


Building Effective Boards

Board Assessments, Education, Recruitment


GSG: The Governance Solutions Group



Helping directors increase board effectiveness.

Goals

1. Increase our knowledge of how boards work
2. Learn practice tips – translate several “best practices” into tools your directors can easily use
3. Increase board effectiveness




Helping directors increase board effectiveness.

2

Topics

1. Defining board engagement
2. Coordinating your board composition snapshot and skills assessment with company strategy
3. Building the board succession plan
4. Designing your board evaluation
5. Understanding board refreshment
6. Strengthening your board education plan

What's on your mind?



Helping directors increase board effectiveness.

3

Board composition

- Board composition, “can be a trigger for shareholder activism.”
- “Directors with very long tenures or who lack deep industry knowledge may be targets for activist investors.
- Others may go after perceived governance weaknesses as a means to gain support from other institutional investors concerned about board composition.
- Shareholder activists often seek board seats at investee companies—and many are winning them.”

PwC: Governing for the long-term: Board Composition and Diversity
<http://www.pwc.com/us/en/governance-insights-center/annual-corporate-directors-survey/assets/pwc-2015-actv-module-board-composition-and-diversity.pdf>

Board composition

Results of activism



of all 413 activist campaigns against US public companies were board-related.

Source: FactSet with PwC analysis, January 2016.



of directors say their boards changed their composition related to actual or potential shareholder activism in the last year.

Source: PwC, 2015 Annual Corporate Directors Survey, October 2015.

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Board composition

It's important, now what?

1. Snapshot
2. Skills assessment
3. Strategic plan

Board composition

Board Members		Skills and Experience Matrix (see examples)												Change in		
Name	Year on Board	Finance	Marketing	Operations	Legal	Human Resources	Information Technology	Public Affairs	Government	International	Non-Profit	Academic	Healthcare	Other	Age	Gender
Mr. A. Johnson	5															
Ms. B. Smith	3															
Mr. C. Brown	7															
Ms. D. White	2															
Mr. E. Green	4															
Ms. F. Black	6															
Mr. G. Grey	1															
Ms. H. Blue	8															
Mr. I. Yellow	3															
Ms. J. Purple	5															
Mr. K. Red	2															
Ms. L. Orange	4															
Mr. M. Silver	6															
Ms. N. Gold	1															
Mr. O. Bronze	3															
Ms. P. Platinum	5															
Mr. Q. Diamond	2															
Ms. R. Ruby	4															
Mr. S. Sapphire	6															
Ms. T. Emerald	1															
Mr. U. Garnet	3															
Ms. V. Opal	5															
Mr. W. Pearl	2															
Ms. X. Jade	4															
Mr. Y. Amethyst	6															
Ms. Z. Citrine	1															

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Board succession planning - why

1. Heightened attention
2. Lack of diversity
3. Directors are being held accountable

Board succession planning - how

1. Identify the board committee
2. Create a board matrix
3. Consider the company's strategic plan
4. Identify the gaps
5. Start a "prospect" list

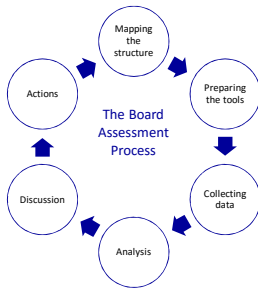
Board succession planning - how

6. Focus on a "short" list
7. Talk with current directors about their interest and plans
8. Adopt a performance-based reelection process
9. Update the full board
10. Review your process

Board evaluation - why

- Compliance – NYSE
 - Heightened attention
 - So we can tell shareholders we do it
-
- Prioritize matters that need attention
 - Enhance board dynamics
 - Provide platform for sharpening board composition
 - Review of matters that could have been handled better

Board evaluation - process



Board evaluation - types

- Full board performance
- Director self-assessment
- Director peer review (360)
- Committee assessments
- Senior management – board relations

Board evaluation - tools

- Surveys (paper/on-line)
 - Logistics
 - Substantive
 - Culture
- One-on-one confidential interviews
 - Conversation guidelines
 - Open-ended
- In-boardroom observation

Board evaluation – Other considerations

- Frequency of the review
- Facilitators
- Confidentiality
- Attorney-client privilege
- Minutes notation

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Board refreshment

- Hard rules
 - Tenure
(CalPERS, 12 years, director independence can be compromised)
 - Mandatory retirement
- Soft rules
 - True annual review prior to re-election nomination
 - Meaningful board evaluation
- Board education



Board education – benefits/refreshment

1. Fulfills the director's fiduciary duty to be fully informed about company matters and about best practices in corporate governance
2. Enhances the leadership capability and skills of directors
3. Offers an opportunity to hear fresh, independent perspectives on substantive and board governance matters
4. Provides a forum to ask questions in a safe environment
5. Helps directors overcome specific challenges by introducing processes that assist them in fulfilling their oversight role
6. Demonstrates responsiveness and accountability to shareholders and stakeholders
7. Optimizes board effectiveness



Board education - types (& dealing with: asymmetrical information)

1. New director orientation
2. In-Board meeting – management reports
3. In-Board meeting – advisor presentations
4. In-Board meeting – third-party presentations
5. Guest speakers at board dinners
6. Third party conferences (including online webinars and podcasts)
7. Publications
8. Membership in an outside governance support organization
9. Engaging an independent news service



Board engagement

Quantitative

- Company earnings, share price ...
- Reputation
- Substantive agenda items
- Monitoring/actions
- Meeting attendance

Qualitative (reviewing how the board works)



Thank you for sharing your time.



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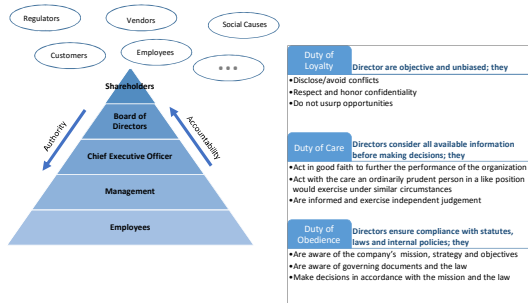
Additional notes:

1. Board governance defined
2. The board's fiduciary responsibilities
3. The role of the board
4. The Accountable Director's Guide to Board Operations

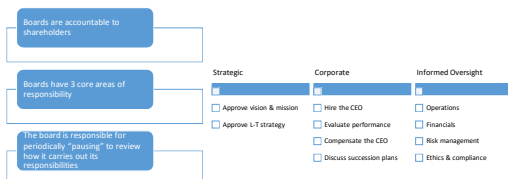
Board governance defined

Board governance is the framework the company's board of directors uses to help directors and management determine corporate direction and performance; and to identify potential opportunities to improve board efficiency and effectiveness.

The board's fiduciary responsibilities



The role of the board



The Accountable Director's Guide to Board Operations