

Cultivating a high-performing board

Key factors and best practices



Introduction

Without a high performing board, companies face the risk to navigating the business world without direction and can struggle to make informed decisions that propel them closer to their goals.

It's the cornerstone for crafting profitable strategies and enjoying sustainable growth. It ensures effective oversight of company affairs and management performance, and it guarantees that key risks are addressed, crucial issues are debated, and decisions are made after considering all angles.

Today's board oversight goes well beyond traditional areas. A recent survey of 600+ C-suite executives from public companies highlights their acute awareness of these expanded responsibilities, indicating that:

only **29%**

of businesses rate their board's overall effectiveness as good or excellent

56%

deem their board to be performing at an acceptable level¹

To provide you with an examination of board development, we invited the renowned global expert Beverly Behan. Beverly compiled and expanded upon crucial concepts about board effectiveness with a specific emphasis on the key factors that enhance the performance of a contemporary board.

¹ Source: <https://www.conference-board.org/publications/board-effectiveness-2023>

Content

The importance of creating a high-performing board	4
The 8 key factors of board building	5
1. Board composition	6
2. Board pre-reading materials	7
3. Board agendas and meetings	8
4. Board leadership	9
5. Board committees	10
6. Board dynamics	11
7. Board management relationship	13
8. Board processes	14

The 5 best practices to make your board high performing	15
1. Finding you board champion	16
2. Evaluating your board	17
3. Managing directors' performance	22
4. Optimizing board composition	24
5. Streamlining board reading materials	30
A high performing board can become a key component to achieving quantum growth	32
About the author	33

The importance of creating a high-performing board

It's crucial for businesses to construct a well-balanced, interactive, dynamic, and res-ponsible group of individuals to enhance the company's performance and prosperity. In theory, these are the traits of a high-performing board.

But what does one actually look like in practice?

Consider the following real quotes from board members:

”

The CEO had spent a lot of time with the strategy consultants, analyzing all the matter. But when we got into the meeting, one of the board members raised important counter-points that changed the tone of the discussion. The management didn't become entrenched or defensive. Sure, the CEO pushed back. But it was clear that he was taking the board's views into account, and the result was an outstanding discussion that led us to reconsider this issue.

A director of a Fortune 100 company talking about a challenging discussion her board had with management

”

Working with the board expands my thinking, brings fresh perspectives to the table, and gives me confidence; I know that there is nothing I'm going to be asked by a Wall Street analyst or anyone at an investor roadshow that our board didn't already raise with me.

A C-suite executive of a Fortune 500 company in Silicon Valley

”

Our board today?

We get more value from them than we do from external advisors!

A CFO of a Middle East-based global company discussing about the significant changes the board underwent in leadership and composition

The three quotes epitomize the concept of an effective board. Boards that not only benefit corporate executives with their insights and guidance but also provide value to investors. For this reason, I have dedicated this white paper to exploring the insights gained from my extensive work over the past 25 years with over 200 boards worldwide, ranging from Fortune 100 companies to recent IPOs.

The 8 key factors of board building

There are 8 key factors in board building, all of which need to be optimized for higher performance.

Among these, board composition stands out as the most significant. Without the right makeup, even if we maximize the other seven factors, the results will only be marginally effective.

The great foundation behind any board is ensuring that it comprises outstanding, diverse directors whose expertise aligns perfectly with the company's business model and strategic direction.

We will raise a set of crucial questions for you and your team to help assess whether your board is meeting its goals and, if not, identify areas where improvements can be made.

