
explanations of their roles as directors and committee members, this goal becomes easier to achieve.

2. Clear Communication

A key factor in making informed decisions in the boardroom is effective, two-way communications. Board members must be well-informed with relevant information before, during, and in-between meetings. Likewise, CEOs must be made aware of any issues that directors feel need to be addressed. Taylor Reveley, Dean of William & Mary Marshall-Wythe Law School, suggests that board members actively participate in the setting of board room agendas. This prevents issues from being missed or ignored and thus can serve to lessen frustrations.

Having recognized the importance of timely communications, many companies are experimenting with different ways of keeping their board members abreast of changes.

When clear lines of communication are drawn between the CEO, management, and directors, members can easily obtain the information they require to participate fully in board and committee meetings. Therefore, make sure to evaluate the effectiveness of your efforts frequently in order to make the best use of strategies that work well and eliminate those that don’t.

B. Orientation and Training

It can take years for a new director to gain sufficient experience and knowledge about your organization to truly be an effective board member. Furthermore, the article states that “for first-time directors, there is even more to learn. They must learn how to translate their narrow experience into guidance of a total company.” However, as experienced talent is apparently becoming scarcer, organizations will have to adapt ways of making the best use of the talent that is available.

In order to speed up the process of incorporating new members, companies should provide them with the right training and orientation early on. Before a prospective member is appointed to the board, it is best to provide critical information such as expectations, the company’s vision, mission and goals, and the overall strategic plan for the organization.

Some boards go so far as to having new members sign a Commitment Pledge outlining their responsibilities in writing. However, whatever the form your orientation and training takes, it is crucial that after a member is voted onto the board, you provide additional training to the greatest
extent possible. This ensures that the new director is able to contribute to the best of his/her ability and provides existing members with better informed colleagues.

C. Work in Committees

A well-run board cannot exist without structured, well-run committees. William G. Bowen, former director of American Express and Merck, commented that “every board needs at least a modicum of ‘machinery’ – structures and processes – if it is to function effectively.”

So, why are committees so important to the machinery?

Committees do the majority of the heavy lifting for the board and free up board members to focus on big picture ideas such as policy making and development when they meet as a large group. An efficient committee structure gives directors the opportunity to make use of their specific areas of expertise while providing training for these leaders. Committees can also be used to:

- Increase the visibility of the organization
- Broaden the outreach of the board
- Provide a means of information to flow to communities
- Communicate better with clients and line managers
- Give members the opportunity to discuss issues in an informal setting
- Serve as problem-solving and decision-making groups

By creating strong, well-managed committees that report back to the board regularly, your organization is building a foundation of future success that is impossible to duplicate in any other way.

D. Strong Group Dynamics

The effect of positive group dynamics on the board’s ability to do its job cannot be overemphasized. The reason for this is that unless directors can work together in a cohesive group, the organization will struggle to get the most from its leadership.

“The boardroom must be a place where every voice is heard,” states General Electric CEO Jeff Immelt. “Our meetings are very open. Directors can interact with anybody at anytime.”

To achieve such a high level of group dynamics, boards must pro-actively
create practices that make this possible. Trust is also extremely important in establishing a good group rapport. This will ultimately determine how quickly and easily significant issues are handled.

IV. How to Find the Right Members for Your Board

Building the best board possible requires a commitment to planning, strategy, clear communication, and cooperation. However, perhaps the most important aspect of developing a powerful board of directors is having the right members as a part of the team in the first place. But how do you find out who the “right members” are?

A. Develop Long-term Strategies

One of the most important factors in sustaining your board’s effectiveness in the long-term is the ability to keep it populated with members who can contribute fresh insights and a variety of expertise. Most boards achieve this by evaluating each director’s tenure every three years. However, if it is decided that replacement is necessary, how will you find a suitable candidate?

Too many boards leave this issue of recruitment to chance or wait until there is a vacancy to address it. This leaves them in an awkward position and can lead to bringing a candidate on board who looks good on paper but is not a right fit for their organization.

With this in mind, strategies for finding prospective members should be put in place early. Future directors can be groomed from within committees, recommended through other boards, sourced through executive search firms, or monitored from elsewhere within the company. The crucial part of the plan is to give careful consideration to these options early.

