

Board Effectiveness Insights

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FOCUS

BOARD EFFECTIVENESS PARTNERS (BEP) collaborates with directors and CEOs to objectively analyze and improve the effectiveness of their boards.

INSIGHTS

We publish *Board Effectiveness Insights* periodically to encourage dialogue on strengthening board effectiveness. We welcome your suggestions, thoughts, and agreement or disagreement. Please visit www.bepartners.com for more details and other chapters of *Board Effectiveness Insights*.

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STRENGTHENING HEALTHY BOARDS

Board Effectiveness Partners (BEP) is often asked to summarize a practical approach to improving the effectiveness of a seemingly healthy board. "Our board functions well, but what can we do to improve our performance . . . to be an even better board?" Our response is usually characterized by two points:

- ▶ All boards can benefit from performing self-assessments and committing to principles of continuous improvement.
- ▶ Often directors are too engaged in board activities to recognize symptoms of underlying impediments to long-term effectiveness.

Warning Signs

Close inspection of effective boards will often uncover the early warning signs of potential threats to continued governance quality. In our experience, these signs are not always obvious. The following are some examples.

- ▶ *Focus on compliance, not effectiveness*
Compliance does not ensure effectiveness. Boards that operate within the framework of meeting minimum governance requirements may be shortchanging their potential to be a competitive asset to their enterprise. Boards that commit themselves to continuous improvement can achieve a level of leadership and governance quality that enhances corporate performance.
- ▶ *Agenda is too structured*
Agendas should be prepared strategically to ensure they focus on the right corporate issues and to allow for a collaborative environment within the board and between the board and management. Too often, tightly structured agendas mask underlying problems.
- ▶ *Evaluating and educating directors*
Directors should complete a simple annual self- and peer-assessment, in the context of the company's performance. They should understand the industry and strategic issues of the business. Management, as well as each director, has a responsibility to ensure that the board as a whole is suitably informed.
- ▶ *Leadership development and succession*
Boards should ensure that sound plans are in place and reviewed annually to replace each director, the CEO, and any of the CEO's direct reports.

These are a few examples that may flag potential areas of concern for directors and board leadership. The underlying issues they represent may have little impact on board effectiveness and governance quality today but could cause serious board problems in the future.

Reputation risk is a prevalent concern among directors. After a lifetime of carefully building their reputations, directors are wary of the devastating impact of unseen risk. As directors, committing and contributing to an effective board is a first step in mitigating risk.

Despite glaring examples of dysfunctional boards, ongoing negative press, and prevalent investor and public mistrust of corporate leadership, BEP remains confident that the majority of boards are competent, dedicated, and effective. Those boards that make headlines are notable exceptions in the corporate governance landscape.

Leadership and director changes can have a significant impact on board effectiveness. For example, a new presentation style preferred by a new executive can enhance or limit the board's ability to understand and contribute to strategy discussions.

Why Healthy Boards Need Check-Ups

Even the most effective, efficiently functioning board can benefit from periodic and disciplined self-assessments. There is always room for improvement. Moreover, the business itself and the business environment are constantly changing. Leadership provided by the board must be responsive to the changing dynamics and understand when conditions might require a reassessment of the experience and skill mix of the board, the way the board functions and communicates, or the frequency of meetings.

From BEP's experience partnering with boards and corporate leaders, we believe that there are three key dynamics that should cause even healthy boards to take pause:

- ▶ Changing competitive environment and corporate objectives
- ▶ Leadership and director changes
- ▶ Complacency

Changing Competitive Environment and Corporate Objectives

The enterprise objectives set by a board and management will likely change over time. The implementation of a sustained and successful cost-cutting initiative, for instance, may well result in a new strategic focus on top-line growth, perhaps through acquisition. In this scenario, the roles, wisdom, and skills required of a board may need to change in order to successfully navigate a significant shift in strategy and to exploit the best growth opportunities. It is important, therefore, that boards continually reassess their capacity to add value as a critical corporate asset. It is even more important when change is urgent.

Leadership and Director Changes

Changes to board and management talent are inevitable, and they will impact effectiveness. Key leadership changes affect organization competency profiles, working relationships, and experience mix. In order to protect governance quality during transitions, board leaders should ensure that:

- ▶ Relationships between directors and between the board and management remain collaborative, questioning, respectful, and open.
- ▶ The board maintains competence in broad areas important to the success of the enterprise.
- ▶ The job descriptions for the CEO, chairman, and each director's position are frequently evaluated and refined.
- ▶ Executive changes do not reduce the quality of information and communication between management and the board.
- ▶ The plans that anticipate the promotion or loss of directors and corporate leaders are reviewed and scheduled for periodic updates.

Complacency

Even effective boards can fall into the trap of focusing too narrowly on the company's current challenges and opportunities. Too few take the time to step back on a regular (or even occasional) basis and ask the question, How are we doing as a board? To paraphrase an old saying, a little time with a doctor now can avoid a lot of time at the hospital later. When board leadership becomes complacent about board performance and fails to manage change, governance quality can drift. Scheduling regular, periodic reviews and reflecting them on board agendas will improve board effectiveness.

One Approach to Continuous Improvement

BEP's experience working with boards, healthy and otherwise, indicates that one key to improving board performance is adapting a routine of self-evaluation—an annual physical exam establishing what physicians frequently refer to as a "baseline." Successive evaluations become more meaningful in turn by having such a baseline as a reference. Trends, weaknesses, improvements, and future board development needs can all be seen more clearly.