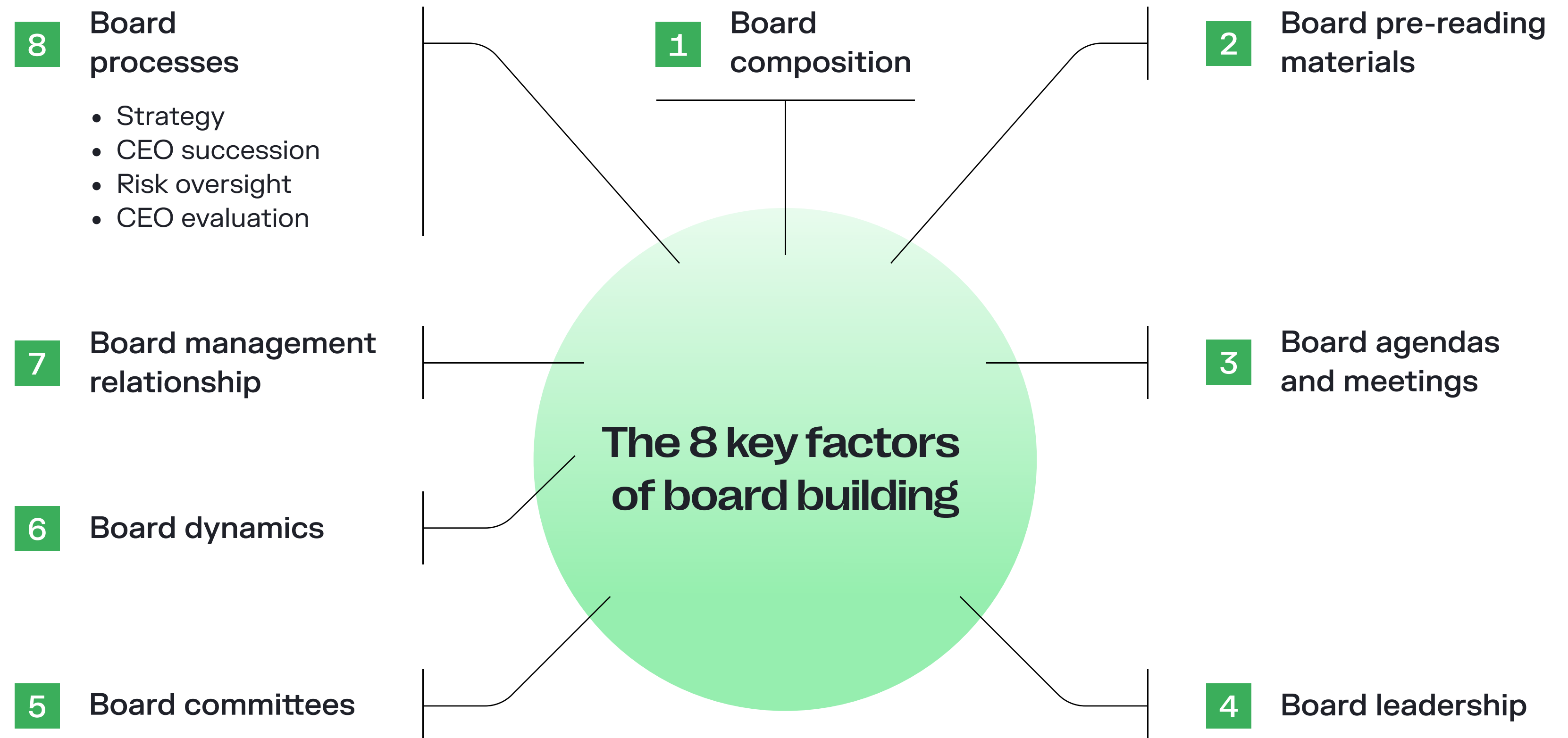


Figure 1: The 8 key factors of board building effectiveness

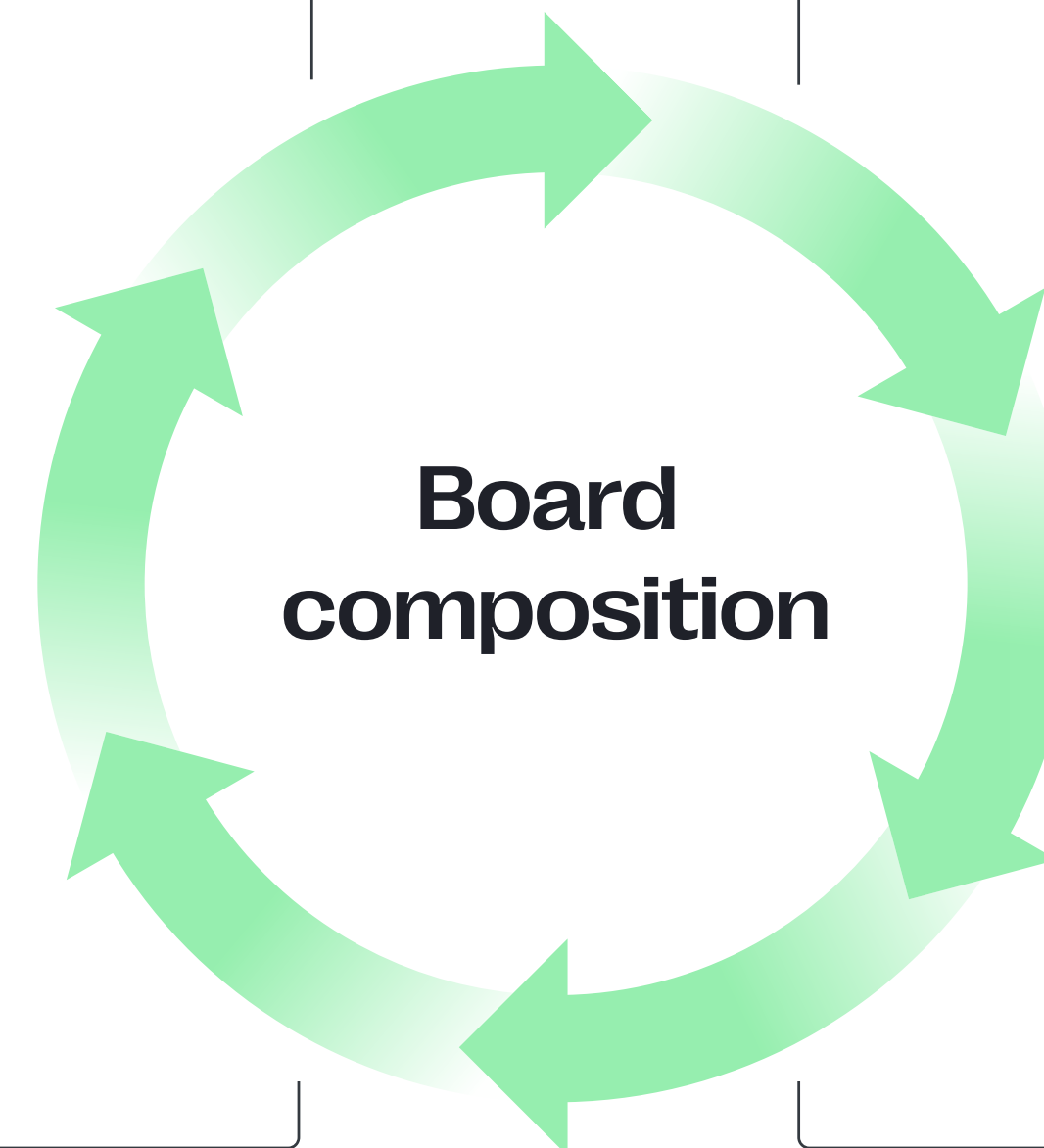
1. Board composition

What are some of the key questions you should ask for improved board composition?

☐ Do the skills, experience and backgrounds of the people gathered at your board table make sense within the context of the company's business model and strategy?

☐ Has there been a hesitancy to add them because you're waiting for upcoming retirements?

☐ What kind of orientation do new directors receive to get them quickly up the learning curve of the company's business?



☐ Are there evident gaps in the board's make-up and skills/backgrounds that would make a real difference to include in your board debates?

☐ Is diversity an issue in the board's composition (few if any female or minority directors, a balance of active vs. retired directors, board members that bring an international perspective if this is a key element of the company's growth strategy)?

☐ Is the process for recruiting director candidates effective?

2. Board pre-reading materials

Many boards today are overloaded with data that is often poorly organized and fails to highlight the key points directors need.

The quality of board discussion and decision-making is directly proportionate to the quality of information the board receives.

Even if the information is all there, failing to organize it succinctly undercuts the value of assembling it in the first place.

Some board packages have followed the same format for years. While board portals have become almost universal in recent times, a change in the delivery vehicle doesn't address all the fundamental shortcomings of the information in the content.



3. Board agendas and meetings

Key considerations for crafting board agendas and conducting meetings:



What is the balance of presentation vs. discussion time in board meetings?

If the balance is roughly 75% presentation and 25% discussion, the board is primarily being used as an audience rather than a thought-partner, a waste of directors' talent and expertise.



Are critical issues placed near the front of the agenda?

Can directors tackle critical issues when they are still fresh and keen to engage, or is that prime slot filled up with compliance issues and committee updates?



Do agenda items regularly run over their allotted time?