B. Bring Diversity to the Boardroom

A truly strong board can only be achieved by including individuals who encompass a variety of backgrounds, genders, and racial heritage. The days of the “good old boy” network have long since passed and savvy corporations recognize that diversity provides a strong foundation to provide value to each stakeholder in the organization: management, staff, customers, and shareholders.

Many successful corporations, especially those that are publicly-held, seek the wide range of perspectives offered by well-qualified board mem-

“The boardroom must be a place where every voice is heard.”
bers who are women or minority directors. In fact, institutional investors are pressuring companies to diversify their boards. As an example, the 2003 corporate governance guidelines of America’s largest institutional investor (TIAA-CREF) called for diversity of directors by experience, sex, age, and race.9

Similarly, a few years ago the $20 billion Connecticut Retirement and Trust Funds launched a “board diversity initiative” and were encouraged to do so by Connecticut State Treasurer, Denise Nappier. A staunch advocate for diversity in the boardroom, she says “It matters if the search for the best talent available for board seats or key management positions provides a real opportunity for women and minorities to be seriously considered.”10

C. Get Expert Advice

Finding the right candidates for your board is more important than ever. Trying to correctly assess skill level, cultural fit, and meet diversity objectives can be a daunting task.

Finding qualified, experienced board members has become more difficult. Even though there are many candidates, including the burgeoning baby-boomer population, that on paper have amassed a good deal of experience, how do you get the best? And with the consolidation of many organizations, there are a host of ex-senior executives who are seeking board seats as a way to stay involved as they retire. Consequently, finding individuals who appear qualified may not be an issue, but finding the best, most qualified candidates is a challenge.

Retained executive search firms can help you to identify directors who are motivated to be involved with your organization for the right reasons. These firms will help to find board members who meet your company’s unique needs and assist you in communicating those needs clearly. Because they are committed to long-term client satisfaction over the life of your contract, retained executive search firms take your requirements seriously and present your organization with people that truly have the ability to better your board.

Utilizing executive search firms can be an investment that will garner returns for the life of your board and your organization.
Find Out More

We hope you’ve enjoyed this paper on cultural considerations in hiring. If you’d like to discuss any of the approaches or insights in this white paper, we invite you to call to speak with anyone on our partnership team.

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Additional Resource Materials:


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Dave has a Masters in Management from the Kellogg business school at Northwestern University and a BA in Political Science from Lawrence University. He and his wife Mary Anne live in Marietta, GA and have four children. Besides his family, Dave loves running, cooking and pretty much anything that allows him to be “active and outdoors.”
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In addition to his responsibilities at CarterBaldwin, Price currently serves as Chairman of United Technology Group, and on the boards of High Tech Ministries, The Technology Association of Georgia and The Trinity Forum. His articles have appeared in various publications and he has been quoted in INC Magazine, The Wall Street Journal, The Atlanta Business Chronicle and numerous industry and trade magazines.

Prior to entering the recruitment industry, Price served as Director of Manufacturing Operations for Astechnologies, an Atlanta based company that produced hydraulic presses that were used in the manufacture of automotive headliners. He received his Bachelors Degree in Theology from Baptist University of America, and conducted Masters level studies in Pastoral Counseling at Temple Baptist Seminary in Chattanooga.

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Prior to founding CarterBaldwin, Jennifer was the leading search consultant for one of Atlanta’s top search firms. She began her professional career as a Financial Advisor in the Financial Services Sector.

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Bill Peterson co-leads CarterBaldwin’s nonprofit and academic practice, recruiting senior leaders for state university systems, private education institutions, non-profit entities, healthcare organizations and related companies. With over fifteen years of executive search experience, Bill has successfully led hundreds of searches for chief executive officers, presidents, provosts, vice presidents and deans for private and public institutions, as well as senior level executives for corporate clients.

Before joining CarterBaldwin, Bill spent six years in the Atlanta office of a national search firm as a partner, leading the firm’s healthcare and higher education practice. Bill’s earlier search experience focused in the health care sector where Bill recruited and led clinical and physician searches for North American health systems and academic medical centers.

Bill graduated from Liberty University with a bachelor’s degree in political science. He and his family have frequently opened their home to foster children and are actively involved with Fostering Together at North Point Community Church. Bill serves on the advisory board of the Atlanta Mission. He has been married to Angela for more than twenty years and they have three children.