Trusted Boards: Is Yours?

By Denise Kuprionis

Directors are busy. If you sit on a board of directors you know meetings are longer, the pre-read meeting binder is thicker (and if you use a board portal, there's even more material), and the number of in-between meeting conference calls has increased. The board's fiduciary duties have not changed over the years; however, directors today face additional pressure from regulators, shareholders, activists and governance best-practice practitioners. Given this new normal in boardrooms, how does your board affirm that it is doing its best job at "directing"? How do you demonstrate accountability to shareholders?

Trusted boards are composed of accountable directors who are continually getting better at getting better. These directors periodically institute a "pause" from their oversight responsibilities to think through how the board works. The result is a board that is better equipped to make decisions on strategy and operations.

What is a "board pause?" It is a time for the smart people who sit around the board table to think about how the board does its work. With more proposals to study and actions that need taking, it is easy for directors to only "do." After all, they have a job, and this important directing requires substantive discussions.

However, stopping periodically to look at the way the board operates, taking time to discuss the "elephant" in the room, and asking if it is actually doing what it needs to do, strengthens board performance and stimulates critical director thinking. It ensures directors are "up to snuff," that the board can demonstrate its accountability, and it tells stakeholders that the board takes its responsibilities seriously.

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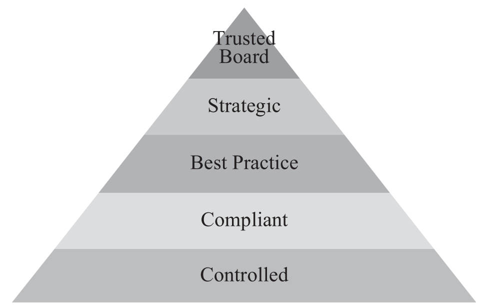
Hierarchy of Board Types



A ***controlled board*** is one in which the CEO, or one director, or one shareholder, has a dominant voice in all discussions and the rest of the board generally accedes to that person's will in board decisions. A ***compliant board*** understands new NYSE, NASDAQ or SEC rules, and can check every box.

The ***best practice board*** goes one step further: directors understand the philosophy behind the rules and engage in thoughtful governance discussions. The ***strategic board*** does more than plan; it actively thinks long term and contemplates the big picture. The ***trusted board*** considers the company's long-term strategic vision in correlation with the principles of good governance, and it demonstrates its accountability to shareholders.

What do directors do when the board "pauses"? Although there is not one right board governance framework, all boards can use the following tools to stimulate critical thinking and to ensure they know the "lay of the land." The tools can be used individually or in a connected exercise and can be facilitated by a board chair or with an independent advisor.

1. *Board evaluation, board goals*. Board performance should be considered and measured. The annual board assessment, required by

the New York Stock Exchange (NYSE), is an opportunity for board development, for getting better, for demonstrating accountability. A good board evaluation concludes with a full board discussion and agreement on several board goals. The board will also want to facilitate committee evaluations and consider director peer evaluations.

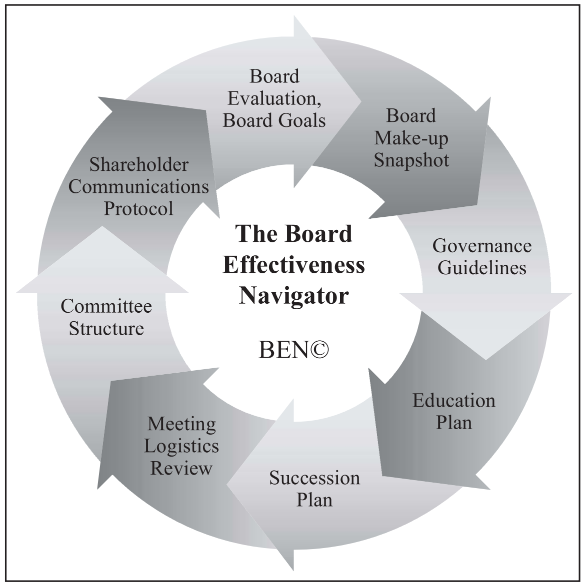
2. *Board make-up, board snapshot*. Analyzing current board make-up, and its link to the company's strategic plan, provides insights to board culture and may highlight gaps in necessary board skills.

3. *Governance guidelines*. This document establishes the board's "rules of the road." A periodic review serves as a refresher of the board's duties and provides a clear board vision.

4. *Education plan*. Board education happens at every meeting. It also includes new director orientation, in-house and outside expert presentations, and periodic third-party conferences. It addresses the quandary of asymmetrical information. A plan prompts action.

5. *Succession plan*. Consideration of the board's succession planning allows directors to proactively anticipate retirements while linking board needs with the company's long-term strategy, factoring in skills, independence, age, tenure, and diversity.

6. *Meeting logistics review*. "We've always done it this way," is a common reason for the way management communicates with the board,



the way meeting materials are presented, and even when the board meets. A logistics review often results in new insights and a more efficient use of time.

7. *Committee structure review*. A look at committee design includes discussing the way members are chosen, rotations, staffing, and the potential need for new committees, for example, risk management, cyber security, or management development.

8. *Shareholder communications protocol*. An increase in activist and institutional interest in governance prompts boards to discuss shareholder engagement protocols on a more regular basis.