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IT'S TIME TO REFRESH YOUR BOARD

By Stuart R. Levine

The economic recovery continues to be problematic for the county and, as a result, regulatory pressures on public companies and their boards remain high with no signs of abating. Instead of waiting until regulatory bodies start weighing in on ways to maintain high quality board performance, let's exert some common sense and get out ahead of this thing. It's time to refresh your board.

Research released this quarter showed that 30% percent of directors surveyed believe there is a director on their board who should be replaced. Of those who said yes, 46% cited a lack of needed skills, 38% pointed to a lack of engagement, 34% said the director(s) was on the board too long, 28% indicated they were unprepared at meetings, and 17% said the director was simply too old.

Let's face it. While there has been a lot of talk about how people will leave board service as accountability and personal liabilities increase, the truth is that there is very little director turnover. To perform at consistently high levels, boards need to be refreshed. Right now, the pressure-filled business environment is providing the perfect moment to have those difficult conversations and set policies that increase director excellence.

Looking around the boardroom, I see three practical steps that boards should consider: setting term-limits, a mandatory retirement age, and creating an effective director evaluation process.

Term Limits
Without terms limits, you could end up with someone serving on a board for 30 years. It's difficult to believe that after three decades, a director maintains the fresh perspective and independence that made him or her an asset in the first place. That kind of comfortable tenure often leads to status quo thinking which doesn't serve the share holder. Conversely, the infusion of new thinking into board discussion stretches and elevates the conversation. A clear policy will de-personalize and simplify the process of ending service when a person no longer adds value.

Mandatory Retirement Age
Often senior directors have distinguished themselves as valuable and capable men and women over a lifetime of accomplishments. That's why they've been at it for so long. Their compelling careers are part of what makes transitioning them out an emotionally difficult decision that gets deferred year after year. Still, I have been in more than one board meeting during which an elderly director fell asleep for an extended time and that is simply not fair to shareholders. Establish a mandatory retirement age. My recommendation is 72 years old, but the key is to define it proactively so you don't find yourself having the discussion based on one person's service which is uncomfortable for everyone involved.

Effective Director Evaluation
Here's the good news. Many more boards are conducting assessments. The percentage of boards conducting full board performance evaluations went from 33% in 2002 to 88% in 2007. Some studies suggest that number may be as high as 94% today. The bad news? Quality is all over the map.

46% of directors polled in the 2009 Q4 study referenced above, thought their board's evaluation process was effective or very effective. Over half of respondents viewed their process as less than effective. There's a big difference between doing a board evaluation and doing it right. There are many excellent models to employ. In my experience, there are several key components:

- Ensure that the discussion is criteria-based, data-driven, and effectively executed. Conduct interviews using standards rooted in best practices and approved by the full board.

- Seek input that is actionable. The primary purpose of the assessment is to improve performance. Most directors are sophisticated professionals capable of putting useful feedback to work. Make sure the information you gather serves this purpose.
- Put the right person in charge. It's difficult for the CEO to drive this conversation. Depending on the circumstance, it could be the Chairperson, the Lead Director, or the Nominating or Governance Committee Chair. If the Chair is also the CEO, it should be the Lead Director.
- Build a culture of trust and respect to promote candor and collegiality throughout the process.

All four of these steps move a board forward on the path to excellence, but none are easy to take. The urgency created by current regulatory pressures offers an opportunity to push through the difficult conversations and define a new standard for director performance. It's up to us.