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Board Effectiveness: How Can You Get to Optimal?

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The best boards are akin to high-performing executive teams. As leadership entities, boards are overseeing organizations that have more challenges than ever. The optimal board can help management teams navigate a changing business landscape and turn obstacles into opportunity. But that optimal board is a rarity, and it does not exist by happenstance. Fostering a nimble, effective, and efficient working group of directors requires several factors: a strong set of leaders; forward-thinking, collaborative, and action-oriented individuals; commitment to near- and long-term improvements; and the proper coaching, resources, and tools.

So how do you get there? It can help to jump-start the process by first looking at what is at stake.

Why it matters

There are the well-known case studies of significant board failure such as Enron or, more recently, Theranos. Others are less egregious, yet still produced significant loss of shareholder value as a result of disengaged or ineffective board oversight in managing succession. Or there are the household names, category-leading companies that failed to address advancing market disruption. We know there are certainly boards in place today—overseeing companies with massive challenges—that will not be able to rise to the occasion and help solve those problems. When this happens, the loss goes beyond shareholders, often affecting a large workforce, customers, or the public at large. And clearly the reputations of the individuals on the management team and on the board are negatively impacted.

The basic requirement: an annual board assessment

For public companies, the Securities and Exchange Commission (SEC) requires an annual board review. It expects comprehensive, transparent board evaluation practices that demonstrate active governance oversight and continuous improvement. While there is no set prescription for what that entails, the basics include:

- Disclosure in the annual proxy statement of governance practices and board evaluation processes;
- A detailed reporting on board composition and effectiveness;
- Explanation of director nomination and selection criteria; and
- Disclosure of board diversity and skill matrices.

The Sarbanes-Oxley Act and subsequent SEC rules further emphasize board accountability and effective self assessment, making these evaluations a critical governance requirement for public companies.

Without question, all of the points listed above are valid and yet do not go far enough. Even these “acceptable”, traditional assessments have become insufficient in today’s complex organizational landscape. Merely outlining processes and rating a board as “good”, “okay”, or “poor” provides minimal insight into performance and development opportunities.

Simply stated, if the goal is true board effectiveness, meeting the basic requirement will not deliver the goods.

What is standard is not enough: moving to the annual assessment 2.0

Modern board evaluations must be more nuanced and customized, offering a more strategic focus on board performance and value added to the organization. This may involve analysis of governance, strategic capabilities, operational effectiveness, and individual director contributions. Questions that can help uncover a realistic picture and point to possible suggestions for improvement include:

- Does the board fully embrace and understand the business strategy and their role in advising and supporting management in delivering results?
- How is board leadership structured, both formally and informally?
- What processes determine board meeting agendas and topic selection?
- To what extent does the board allocate time for strategic discussions and analysis of external business influences versus over-indexing on details?
- Are directors adequately informed about critical emerging areas such as artificial intelligence and cybersecurity?
- What is the balance between formal reporting and interactive strategic dialog?
- How do directors describe the interpersonal and professional dynamics between board members and management?

- Does the board's succession planning deliberately consider current needed experience and emerging skillset requirements?
- Is the board able to vary its engagement level based on organizational circumstances, in other words does it have the awareness and discipline to engage more when needed and step back when things are running smoothly?

A comprehensive assessment should provide a detailed roadmap for collective and individual growth, uncovering both potential challenges and opportunities for strategic enhancement. It should be developed with the unique needs of your board in mind, identifying the top two or three priorities that the board should be focusing on in the year to come, and aligned with what the organization and management need most from the board. The design of the assessment process ultimately must align with your board's goals and objectives.

Finally, in addition to the above-noted deeper questions of leadership, engagement styles, and strategic inclination, a revamped and leading-edge evaluation should be anchored by "what, how, and by whom." A comprehensive look at multiple aspects of the board's operation—including assessing the board's basic practices, its leadership, the individual members, and the annual agenda—covers the "what."

