Seven 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 performance expectations for directors 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 that at least one of their peers should be removed from the board because of poor performance. For the past five 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 proposes a framework of focus areas and activities ("Seven practices") to aid board administrators, executives and directors in their efforts to achieve the elusive goal of elevating director performance.

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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 that 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 is something that never ends, with director performance at the centre. 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 version of the nominating committee. It 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 this overarching purpose, asking such questions as the following:

> *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.*

- Given our strategic plan, do our by-laws and committee structure still make sense? Will they support or hinder the achievement of 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 its primary opportunities, risks and constraints? What additional insight or information should be provided to help the board to take advantage of the opportunities and minimise 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 talent, 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 decide which candidates can best address the most important issues that the company will face. To optimise 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 in order to fuel company performance?' and then communicate those needs accordingly, as would be the case for any other job. Simply asking each director to take care of his or her own networks might not be sufficient—rather, board recruitment deserves the same level of care that the board would apply to hiring a new CEO.

4. Provide effective orientation for the long term

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 get up to speed with the board's work and with the specific ways that they can add value. Additionally, each newcomer should be assigned a 'board buddy' or mentor to whom they can address questions and seek advice about how to fit into the board. That mentor doesn't necessarily need to be a current board member. Having a past director who may have just rotated off the board serve as mentor, with support from the staff, not only helps a new director to become comfortable 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 to 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 be better prepared to have meaningful discussions.

5. Strengthen the board–CEO partnership

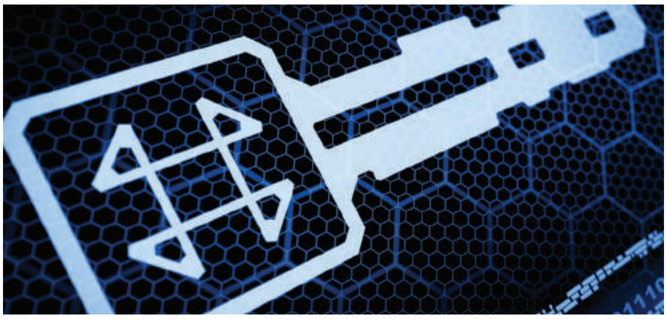
A strong, strategic partnership between the CEO and the board is vital to the company's success. Regular conversations and candid communication establish mutual trust, helping all parties to support and get to know each other as individuals, and sets the stage for a shared governance model, which is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

It's also important for board members to personally connect—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 that 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 to 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 refocus 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 members 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 'the easy way out' is not good enough when deciding how to approach risks facing the company.

7. Codify expectations for director performance

To ensure that 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 take ownership of the task of helping the board to evaluate its purpose and priorities annually, along with facilitating each director's self-evaluation of individual performance. Ideally, this process should be conducted anonymously using secure board management software, so that directors can provide candid feedback on each other's performance as well. The results—analysed in summary and compared to the standards set by the strategic plan, board development plan and the directors' annual 'contracts'—can help to 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, what areas should be targeted 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 to become exceptional performers and stay engaged throughout their board service. Boards can no longer afford to have members follow a traditional board development timeline, i.e. a term to learn, a term to do and a term to lead. Directors need to make a contribution from 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 seven practices will help you to navigate the fluid yet rigorously demanding landscape of engaging your board and promoting effective leadership.

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