BEP typically employs a five-step process when partnering with our clients to strengthen board effectiveness. In approaching engagements with any board, particularly those that are healthy, we endeavor to keep the process unobtrusive. Opinions and perspectives are always protected and never attributed. Each board and organization has its own unique qualities and challenges, which we recognize by customizing our approach to each engagement.

Step 1: Background analysis. The first step is a review of the board and company information in the context of the company's plans and its competitive horizon. If possible, we identify a disappointing corporate performance metric that might have been identified and mitigated by a more effective board. BEP then creates a hypothesis focused on the board's effectiveness and other opportunities that might exist for improvements.

Step 2: Interviews, board operations analysis, and collaboration. BEP consultants interview each director, senior leader, and other key parties to understand their perspective. We observe the board and the board committees at work and collaborate with board leaders to define the options and capacity for implementable and sustainable change.

Step 3: Opportunity assessment and change design. BEP consultants collaborate to assess the facts, opinions, and perspectives discovered, then correlate them with BEP's inventory of lessons learned and our research focusing on evolving best practices. We develop a preliminary plan for change and identify implementation obstacles and resources.

Step 4: Finalize a plan for change. BEP consultants review and refine the change recommendations and establish a timeline for change.

Step 5: Ongoing implementation. Periodic reviews are suggested for continuous improvement.

BEP's Perspective

Board effectiveness and governance quality are no accident. They are most often the result of deliberate action by CEOs and board leaders who believe in continuous improvement, who believe that boards can and should be a competitive asset, and who see change as an opportunity.

BEP believes that all boards have a fiduciary and governance responsibility to stakeholders, shareholders, and management to demonstrate the best qualities of leadership beyond the minimum framework of compliance.

Contributors

Board Effectiveness Partners appreciates the hundreds of hours others have invested with us to develop the perspectives summarized in this chapter of *Board Effectiveness Insights*. We have honored requests for anonymity from many of the clients and colleagues who have reviewed and provided critical comment to this chapter.

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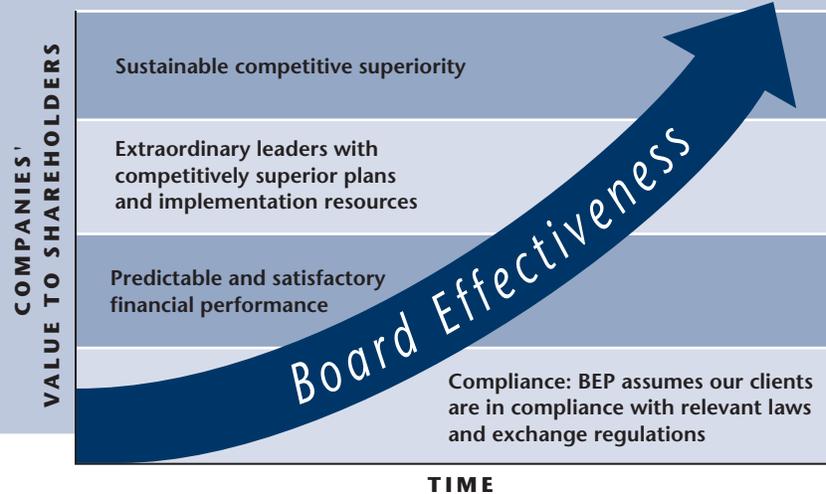
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American International Group
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LexisNexis
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Our Firm

Board Effectiveness Partners (BEP) collaborates with directors and CEOs to objectively analyze and improve the effectiveness of their boards.

BEP's mission is to serve as a guide and catalyst to enhance board effectiveness and governance quality—enabling directors and CEOs to ensure their companies continuously improve performance and competitive superiority.



Managing Partners

Each of BEP's Managing Partners has 20 to 37 years of experience as CEO, board or corporate leader, or consultant. With career credentials that range from manufacturing to financial services, and skills ranging from strategy design to implementing change, BEP's Managing Partners provide the breadth and depth of professional experience essential to strengthening board effectiveness.

KEVIN ENGLISH has devoted his career to leading business units, companies, and boards and has improved corporate performance as a CEO and Board Chairman.

JOHN MCCREIGHT has dedicated over 37 years to consulting and partnering with CEOs, senior leaders, directors, and investors to define and implement large-scale strategic change.

MARK SCHNEIDERMAN is a senior-level human resources professional who has held corporate leadership roles, and partnered with senior leadership and boards as a consultant, to facilitate strategy implementation and change management.

Alliance Partners

BEP nurtures relationships with over 100 Alliance Partners who exemplify preeminence in their fields and complement our core competencies. Alliance Partners strengthen our capacity to improve board effectiveness. As an example: BEP is committed to ensuring we are cognizant of the lessons being learned daily, worldwide, about improving governance quality.

BEP's understanding of developments in Europe and the United Kingdom is enhanced by our relationship with our London-based colleagues, Patrick Haighton and Leslie Dighton, who founded The Chairman's Club and CRA, a global consultancy.

Research & Operations Center

Our Research & Operations Center (ROC) professionals are linked worldwide to our clients, Alliance Partners, industry experts, and the academic community. We focus daily on monitoring board effectiveness facts, opinions, successes, disappointments, lessons learned, and emerging best practices.