A proper design of the agenda and a well-planned meeting management are essential to avoid running over time and thus not fully leverage the agenda items.

4. Board leadership

The following questions will help establish the structure of board leadership:

How effective is the chair in running the board meetings?

Does the chair draw out different perspectives from around the table on key issues?

Does the chair know when to call the question on an issue and move on?

Is the board routinely going off on tangents?

Is the chair able to drive the board to consensus and give clear direction to management when a board decision is reached?

If the independent board leader is a non-executive chair or lead/presiding director:

How effective is this individual in working with the CEO and other directors?

Does she/he maintain consistent communication with the board between meetings to stay informed? Is the director's confidence respected?

Is she/he proactive in dealing with challenging issues related to director performance, or does she/he tend to ignore them when they arise?

5. Board committees

The question here is seldom whether the committee is complying with the terms of its charter but rather, how effectively the committee is actually functioning. The points that should be considered are:

☐ Does the committee chair run effective meetings and bring the committee to consensus?

☐ Does the committee get effective support from company executives and external advisors?

☐ How are non-committee members kept abreast of the committee's work and decision-making?



☐ How are the pre-reading materials for the committee in terms of quality and organization?

☐ Should the board form a new committee and if so, what would be its mandate? Or should it disband an existing committee that is not required by regulations and has outlived its usefulness?

6. Board dynamics

The manner in which board members collaborate and engage with one another significantly determines the board's effectiveness as a governance team.

To guarantee effective board dynamics, the following questions should be asked:

What is the atmosphere in the boardroom? Is it flat or vibrant? Does it encourage members to openly share ideas and engage in discussions?

Do board members openly express their views, or are they cautious and guarded, potentially even antagonistic?

Can board members handle conflict and strong differences of opinion?

