As You Move Forward . . .

Many CEOs say that they want to change their boards to derive more value from them, but often find it difficult to achieve this. Three of the most common reasons that their efforts prove unsuccessful are: (1) A failure to understand and address all eight components that factor into board effectiveness. (2) Asking for greater openness between the board and CEO but responding in a way that is defensive or critical when you get it. (3) Delegation of board changes that require leadership from the CEO.

1. A failure to understand and address all eight components that factor into board effectiveness: The most common approach to addressing board issues involves the tweaking of one or two elements—such as replacing a new director or adopting a popular “best practice” such as the formation of a Risk Committee—only to find that impact of these initiatives on the overall functioning of the board is marginal, at best. Simultaneously tackling all eight components is nearly impossible: changing board composition, how the board engages in strategy and succession, the way board agendas are designed, the information packages directors receive and the orientation for new board members, how board and committee meetings are led, and so on. However, if you limit your efforts to only one or two areas, you will never maximize the board’s potential.

Similarly, there are many instances of CEOs who create lists of board expectations or tell the board how they want to engage with them differently—yet do nothing in terms of active steps that will facilitate this. They may have said that they want and value more constructive board
dialogue, yet they continue to send out poorly organized pre-reading packages that lack essential information, create agendas that no board could get through in a week much less a few hours, and fail to draw out different perspectives from their directors during the discussions.

One CEO described exactly these frustrations earnestly and sincerely: “I have told them I want to work with them differently than my predecessor did. I laid it all out in a concise slide that I sent out in the pre-reading packages and talked about with the entire board at the end of one of our meetings. But nothing has changed.” Of course nothing had changed. He had done nothing to change any of the essential components of how the board was operating. Once we began to analyze and address all eight components, the deficiencies became apparent very quickly: Among other things, this company was involved extensively in acquisitions. Ad hoc board meetings were often called at the last minute to talk about deals—often by conference call; advance materials were slim due to time constraints. Moreover, the company had entered two new lines of business in a significant way over the past five years, yet no board members had been recruited with experience in these industries. It had been so long since any directors had joined the board, in fact, there was no orientation program that anyone could remember.

Changes began by scheduling one board meeting per month, some by conference call. Up to this point, only five regular board meetings a year were scheduled; when, in fact, the board had “met” more than ten times in each of the previous two years to discuss and approve major transactions. With monthly meetings now scheduled, the panic of trying to track down directors for urgent approvals of pending transactions subsided. In fact, some of these monthly board meetings were ultimately cancelled; but having them in place in this company’s operating environment made a big difference.

Another significant change involved the way deals were presented in the pre-reading materials and the establishment of a rule that some sort of pre-reading—even on forty-eight to seventy-two hours notice—was to be provided before all meetings or board conference calls. Board members were frustrated with the lack of information relative to matters for discussion on urgent board calls. As one director described it, “I get on that call and I have some idea what we’re going to talk about but can I say I feel well-informed about it? Absolutely not! I feel like my back is against the wall—if I hesitate or start asking questions, it is