Refreshing Your Board Of Directors

by Patrick R. Dailey, Ph.D. and Joel M. Koblentz

Corporate boards tend to change themselves during times of crisis—but otherwise accept the status quo. What if boards instead built regular, structured "refreshing" of their membership, their processes, and their future needs into regular operations? What if boards went even further, not asking themselves "Do we need to change?" but rather "What will we change?"

"Refreshing your board" is a new phrase in the lexicon of corporate governance. Yet the phrase is already widely recognized among directors. For most, it evokes heightened expectations of a board's competency and preparedness to govern.

We sought to learn more thoroughly what refreshing your board meant to public company directors and its current state of practice. We solicited large cap company directors for in-depth interviews. Many panelists were lead directors or heads of nominating committees. All had deep experience in navigating board and leadership crisis, succession, turmoil, and turnarounds.

With today's high-velocity business, our panel found that boards are often "governed from behind." That is, they are reactive with their contributions. Further, several panelists opined that without board of director replacements, this challenge becomes more acute. Board actions too often become perfunctory, with stale director judgments. Insights and boldness are lost, and opportunities are not pressed forward at the necessary speed.

From our work and the opinions of our panel, we offer a simple definition for "refreshing" a board: *Periodic assessment and the continuous improvement of a board's capability to govern.*

The continuous improvement of board capability encompasses a number of dimensions—composition, leadership, cultural dynamics, governance policy, education, meaningful board evaluation, succession, and most critically, the board's strategic impact. Refreshment is expected to equip boards to fulfill compliance, fiduciary duties, plus deliver competitive advantage to the enterprise.

Our panel provided numerous candid and penetrating comments about refreshment and the navigation of change.

Why invest the energy? Why take the risk? Our director panel assessed the benefits of refreshing their boards. The overriding theme was the growing need for independent thought and anticipatory work ahead of the business. This means deeper issue awareness, more strategic agility and subject matter expertise, versus just offering historical wisdom and lessons of past experiences.

Board refreshment offers an "official" time and venue for the board to correct small issues before they become large and intractable.

☐ *Stay ahead of business issues.* Astute directors understand their role requires them to operate with a stronger future focus, and be more independent from management than previously expected by shareholders, regulators, and board pundits. Staying ahead helps any board avoid surprises, inject fresh thinking into discussion, bring broader and deeper investigation, and more thoughtful deliberation. These directors are better "prepped" on issues, and better able to offer guidance to the CEO and company.

☐ *A constructive "pause" to resolve dysfunctional dynamics.* All boards must deal with rough patches. The dynamics of the team derail a bit, or interpersonal conflict emerges over constructive conflict. A refreshment process consisting of a board evaluation or planned discussion with the chair offers the "official" time and venue to address matters that may

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divert attention and diminish collegiality and working relationships. The payoff is that director behavior or full board culture can be corrected before small issues become large and intractable.

☐ *Clearer role for the nominating committee.* The refreshment process needs a champion as well as staff resources to function continuously, rather than periodically, or as a reaction to crisis. The chair must serve as the catalytic champion who tees up the concept, takes the lead in defining its rationale and parameters, and nurtures along the work.

The nominating committee is the staff resource for board refreshment. With a clear mandate from the chair and the full board, nominating committees can take the lead to insure processes which enable a board to fulfill compliance and fiduciary duties. This should deliver real strategic value to the company—competency, board leadership, issue awareness, sound decision-making dynamics, director preparedness, and a plan for board development and succession.

☐ *Convenient trigger for crucial conversations and necessary farewells.* Board service is rarely an entitlement or a lifetime commitment, yet individual directors may need help in appreciating that their skills and experiences no longer match well with the emerging strategy, expectations and the culture of the board. There are times when directors may need candid discussion about their availability, their preparation and their competency.

Board refreshment is often a necessary trigger before term and age limit policies determine that a director's service no longer meets the needs of the future-focused board. In short, conversations which are an integral element of board refreshment are valuable platforms for sending messages to directors about stepping up their contribution—or moving on.

☐ *Crisis preparedness.* Clearly, no board can prepare fully for all enterprise risks. Our panel recognizes that, but believes preparedness to effectively and efficiently deal with such matters, requires acute and insightful board members. They must be willing to confront these challenges head on, regardless of the circumstances that must be addressed.

While confrontation among board members is always difficult, a high degree of comfort based on years "at the table" is a poor alternative. This often results in less debate and candor, both critical elements at resolving important and thorny issues. The continuing refreshment of fellow board members is essential to bring new insights and guidance on leadership and strategic matters as well as those that board governance demands.

Leaders, and directors, become less comfortable and less eager about "change" when they become the focus of board refreshment.

Change is always a choice. Directors clearly understand that board refreshment carries all the risks that any major change event entails. Most directors have managed change projects during their climb up the ladder, and are astute and comfortable in their role as change leaders. Perhaps these leaders are less comfortable and less eager when they become the focus of change, or refreshment.