When the board describes its culture as 'collegial,' does it signify a healthy atmosphere of mutual respect or an environment characterized by 'groupthink' and exclusivity?

Has the board become polarized, either through a merger or different generations of directors which have created 'camps'?

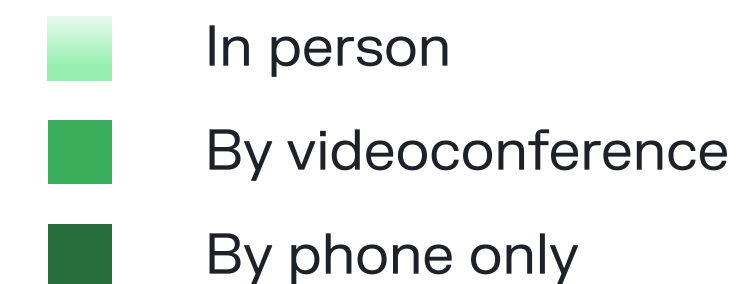
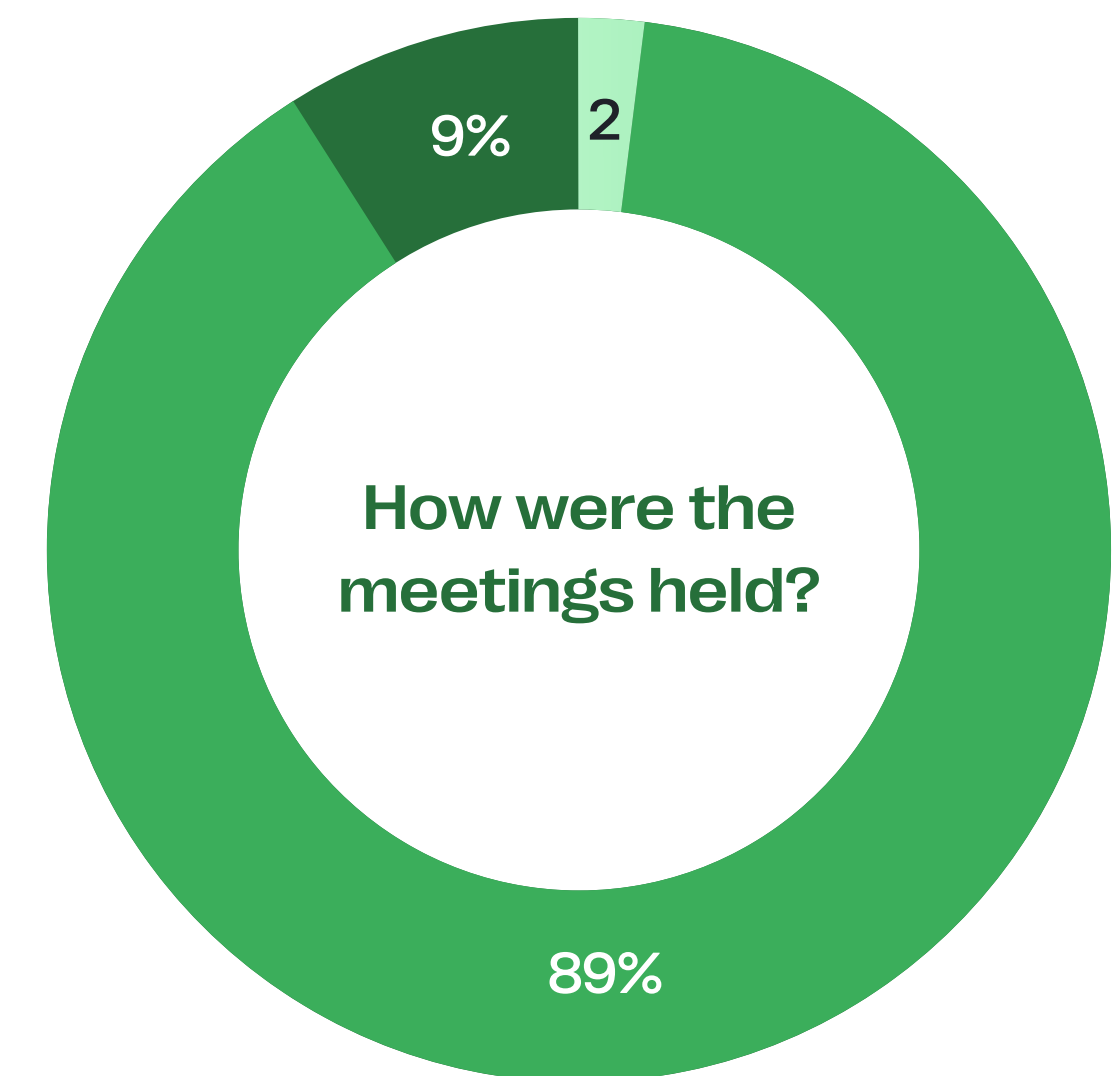
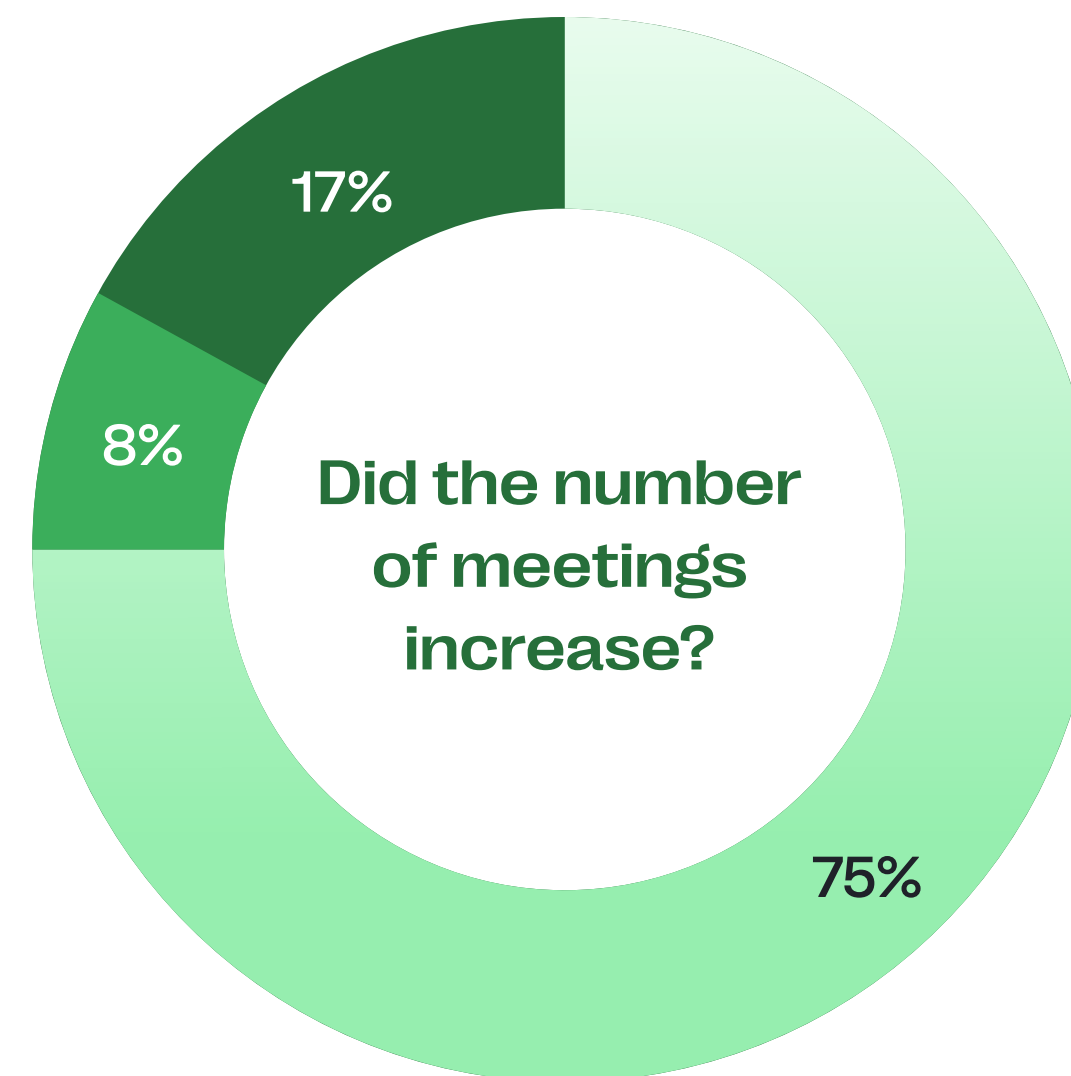
What has been the impact of videoconference meetings during the COVID-19 pandemic, and how might the board wish to adapt its approach once in-person meetings become regular again?

