

## It Takes a Strong Board

By Roger Kenny, Vice Chairman, CTPartners Board Consultants

One of the most critical elements of responsible corporate governance is maintaining a strong and active board of directors. As some of the most highly respected directors and CEOs have expressed, the best and worst things that happen to a company begin with the board of directors. Yet all too often, the task of building a strong board is either overlooked or continually pushed down the list of corporate priorities.

The risks presented by a weak board are almost too numerous to list. Boards are charged with supporting a company and its executive team by engaging in critical evaluation, keeping focus trained on the strategic plan, and acting as a ready resource to partner with the management team in tackling key business challenges. Given the weight of that charge, the threat posed and opportunity lost when even one individual director is under-qualified for the role is considerable. Directors who don't bring much energy or active contribution to the table can impede progress, as can directors who have held a seat for too long, beyond the time when they are making a new and significant contribution. And a single domineering director can squelch innovative ideas or stand in the way of those who want to ask tough questions.

As a group, a board must be prepared to challenge management assumptions and ask those tough questions. Diverse viewpoints among board members can prompt meaningful discussion. Yet too many boards are overly congenial, polite or just uncomfortable sparking debate. When directors primarily seek consensus, it can be difficult to make the necessary decisions.

Ineffective boards pose a tremendous business risk whether the board is affiliated with a public or private company, or a non-profit organization. In today's challenging economic environment, no organization should shoulder the added risk of a weak board of directors. Building a strong board is, quite simply, a business imperative.

### *Constant Vigilance is Required*

Even boards that were once strong become weak without constant vigilance. In 1992, General Motors' board of directors took charge and removed CEO Robert Stempel. In the wake of this action, the General Motors Guidelines for board governance and transparency became an industry standard for governance best practices until the passage of Sarbanes-Oxley in 2002. In 1993, the directors at IBM also ousted the sitting CEO. These succession acts on the part of the independent directors were unheard of before, and they established a precedent for the future. Why then, in 2009, did it take government intervention to replace the CEO of General Motors? Considering the board's earlier history of independence and leadership, why was the GM board paralyzed? Had they forgotten their heritage and succession mandate?

Frankly, one of the greatest risks to board performance has been the lack of outside, objective evaluation. Too many board members have been permitted to mark their own report cards without truly being assessed by their peers, or held accountable for their decisions and the quality of their contributions. It is not surprising, then, that boards fail. Challenges to the status quo did not exist. The directors were afraid to question management, and they accepted superficial answers when they did. They were so polite that they, too, turned out to be an added cause for failed succession and strategic planning.

### *Weak Boards Sidestep Succession Planning*

One litmus test of a highly performing board is its ability and willingness to appropriately address succession planning. Succession planning is one of the board's most important roles, and weak boards are far too likely to sidestep this critical responsibility. Consider the financial institutions that found themselves without workable succession plans during the recent financial crisis. Yet, ignoring succession issues, and leaving those



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decisions to the moment of need, or even crisis, usually leads to costly and less-than-optimal outcomes.

*Corporate Board magazine* reports that only 53% of boards surveyed “plan” to conduct succession planning. Why are savvy, hard-nosed business people having such difficulty making certain that an effective process is in place to ensure the successful continuity of their company? This requires a plan for the eventual orderly exodus of the CEO, senior executives, board chair, and other directors.

Succession planning seems to be most readily stymied when a company is doing well, when the culture is sound, when there is seemingly no reason for change. Actually, that should be a time when the board can most successfully implement succession planning, as well-qualified successors are most likely to be present within the company and designating them for future roles is usually the best solution. When company performance is poor, that’s the time to change direction, suggesting an outsider who could bring new spirit and new thinking.

For weak boards, the CEO is often the culprit in signaling reluctance to tackle real succession planning. At times, the CEO has convinced the board that there is no short-term need to consider succession planning. A CEO is apt to say, “My team is developing nicely. Why rock the boat?” or “When the time comes, my successor will be ready.” Such viewpoints impede the succession process and present independent directors with the challenge of meeting their most important responsibility. They must take charge. This is not an easy task.

It’s also important for directors to remember that the person who has the least stake in the next CEO is the current CEO. Those with the largest stake are the independent directors; they will have to live with the result. And there are many reasons why the CEO should not be

involved in the selection of his or her successor. In fact, no senior executive should be allowed to pick his or her own successor, as such actions have historically provided mixed results at best.

No business should ever have to scramble to find its next leader, yet this scenario was witnessed frequently during 2008 and 2009, when the crisis caused many companies to look for new CEOs. When a company faces a CEO succession crisis, the board has failed in one of its primary functions.

### *Utilizing Board Assessment to Strengthen a Board*

What is the best way to raise the game and strengthen a board of directors? One of the most effective tools for improving a board is the board assessment process. Indeed, according to both the NASDAQ and NYSE listing standards, a board of directors should be subject to an annual performance review. Yet too often companies choose to sign their own report card rather than seeking an objective board evaluation from an external organization. Instead, a company officer, such as the corporate secretary, coordinates an internal survey, and the opportunity for effecting any real change is lost.