☐ *Refreshment means director replacement—and not much more.* Our panel appreciated the wide scope of the concept of refreshment. Yet practically, their discussion focused around director replacement—getting weak contributors off the board and adding more competent contributors. Other elements of refreshment (board evaluation, committee rotation, team and individual development) were acknowledged, but rarely discussed as main aspects in the improvement of board competency and preparedness.

Replacement is most often event-driven—rather than a continuous process. Contrary to viewing refreshment as a preparatory process, our panel discussed most refreshment/replacement actions as a consequence of an event. Most often this is a crisis event, which necessitated the removal of a director due to competency, lack of interest and availability, change in status, and/or the contribution to board dysfunction. Board succession planning may be discussed, but is rarely practiced formally, it seems.

There was not a strong conceptual alignment between planning a company's strategic direction and the competency composition of the board. Competency and strategy seemed not to be factors that commingle in genuine conversations about director's departure, new director's recruitment, or board development.

☐ *A strong "inner circle" slows or blocks refreshment—without a crisis at hand.* Our panel found that a board's "inner circle" is a formidable force retarding refreshment rather than being a catalyst for change. Without a crisis at hand, the "inner circle" is resistant to changes in the composition of the board team.

On the other hand, with a crisis at hand, our panel reported that the "inner circle" will move decisively to orchestrate replacement. Most often, the departing director(s) comes from the "second ring" of the board—not the "inner circle."

☐ *Board evaluation and education rarely provoke much change—but we will continue them anyway.* Our panel was vocal and largely unanimous about board evaluations. Their view was that even conducted with care, these offer little impact on the quality of the board's contribution. Evaluation was seen as a popular and necessary intervention, but having far too little impact on the competency, composition, or preparedness of their boards. It was frequently noted that, while board or committee-wide evaluations increasingly occur, peer to peer or individual evaluations were infrequent and viewed as not particularly constructive.

Board education, whether group or individual learning, is considered an important element, perhaps a privilege for directors. Like board evaluation, however, it carries little overall weight in the operational concept of board refreshment.

☐ *Term and age limits are convenient triggers—but a lot of time ticks away while waiting.* Directors may not believe these limits are necessary, but they do find them convenient. They would not want them eliminated.

Age and term triggers are used in two ways. For directors whose contribution and interest has waned, approaching the limit presents a graceful farewell, and the board can openly have discussions about replacement. In contrast, for those directors who remain contributing and "in the game," the trigger is not pulled, and exceptions are made for the director's continuing board service. In both scenarios, the board benefits, and directors are treated with dignity.

Collegiality is an important ingredient in every board culture. However, too much collegiality (or the pursuit if it) can be an impediment to needed introspection and constructive change. Problems and deficiencies go unrecognized and change is not effectively pursued.

The catalyst for board refreshment is most often the chair or presiding director. Not much is likely to happen without such leadership.

Acumen in change management is a core factor in creating a board that can assess its capability to govern, and achievement in doing so. Self-assessment is difficult to master and more difficult to sustain. Yet, shareholders can and do expect this level of fiduciary responsibly. The catalyst for board refreshment is most often the chair or presiding director. Not much is likely to happen without these leaders' support.

Change occurs as a result of three factors. First is thought leadership and second, structural adjustment in the organization of the board and its committees. Finally there must be policy change to charters and bylaws. Refreshment initiatives touch each of these factors.

Here are recommendations for board culture and activities which will bolster the readiness, willingness, and ability of boards to fulfill shareholders expectations:

☐ *Designate your nominating committee with lead responsibility for board capability and culture.* This mandate encompasses director competency, board succession planning, learning, board evaluation activities, committee assignment, and the overall culture of the board. Discussions with the head of the nominating committee lead toward re-engineering the role and duties of the committee toward clearer accountability for director competence and board capability.

Charters are rewritten to more directly specify programs and initiatives for board refreshment, along with clear statements about accountability and metrics. Refreshment finds its way on to the annual board calendar as a permanent task. Committee leadership is selected based upon interest and competency in change management and succession acumen. Thin-skinned committee leadership is a liability. The committee is set up to execute based on its charter.

In board refreshment, competency and experience requirements for directors should be formally considered in the same manner as every other resource need the company has.

☐ *Formally connect director competency needs to your strategic planning process.* The strategic planning process tees up directional choices and associated resources requirements. This is a time when competency and experience requirements for directors should be formally considered in the same manner as every other resource need the company has. The newly chartered nominating committee plays a key planning and interface role with the company's overall planning function.

From the planning work, the nominating committee's agenda for board refreshment emerges. The "experience and qualifications" matrix is amended. Behavioral competencies are developed for skill and fit of board members and candidates. Outcomes may include director recruitment, director farewells, committee assignment/rotation, targeted learning and benchmarking, and outreach for independent market or functional expertise. The board is directly connected to the future focus of the business. It endeavors to stay ahead of the business. Actions should include:

□ Have a learning agenda for the board and for each director.