Do members speak their minds during meetings, or do they reserve their opinions for private discussions outside the boardroom?

Are challenges and different points of view encouraged or largely suppressed?

During the COVID-19 pandemic, the number of board meetings increased, almost all of which were all held by video conference. The peak was reached in April, followed by a return to normal in June.²

The impact of COVID-19 pandemic on board meetings



7. Board management relationship

To guarantee a highly constructive relationship between board and management, consider the following list of highly critical questions:

☐ Is management actively seeking the board's input on crucial matters, or do they present everything as finalized, hoping to avoid questions?

☐ Is the relationship between the board and management characterized by candor and mutual respect?

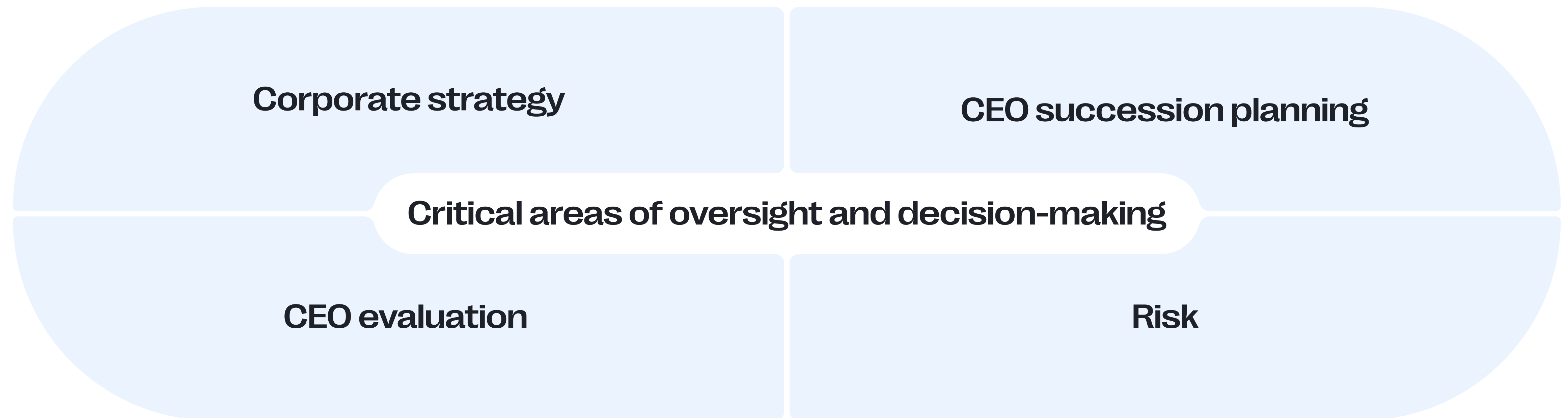
☐ Is the board micromanaging, delving into unnecessary details, wasting time, and undermining executive confidence?

☐ Does an atmosphere exist where management is comfortable sharing the bad news and tough issues?
Or is the board quick to criticize any missteps or risks that didn't pan out?

☐ Is management open to the board's advice or do they become defensive to director challenges?

8. Board processes

This refers to the way that the board engages in some of its most critical areas of oversight and decision-making, including:



Despite excelling in the other seven factors of board effectiveness, many boards often fall short when it comes to board processes. This is somewhat ironic because of all the eight parameters, this is the area where an effective board can often make its most significant contributions.

The 5 best practices to make your board high performing

- | | | |
|----------|---|---|
| 1 | Finding your boardroom champion | The most essential component in building a high performing board is a champion: someone who genuinely wants to create and maintain a truly great board and is in a board leadership position to make that happen. |
| 2 | Evaluating your board | It's the most powerful – much more than any traditional board evaluation survey – but under-utilized tool in governance today, particularly for those who want to create a high performing board. |
| 3 | Managing directors' performance | In a perfect world, all directors should be at the top of their boardroom game to create a high performing board. While an underperforming director is blemish on a high performing board, his/her impact on credibility of the board and board leadership is often the larger issue. |
| 5 | Optimizing board composition | Board composition is the single most important element in building a high performing board. Without the right governance team assembled around the board table, performance will always disappoint. |
| 3 | Streamlining board reading materials | While board composition is the most important factor in board effectiveness, the quickest way to heighten any board's performance involves streamlining and improving the board pre-reading materials. |

**Performance
boost**

1. Finding your boardroom champion

This is a unique individual who is committed to establishing and maintaining an exceptional board, exemplifying strong leadership qualities capable of driving transformation.

Unfortunately, there are directors who place a higher priority on self-preservation and maintaining the current state of affairs rather than striving for excellence in the boardroom.

This is a detriment to boardroom performance because there will always be a conflict of interest that prevents the board from being able to make decisions that serve the organization's best interest, creating unnecessary obstacles and impeding progress.

I've never seen an elite board without a dedicated boardroom champion. It's undeniably one of the most crucial components for a high-performing board.



2. Evaluating your board

A board evaluation is an important exercise capable of allowing organizations to align their board's composition and activities with their strategic goals. It fosters transparency and engages directors and senior management in meaningful discussions about governance practices and organizational direction.

When board evaluations were first introduced in the early 2000s, it was in response to regulations from the New York Stock Exchange that required companies to conduct annual self-evaluations of the board and its committees.³

They were largely viewed as a compliance exercise to meet the stock exchange requirements and provide reassurance that the board was fulfilling its mandate, offering minimal value to the development of the board.

Therefore, when this evaluation shifts from a mere compliance procedure to a tool that taps into board insights and aligns directors on critical matters, it becomes a central driver for improving how the board operates.

³ Securities and Exchange Commission, NYSE Listed Company Manual, Section 303A.09.



One-on-one interviews

Interviews have several distinct advantages over surveys when it comes to board evaluations: essentially, they produce far more constructive and worthwhile feedback and they are far more engaging for participants than filling out a form. Because the interviewer can probe during the conversation, it facilitates a deeper level of understanding of the issues and surfaces practical suggestions for addressing them.

