Three Ways to Ramp Up the Performance of Your Board

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Much has changed in the corporate governance arena since the 2008 financial crisis, placing greater demands on boards than ever before. Changes that have rapidly become permanent fixtures include the emergence of a newly potent force—the activist investor—as well as ramped up scrutiny and pressure from a wide range of stakeholders, such as the media. As a result, an increased need for transparency has combined with the need for boards to demonstrate and document the range of best practices that investors care about.

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Whether boards like it or not, these scorecards matter, and it's important to be aware that certain practices are closely aligned with improved board performance. Three key trends in particular will enable boards to operate as true strategic resources for their company and should now be embraced by boards everywhere:

1. A board succession-planning process that ensures a mix of directors who are able to help deliver on the strategy

2. Individual and whole board evaluations that are applied to elevate the board's collective capabilities and effectiveness

3. Compensation that recognizes and rewards the real demands of serving as a director now

Trend #1 Rethink recruitment

In the past, recruiting new board members was collegial and collegiate, with a strong tendency to favor candidates from within the same industry, CEOs, and generally known quantities. But this approach engenders board conformity: the board is composed of people from similar backgrounds, with similar experiences, who therefore bring similar views and expertise to the table. Such conformity may create an agreeable atmosphere in the boardroom, but means the organization lacks the diversity of experience needed to navigate in today's volatile business world.

While the importance of diversity is old news, we're seeing some interesting shifts in how boards are embracing a new makeup. In some countries it's now a non-negotiable: for example, Germany has adopted quotas for the number of women on boards. While the US hasn't taken this route, we are seeing boards approach diversity as more than a box-ticking exercise, exploring increasingly systematic approaches to recruiting new members, and critically thinking about the competencies and experiences a new board member must bring to the table.

The best boards think about succession well in advance, approaching it by viewing the entire "chessboard" rather than via one-off recruitments. They recognize that board recruitment should be a proactive, not reactive, process, and must identify the experience and skills a new member needs in order to help the organization deliver on its strategy. They also question whether those experiences can be sourced from within their industry or whether they should broaden the search. Recognizing that diversity of thought and perspective comes from diversity of experiences, forward-thinking boards are seeking colleagues from a variety of backgrounds, creating agile boards better equipped to steer their organizations.

For example, one manufacturing firm's board realized that, as they expanded globally, cybersecurity and technology were going to be critical to deliver the strategy—knowledge they didn't already possess on the board. Because their board was already lean by current standards, comprised primarily of finance experts, they decided to retain the expertise they had and expand the size of the board, recruiting a former CEO from a technology company with the cybersecurity experience they required.

Trend #2 Evaluate the whole *and* the parts

With the greater scrutiny boards are facing from activist shareholders and the media, many are evaluating their performance at both the collective and individual levels. This dual mode of evaluation makes sense considering the success of the board depends on how individual members contribute to—or in some cases hinder—the group's overall performance.

When evaluating how well they perform as a collective, forward-thinking boards determine how well everyone works together as a team, and again, whether collectively they have the right experiences to navigate the changing business environment and still deliver against the organization's strategy.

Evaluating performance at the individual level typically involves assessing the behavioral styles a member employs in the boardroom. Consider the board at one private company that needed help defining and disseminating a bigger organizational vision among management, with the objective of increasing the firm's overall performance. To aid in this effort, the board recruited an all-star candidate, who looked perfect on paper with both the right technical expertise and experiences. But in the boardroom, the new recruit seemed entrenched in his previous organization's culture and often shared his opinion in a dismissive manner. We worked with the board chair, coaching and preparing him to have the difficult conversation required to integrate this director into the board's culture and team. With fresh insights, the new member was not only receptive to the feedback, but grateful and willing to change. An effective individual director evaluation process, followed by a needed intervention, enabled the chair to steer his organization back on course and reap the benefits of his new board talent.

When evaluation and feedback are done well, the results can be transformational. But it requires sensitivity both when giving feedback to an individual and when considering the impact that public feedback could have on the business.

Trend #3 Compensate for the job that the board really does

The past director compensation model, where board members were compensated for discrete activities, no longer makes sense relative to the shifting requirements of the job. Post-recession boards devote far more time to their organizations, tackling such new challenges as the demands of activist shareholders. They are expected to bring both a rigorous level of questioning to organizational strategy and a sophisticated understanding of where the firm operates in its industry. While some traditional, discrete roles still exist—chairing the board and various committees, for example—the model of distinct touchpoints no longer prevails.

In addition, board members are expected to be increasingly media-savvy. Organizations are wisely very selective about their official spokesperson—usually the CEO or board chair—but all board members are expected to be aligned on the board's point of view on key issues and to participate in behind-the-scenes media work, which might include group discussion preparing for media reactions to new strategic activity, for example. This activity is particularly critical if the firm is under scrutiny from activist shareholders; the board must learn to speak with one voice to minimize any fallout.

These greatly expanded responsibilities for directors require new compensation models. Instead of paying for discrete tasks, such as meeting attendance or acting as chair, organizations are now turning to an all-inclusive retainer model to ensure members can—and do—spend the time needed. When boards are incentivized by a realistic compensation model, they will be motivated to steer the organization effectively.

Conclusion: strong team, strong board, strong organization

Ultimately, the board is a team just like any other. While their remit is to bring their (ideally) diverse experiences and opinions to bear on the organization's future, the best boards see themselves as a unified team rather than a disparate set of individual voices.

High-performing boards driving high-performing organizations are made up of consummate professionals who can work effectively toward a common goal, viewing themselves as a team. Boards in the best position to do this will be those that regularly evaluate their composition vis-à-vis the strategy, adopt a rigorous board member evaluation process geared to continuous improvement, and pay directors in line with their duties. In this climate, both boards and their organizations are stronger and better positioned to deliver on their strategy.

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