□ Recruit directors for clearly defined, future-focused needs.

□ Remove directors who no longer contribute due to availability, competency or fit.

☐ *Involve the full board in newly-appointed director "on boarding."* Because teaching is the best approach to learning, do not delegate new director on-boarding to operating leadership and staff. By involving current directors in the assimilation of a new colleague, much learning and re-learning is accomplished for the teachers themselves. Assimilation has the power to refresh and refocus directors on topics and matters important to the board's working agenda, plus building a productive, collegial board culture. Involvement "lifts all boats."

Refreshing Comments
Directors Speak Out

☐ *The term refreshment.* "I don't like the term—refresh. It sounds too much like a call to just hit the reset button yet continue down the same path after a little tweak here and there. I like the phrase *re-route* the board's dynamics and destination."

☐ *Reactive nature of board work.* "Unfortunately, it takes a crisis to break the logjam of board complacency."

☐ *Inevitability of change.* "If you don't continuously invest in your own board's professionalism and readiness, someone else is likely to overhaul it for you. And, you could be left with your reputation damaged."

☐ *Motivation to change.* "Denial is pervasive on boards as they confront, challenge and change while operating with very loose metrics for assessing their own contribution."

☐ *External catalyst for change.* "Like it or not, ISS is our best catalyst for board rejuvenation right now."

☐ *Reluctance to change.* "My chairman was gripped with paralyzing fear that whatever refreshment process we might start, we might not be able to manage it well or control it or see it to a proper end."

☐ *Interpersonal obstacles to refreshment.* "We tend to practice "nice" governance; not necessarily "good governance."

☐ *Discovery and decision-making.* "Boards typically don't change their DNA as rapidly as the operating organizations they shape and govern. These days that means that boards can too often be out of step and on their heels. It always raises the question of a board's ability to work ahead of its organization."

☐ *Conflict during refreshment.* "It's unavoidable to avoid conflict."

☐ *Begin succession and retention discussions during on-boarding.* These discussions should be initiated upon appointment, and continued regularly by the board chairman and the nominating committee chair with each director. These discussions set expectations for participation, contribution and service duration that meet the strategic needs of the business and the work of the board. Certainly, these may occur in conjunction with a regular board evaluation process. Suggested questions include:

- Where do you feel your contributions have made the greatest impact on our board… on your committees?
- How long are you planning to serve? Are there any significant changes in your professional life that may impact your board service in the future?
- How can our board take better advantage of your competency?
- What developmental activities or committee assignments make sense in the future?

☐ *Adhere to term and age limits.* One of our panelists humorously deemed reaching these limits by directors as a "medium hard stop." He described this as the time discussion often *begins* on succession—and that this is ''way late'' in the practice of good governance.

Board leadership should anticipate a succession event years in advance, acknowledge long and dedicated service, and avoid service extension conversations and negotiations. Well-orchestrated director transitions overcome entrenchment by injecting fresh thinking and diverse perspectives, reinvigorating board dynamics.

☐ *Inject shareholder input into your board evaluation process.* Key shareholders make it their business to understand your business, as well as many others. With their vested interest in your company's progress and a perspective across many companies, these investors can offer valuable insight into the operations of your company and the competency and contribution of the board. Astute boards should seek input from these owners as a regular element in the board's evaluation process.

With both inside and external input, regular board evaluation can be more precise and grounded, resetting expectations for competency, contribution, and a high-performance board culture. For boards that work, not just preside, these are necessary activities.

☐ *Regularly walk through your company's disaster or crisis recovery plan.* Nothing quite sobers a board about its responsibilities and vulnerabilities as a review of the business risks—financial, nonfinancial, and reputational. This represents a superb diagnostic opportunity to refresh understanding of known risks, and to become more aware of emerging risks. Greater understanding of risks and competency gaps and a robust discussion of mitigation leads to director learning, committees refocused on their duties, and leads the full board to better coordination and readiness to take charge.

Boards act when they must. Some events are unplanned, such as retirement of a board member requiring replacement. Yet most events are random and unplanned, such as responses to an activist shareholder's demand for election of their slate of directors. Other "events" may include a death or an illness impairing a director's ability to serve, personal legal issues, conflicts of interest, poor performance reports by shareholder groups, pressure by institutional shareholders, etc.

Boards rarely employ or fully use individual board member evaluations to determine the quality of directors, reflecting the concept that boards act as teams and value team contribution. Accordingly, they do not "press" average performers for better contributions—either contribute as expected or resign. For non-performers or members that create conflict, boards tend to either isolate the outliers or push for their resignation.

In either case, directors have not fully faced the challenge of assuring board expertise to govern company strategy. This gap oftentimes requires different skills and experiences than currently found at the board table. These gaps are rarely addressed unless an "event" drives such introspection. Still, awareness and courage are growing for boards to build future-focused competency. ■

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