Some boards use an internal resource (the board chair, lead director, chair of the governance committee or even the general counsel) to conduct board evaluation interviews. While this can elicit more robust feedback than a survey tool, because the process lacks anonymity, interviewees are often less than candid in expressing their opinions.

To conduct the interviews, it's far preferable to engage an experienced third party who will offer confidentiality by agreeing at the outset never to indicate "who said what" in the board evaluation process but rather distill the key themes that emerged from it.



Many boards expand the board evaluation interviews to include members of the senior executive team who regularly work with the board, as they typically offer perspectives and views that compliment those of directors and often raise new issues that might not otherwise emerge and are typically very valuable.

Moreover, giving executives an opportunity to weigh in on board effectiveness nearly also earns the board kudos from senior management; it underscores directors' openness to constructive input and the board's desire to get to and stay at the top of its game. Needless to say, an external interviewer who can ensure confidentiality of executive feedback is essential if this component is included.

- **Development of an interview protocol to guide the discussions is highly recommended as this ensures consistency and enables the questions to be tailored to the board/company so that it is highly relevant for participants, not some “cookie cutter” process.**
- **It can be useful to distribute the protocol in advance to help interviewees frame up their thoughts prior to the board evaluation discussion itself; this tends to produce more thoughtful feedback and great examples.**

Board evaluation surveys

Interviews are a comprehensive and sometimes expensive process. It's not necessary to use this format for board evaluations every year; for example, many boards conduct interview-based board evaluations every three years. In the intervening years, they either have an internal interviewer following up on the outcomes of the prior year's evaluation or use a survey tool.

Indeed, surveys remain the most prevalent device for board evaluations despite their shortcomings: roughly 40% of Fortune 100 companies still use questionnaires for their board evaluations, although 25% of these combine the survey with interviews⁴.

Surveys allow respondents to retain anonymity and facilitate quantitative comparisons of the results year over year which some boards find helpful. However, the closed-ended nature of the questions provides somewhat limited insights as to what the real issues are.

Here are some examples of what a board evaluation questionnaire might look like:

“The board is the right size for effective decision-making”

☐ 1
 ☐ 2
 ☐ 3
 ☐ 4
 ☐ 5
 Rate on a scale from 1 (strongly disagree) to 10 (strongly agree)

☐ 6
 ☐ 7
 ☐ 8
 ☐ 9
 ☐ 10
 Provide comments to explain your rating

“I attend board meetings regularly”

☐ Yes
 ☐ No
 (If no, please specify the reasons for irregular attendance)

“Advance meeting materials provide sufficient information to prepare for meetings”

☐ 1
 ☐ 2
 ☐ 3
 ☐ 4
 ☐ 5
 Rate on a scale from 1 (strongly disagree) to 5 (strongly agree)

“The board can clearly articulate and communicate the company's strategic plan”

☐ 1
 ☐ 2
 ☐ 3
 ☐ 4
 ☐ 5
 Rate on a scale from 1 (strongly disagree) to 10 (strongly agree)

☐ 6
 ☐ 7
 ☐ 8
 ☐ 9
 ☐ 10
 Provide comments to explain your rating

“The board discusses director succession and has implemented a plan based upon individual skill sets and overall board composition”

☐ 1
 ☐ 2
 ☐ 3
 ☐ 4
 ☐ 5
 Rate on a scale from 1 (strongly disagree) to 5 (strongly agree)

Provide comments to elaborate on your rating

The positive impact of redesigning board evaluations

Redesign processes are thorough and transparent conversations with each board member and senior corporate executives at the core of every board evaluation. This process yields three significant outcomes:



Detection of boardroom issues

The evaluation will identify hidden boardroom issues that can invoke significant change once addressed. As the board becomes more effective, directors tend to become engaged. Some of the best boards I've ever worked with routinely incorporate 8-10 items into their Action Plans.



Alignment and sense of ownership

Directors and executives have dedicated their time and energy to thoroughly consider the issues and provide constructive solutions on how to address them.



Uniqueness and sense of identity

You've honored a sentiment that I've heard repeatedly in more than 20 years of working in the boardroom: 'Our board is unique!' And guess what? It probably is! That's why this approach works so well, whereas simply imposing the 'governance best practice of the month' seldom does.

3. Managing directors' performance

In theory, achieving highly productive board meetings depends on having exceptionally effective directors at the helm. But we've all seen outstanding boards with minor directors' contributions.

The boardroom is made up of a tightly interconnected ecosystem of members: fellow directors and senior corporate executives can easily discern who is contributing effectively and who is not.

49%

of directors expressed the view that at least one of their fellow directors should be replaced

21%

of directors thought that two or more should go

In PwC's 2020 Annual Directors study of almost 700 U.S. public company directors, 49% expressed the view that at least one of their fellow directors should be replaced and 21% thought that two or more should go.

