

Building Better Boards for the Long Term

By Mary Lynn McPherson, 2003

Mark Eppley is the founder of LapLink, a software firm he built into a giant over the past 20 years. After 2 years of staggering red ink in the late 1990s, Eppley implemented a new corporate strategy. One of the first priorities was to reshape the board of directors. New board members were selected for specific skills. Everyone has been thrilled with the improvement. Says Eppley, "You want to have the strongest board you can get."

In the same way, the nine directors of World Energy Solutions realized they were not leading the company to the results that were necessary. Eight resigned. The other became the COO. A new board of five was established with clear criteria, including an understanding that 100% attendance at monthly board meetings was mandatory. The company finished 2002 with revenues nearly tenfold of earnings the year before and is among the 3 or 4 companies left in a market that saw close to 60 competitors disappear. Every organization has the opportunity to have an excellent board. This article examines how any board can become better through succession planning.

Great boards don't just happen. They are the result of having the right board members doing the right things. That is not as easy as it sounds. It takes planning and foresight to create great boards. We will look at how an organization can set itself up for success by intentionally planning for an effective board.

Elements of Board Succession Planning

The purpose of board succession planning is to have people with appropriate knowledge and skills sitting on the board, and fulfilling their potential, at all times. To fulfill this purpose the board will have **to clearly define the role and responsibilities** of a great board. Then it will state the skills needed on the board to fulfill its role and responsibilities. What level of skills does the board need when it comes to understanding financial reports? What level of knowledge do board members require of related industries? What level of understanding do the board members need regarding the culture and desires of the ownership? How important is it that board members come from different geographic locations or hold diverse perspectives? What level of ability does the board need in setting the organization's future vision and directions? Answering these types of questions defines your ideal board.

The second step is to **identify the experience and skills** required by individual board members to fulfill the board's needs. We suggest boards develop a list of skills required for fulfilling the needs of the board. All directors must possess some elements, such as having the time to attend, say 80% of board meetings, being able to understand basic financial information, and being a team player. Others, such as audit experience or facilitation skills, may only be required of one board member.

This process of defining the ideal board is not always comfortable. As we reflect on ourselves or other board members, we may determine that some individuals who do not have the skills the board needs still wish to serve on the board. Once we have defined the ideal board we are wise to encourage competent individuals to consider becoming board members and/or have current board members participate in training—both of which can be outside our comfort zone.

The next step is to **recruit board members** who can offer valuable assets to the organization. The board needs to discuss the appropriate expectations of board members and recruit accordingly. The strengths of the board and its members are assessed and noted in a board member attributes matrix. Gaps between strengths and needs are noted. A prospective board member list is created by identifying individuals who have the experience and skills to fill the gaps. Some organizations offer workshops that prepare these prospects to make an informed decision about serving on the board. Some invite prospects to observe board functions for a few months. Involving potential board members on committees gives them an opportunity to understand organizational issues, meet a diversity of people in the organization, and assess their interest in working on the board of the organization.

More and more organizations are having prospective board members meet with current board members to discuss expectations of the role. These boards wish to ensure that if the individual is elected or selected he can fulfill the requirements of the position. Being a board member may take from 10 hours to 100 or more days per year. It may require extensive between-meeting reading or committee involvement. There could be out-of-town travel. Board members need to be able to participate in big-picture, future-oriented planning for the organization. An effective recruiting process can result in multiple qualified candidates for each open position and competent individuals filling board seats.

(See a Sample Board Member Attributes Matrix on the next page.)

Important Board Member Attributes	Needed by	John	Mary	Sue	Bill	Ross
Committed to the organization's vision	All	Y	Y	Y	Y	Y
Basic understanding of the products and services the organization provides	All	Y		Y	Y	Y
Attend 10 to 12 half-day meetings per year	All		Y	Y	Y	Y
Stay current on trends affecting the industry	50%	Y		Y	Y	Y
Focuses on issues that have long term impact for the organization, not on day-to-day operations	All			Y	Y	Y
Fluent with current audit standards	1					
Has strong ability to understand and interpret financial statements	75%	Y		Y		Y
Contribute 10 hours per year to committee work	80%		Y	Y	Y	Y

This chart shows that Sue, Bill, and Ross have the attributes to be quality board members while John and Mary fall short. The board would be wise to be recruit at least two strong candidates, one of which has strong audit knowledge.