But just as important is the "how." Complete and actionable board reviews uncover surface-level information as well as the often more-telling subtext, and they get at this fulsome look by relying on more than just a single avenue of inquiry. Combining the learnings from survey data, interviews, and observation will provide the most accurate picture.

Lastly, "by whom" points to the necessity of an independent third party. Unproductive, difficult, or downright toxic board cultures are unlikely to be remedied by the board itself. While having a non-executive chair or lead director involved can be helpful and the non-director general counsel can also play an important internal role, a professional outside board advisor is the best option for boards that truly want to uncover opportunities for betterment

Driving improvement: getting positive results from your effort

Assuming that you have recognized a need to look deeper and constructed a more detailed review, you now have a comprehensive picture of the board's performance. But what happens next? This is where the real work takes place. And it is the ideal point at which the required objectivity and coaching acumen of an outside advisor can be augmented by a strong board leader with a growth mindset and the will to enact change.

It is the collaborative follow-through that transforms the assessment from a routine exercise into a strategic development opportunity. Interview and/or survey findings are analyzed and summarized in a comprehensive report along with specific suggestions for enhancing board effectiveness and composition. For peer assessments, key strengths for each director are highlighted to further leverage, and areas of focus to improve individual effectiveness are noted.

The board assessment feedback report is reviewed initially with the board chair and/or nomination/governance chair and chief executive officer (CEO). This is often followed up with a full board discussion, led by the board chair, of findings and conclusions. And the next step is engaging the board in determining how to further its effectiveness and development.

The outcomes from these important discussions should include clear prioritized action plans for the board, follow-up steps, and a timeline for completion. Ongoing development sessions with the board, and potentially individual directors, to accelerate impact and overall performance is ideal.

By treating the assessment as a dynamic tool for governance enhancement—and the first step in ongoing development—boards can systematically address potential gaps and optimize their strategic capabilities.

Over the longer term, discussions among the board and its advisors can also broadly examine board culture and when needed, develop plans to move from a management-led approach to a more strategic and, ultimately, more agile operation, as outlined below.

Management-Led Operating Model	Strategic Operating Model	Agile Operating Model
Agenda set by management	Agenda is jointly set	Agenda is jointly set
In-room discussion is dominated by the management team and presentations	In-room presentation time is limited, with a focus on dialogue	In-room presentation time is limited, with a focus on dialogue
There is limited board/executive interaction	There are multiple and extensive board/executive interactions	There are multiple and extensive board/executive interactions
There are lower demands on directors' time	There are high demands for director engagement and time	**Board engagement varies dynamically based on the needs of the organization**

Conclusion

Begin with a deep understanding of your board's capabilities and dynamics and what it needs to do in order to better support the organization.

It is not all pinpointing weaknesses. Done correctly, an array of customized assessments and in-depth interviews will also help to clarify where your board is strong. It cannot be understated that highlighting and reinforcing what works well can help the board as it begins to focus on areas of development.

Build trust through candid communication.

The entire process of building an effective board is based on trust earned through candid, constructive, respectful communication. This is true among the directors as well as in partnership with the board’s outside advisors.

Rely on expert external advisors.

Having confidence in the neutrality and professional experience of an outside advisor is central to a productive board assessment and, more so, to an ongoing development plan. Going it alone often leads to less effective outcomes and minimal impact on board value-add.

Prepare to succeed with the right development and governance plans.

Thoughtful and achievable development plans and education for individual directors and the full board that are created based on each board’s unique dynamics and the needs of the organization will lead to higher performance. The right board priorities and governance structure ensure that focus and effort are in the right place.

Boards that embrace this approach are far more likely to be high-performing. Cyclical reevaluation and ongoing feedback will ensure the benefits are not “one and done.” The boards that can travel this road together will be in a much better position to remain relevant and effective well into the future, and guide their organizations toward long-term success.

About the Author

Susan brings 30+ years advising boards, CEOs, and leadership teams on large-scale change, culture and organization design, governance and team effectiveness, executive assessment/development, and CEO succession.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.