THE BOARD MINDSET™

The vital attribute of exceptional boards

GOVERNANCE BEYOND BYLAWS

Rarely are directors thrilled about serving on a governance committee (often nominating and governance.) The exception is either when a director has a particular interest and ability with governance or if a director or group of directors wants to reshape the board. Sometimes, efforts to make a change to improve the board are sincere, but at other times, they may be attempts to seize power for reasons more personal. For example, a governance committee can recommend changes to by-laws, such as term limits or age restrictions. These are considered good practices, but they may also fly cover for the wishes of a powerful CEO or shareholders seeking to dominate the board – neither necessarily good nor bad.

Vibrant boards have active and well-functioning governance committees that keep their fingers on the pulse of the board and take note of trends. For example, an excellent governance committee notes the dynamics of a board, such as a tendency to short-circuit difficult conversations, boundary breaches between management and the directors, or tolerance for weak directors.

Strong governance also means that directors see the actions of the board and management in context. For example, when is someone pushing for a significant change? What are the circumstances in which management alters their interactions with the board? How well do directors know members of the senior executive team?

Governance committees use a wide range of methods to keep up with what is going on.

Everything from informal conversations to formal board evaluations conducted by external experts can help directors monitor and make changes when needed. However, nothing is as powerful as a board made up of fully engaged directors who understand their duties. No board is vibrant if the directors aren't.

Governance can bring vibrancy to a board.

Governance and nominations are prone to be mechanical because there are, quite rightly, routine matters to consider and because most directors feel confident that their board is well-run. The members are, in general, performing.

Unfortunately, relying on Pro-forma agendas and routines leaves a board vulnerable, even complacent. Further, when a board is unaccustomed to the rigors of candid appraisal, directors failing in their duties are much harder to confront. Too often, a director may be allowed to remain until their term is up rather than address even egregious issues.

One board we worked with nearly fired a CEO just four months into his tenure. Just days away from removing the new CEO, the board chair asked for help. A week later, after a rapid series of interviews, we met with the Executive Committee and reported that a small group of disgruntled directors had circulated a rumor about the CEO, on which the chairman had decided to recommend his ouster.

While the consultation was successful, in that the CEO received an apology and remained in his role for five years, it also revealed how fractured the board was.

No one had paid sufficient attention to the rupture that occurred when the new CEO was selected nor the long-standing dynamics on the board that caused and perpetuated the schism. Over the next several years, the governance committee improved the selection of new members, board education, and annual board evaluations, which we led, drastically improved boundaries between the board and management. Fortunately, this board "woke up" in time to realize that they hadn't paid sufficient attention to the changing landscape in their industry.

The new CEO was the right person to lead them from an organization weighed down by tradition to a more market-oriented organization, but it was painful.

This case can serve as a cautionary tale, and we hope it will.

Governance is more than by-laws and director selection; it is a process that occurs amongst a group who agree to work toward a common goal, using agreed-upon methods, with clear roles and boundaries. We observe the quality of governance in how well directors work with one another and with management just as much as we see it in by-laws and committee charters.

Vibrancy requires discipline and structure but with enthusiastic engagement of directors, a board can be more than good enough – it can be great.

Helping Define Your Company's Success

Helping boards achieve excellence in critical aspects of governance that most ignore.

We can help you formulate a strategy that works:

- Defines the choices a company is making about who is and who is not a customer
- Doesn't serve as a rationalization for budgets
- Challenges assumptions
- Seeks to reduce risk, not avoid it
- Serves as a framework in which adjustments are expected and can be accommodated

We advise on any unaddressed issues to help the board and the company move forward. If you have any questions about The Board Mindset, visit www.theboardmindset.com or contact us.