New board member orientation is another important step for a great board. Although some orientation occurs during the recruiting stage, more in-depth orientation is required once a person joins the board. Board members can be more effective when they understand the organization's constitution or by-laws, are familiar with current board policies, and are acquainted with day-to-day operations. A board members' handbook is very helpful. It might include the names and contact information of all board members and senior staff; dates, times, and locations of board meetings; governing policies of the board; minutes of recent board meetings; recent financial statements; and board procedures such as meeting protocols and how to submit expense accounts. It is also helpful for board members to visit the organization's facilities to understand how it makes its products or delivers its services.

After getting the right people, boards still need enhanced skills and appropriate attitudes to make them great. Ongoing board member development strengthens the board's success. The present and potential board members may not have all the

required traits. The organization is wise to provide education and training opportunities for its board or arrange for individual board members to participate in a variety of developmental opportunities. Without ongoing training and development board members do not become their best. Rather they stay where they were when they joined the board and inhibit the board from being what it could be. The organization will benefit most from having a highly informed, highly skilled board.

Board member **term and tenure** are also key elements of succession planning. It is wise for an organization to eliminate the risk of complete board turnover at annual elections or re-appointment time. By having a term of at least two or three years for board members and electing some board member positions each year you can expect that no more than one-third to one-half of the directors will change in any one year.

Many board members say it takes them a year to become oriented to their new role. During the second year they start to contribute. It may be the third year before they are confident and really add value. Many organizations appreciate the insights and wisdom of board members with several years of experience. If the average tenure of board members is eight years, with one-eighth retiring each year, then 12.5% of board members are in the orientation phase, 12.5% in the 'starting to contribute' phase, and 75% in the productive phase. In this scenario, the majority of board members are experienced and the board can truly lead. Without this experience, the board often drifts to ratifying CEO recommendations — affirming staff leadership rather than exercising board leadership. If the average board member tenure is less than five years, it is rare that the board has an adequate understanding of the organization to confidently give direction to the CEO and the organization and to effectively monitor operational results.

Since changes in personal and professional responsibilities require some board members to resign during a term, or after one two- or three-year term, it may be necessary to aim for a tenure of about ten years to be reasonably confident that the majority of the board can be productive. Many people are reluctant to make a commitment for more than two or three years at a time so the majority of organizations have two- or three-year terms and allow re-election for multiple terms.

The board best leads the organization when it has quality leadership itself. The key role of the chair of the board is to facilitate board effectiveness. One year is a short time in the life of an organization — too short a time for the board leader to develop and maximize his effectiveness. If your organization has a one year limit for board chair, consider removing this impediment and selecting the most skilled individual to be your chair. Many effective boards have had good chairs hold the position for several years.

Board member evaluation is also a succession planning tool. When a board compares each member's contributions to her defined role, individual strengths and weaknesses are identified. In the process board members are acknowledged for their contributions. This motivates good board members to stay involved with the organization. Training enables board members to overcome their weaknesses so that they are better able to fulfill their role. The evaluation process may bring to light that some directors have lost interest in serving the organization. In this situation it is time for such members to leave the board to make room for individuals who desire to lead.

Tackling the multi-faceted job of board member succession planning and development can be a daunting task but when you proceed one step at a time it can be both manageable and rewarding.

Leading Board Succession

The board, on behalf of the owners, has the responsibility to take the lead in board succession planning. In too many organizations the board abandons this role, either by hoping the election process will yield great directors or by allowing the CEO to line up the prospects. Board members understand the board job much better than the owners or members, so they can better determine who has the potential to be an effective board member. When board members are recruited by senior staff they may become more loyal to staff proposals than owners' interests. If board members don't encourage strong candidates to stand for election, don't be surprised when the board has ill-equipped and misaligned members.

Summary

Board succession planning enables good boards to become great and is important to long-term organizational health. Effective succession planning clearly states the role of the board, recruits qualified board members, increases the appropriate skill base of board members, optimizes the tenure and responsibilities of individual board members, and enables the board to truly lead the organization.