By comparison, a properly conducted third-party board assessment can greatly facilitate change. The assessor engages in confidential, personal interviews with each director, as well as each C-Suite executive. The opportunity for a private conversation with a person outside of the company allows for a candor not available when colleagues interview one another. During this confidential process, participants can more freely share their concerns and frustrations, and discuss what they believe is holding back the company or the board itself.

It may go without saying, but a board assessment process can be extremely revealing and quickly produce notable results. There may be one domineering person-



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ality who is coloring all board conversation. Perhaps a director with stellar credentials has simply failed to deliver to the board. In some cases, the board chair is too weak to lead effectively, or conversely, sometimes the chair is overly controlling, filtering too much of the information flow between the executive team and the board.

An independent party can readily identify and address these and other issues, providing timely benefits that improve the board's effectiveness. Lackluster directors can be asked to contribute more. Those who have held their board seat for too long can be asked to step aside, to allow the addition of directors with specific skills that are most relevant to the company's current challenges. Invariably, the net result of a board assessment is a refocusing of company and board priorities. For directors, it can be extremely rewarding to see the board function more smoothly, improve its effectiveness, and perhaps increase its contribution to the company. Simply put, board assessment is the best path to building a stronger board.

### *Tackling the Succession Planning Challenge*

A strong board of directors can effectively meet its responsibilities, including its mandate to engage in thoughtful, long-term succession planning. Simply addressing the short-term "hit by the bus" scenario is not true succession planning. And directors need to make certain that benchmarking is part of the succession planning process to guarantee that future choices from outside the company are considered, as well as current insiders.

It is often quite difficult for the board of directors to agree upon the non-negotiable criteria for the next CEO. What skills and experiences simply can not be missing from this executive's resume? Which are the most critical areas of expertise for the company's next

leader? The board also must determine whether there is an internal candidate who truly meets these criteria. This must be done without falling into the trap of selecting the under-qualified individual who seems to have "earned" the position. Selecting a CEO on a "deserving it" basis has too often contributed to failure in succession planning. The independent directors, in particular, must take the lead in honestly evaluating the quality of the internal candidates.

To be able to accurately assess internal executive talent, directors will need to learn more about the executive team and succession candidates through a variety of exposures. To achieve this, directors will want to increase their "face time" with management, perhaps by engaging in informal, one-on-one conversations outside of board meetings.

Boards also should work actively with the Chief Human Resources Officer during the succession planning and benchmarking process. It may be the case that some talent upgrading is in order, both to improve the company's current performance and to add to the team's bench strength. Beyond the immediate benefits of talent upgrading, building a deeper talent bench should facilitate effective succession planning and help protect the company from a succession crisis. Clearly, bench-building and succession planning deliver bottom-line results, both today and tomorrow.

### *The Board of the Future - A New Model*

In addition to addressing C-Suite succession planning, the board must address its own succession planning. The board succession process allows the addition of new directors with skills and relevant experiences that are aligned with the company's current strategic direction. Again, a third-party board assessment can be an invaluable tool in facilitating board succession. And succession planning helps directors understand that no



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board seat is forever. The board Governance Committee is responsible for ensuring that individual director assessments are performed before directors stand for re-election. Not all boards fulfill this requirement. Board searches today generally target candidates with specific skills and experiences, as boards work to make sure that the full complement of needed business skills are present on the board. Top prospects for director slots are becoming younger and more diverse, breaking the mold of the stereotypical “former CEO” candidate. Technology, operations, marketing, financial, strategic, and innovative specialists are now seen as prime candidates for the boards of the future. And as businesses increasingly target the global marketplace, global non-Americans and candidates who offer diverse perspectives are leading the priority list. Legislation in France calls for 50% of board seats to be held by women by 2015, and other nations are following suit.

From amongst this powerful group of executives, the independent directors need to select a Chair or Lead Director who can speak for them and manage the board. This leader should not dominate the board; indeed all board members have the obligation to be active participants in board matters. But the leader, supported by the board, must be capable of galvanizing the management team to achieve their strategy, while also making sure that the right CEO is in place and the company has strong leadership choices for the future. That’s going to take a strong board.

Recruiting superior directors is growing ever-more challenging. The increasing duties and time demands placed on directors has significantly expanded the responsibility of board membership. One result is that the most conscientious directors now tend to sit on fewer boards.

In this environment, it is critical for a company to ally with the right board search partner to ensure access to the best available candidates. At CTPartners Board Consultants, we offer the expertise that comes from specializing in board services for more than two decades. And as a mid-size firm, we do not find ourselves routinely making compromises due to conflicts of interests among clients. No client is a second-class client, all receive first-class attention.

In today’s challenging, global marketplace, building and maintaining a strong board of directors is essential. And the board shoulders unique responsibilities, both for guiding the company and monitoring itself as a board. Only a truly strong board is up to that task.

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