25%

of directors rated their board leaders as either 'not very' or 'not at all' effective in dealing with director performance problems

Directors in the PwC study also gave board leadership their lowest marks in the area of director performance management; one in four (25%) rated their board leaders as either 'not very' or 'not at all' effective in dealing with director performance problems.⁵



Director expectations vs. director evaluations

Outlining director expectations is important for specifying the standards expected of individual board members. If a director falls short, they can serve as a valuable reference for a conversation with board leadership.

However, director evaluations are a more powerful method to achieving and maintaining boardroom excellence, assuming that they are properly designed. For feedback from a director evaluation process to be truly effective, it should be well-rounded, and capable of guiding action.

The first time I undertook an individual director evaluation process for a board was in 1996 where we used scores and write-ins to measure performance.

The shortcomings of this approach became immediately apparent for two main reasons:

-  Low scores angered recipients without providing them any worthwhile feedback
-  High scores did little to reinforce the strengths and contributions the director was bringing to the boardroom

Interviews excel in extracting the kind of constructive feedback that enhances the effectiveness of individual director evaluations. Interviewers can delve deeper to generate feedback that is more specific and actionable.

4. Optimizing board composition

Board composition is the single most important element in building a high performing board. Optimal board composition should reflect fundamental aspects such as:

The company's business model

The business model should account for the products, services, factors like the target market, industry, and any anticipated or potential expenses the company may encounter.

Strategic direction

The actions and decisions a company must undertake to effectively attain its goals and objectives.

Diversity goals

They extend beyond gender can encompass various factors, such as age or geographical diversity. It's also crucial to consider certain traits that all board members should possess, including integrity, strategic insight, teamwork, and more.

32%

of boards now have at least 30% women directors

Looking at gender diversity specifically, women directors in the S&P 500 have nearly doubled over the past decade from 17% to 32%, with the majority of S&P 500 boards now having at least 30% women directors.⁶

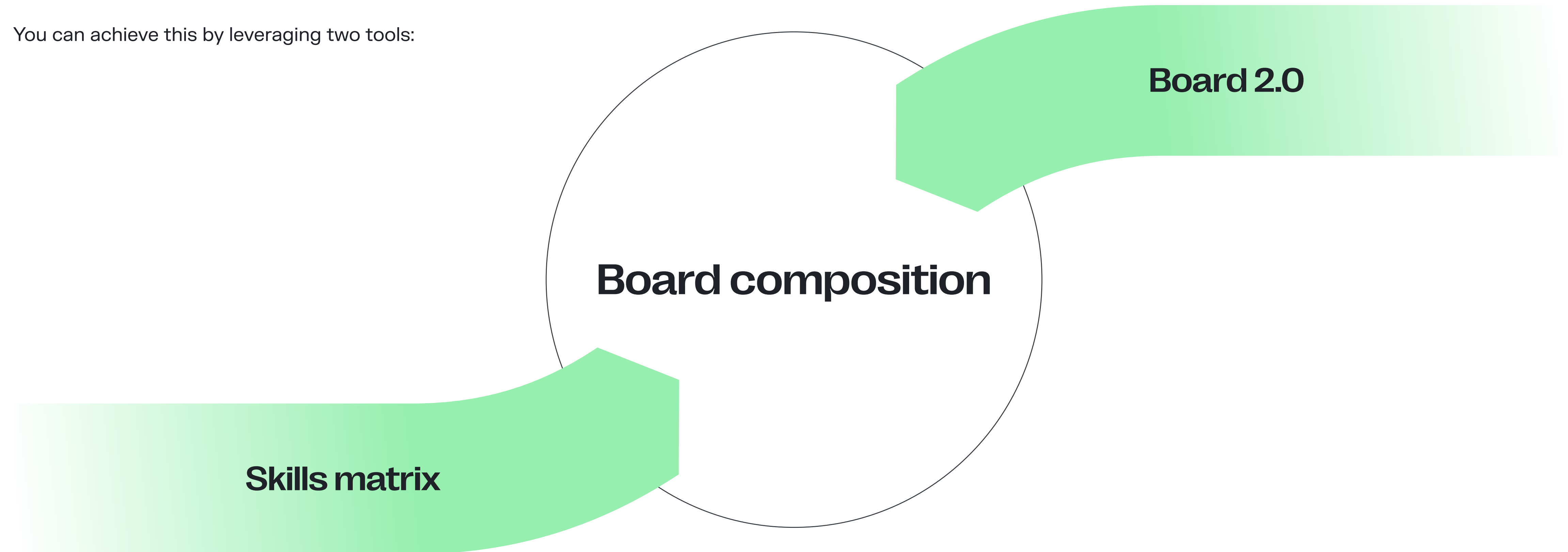
93%

of boards have at least one racially or ethnically diverse director

93% of S&P 500 boards now disclose their racial or ethnic composition, and, in 2022, ISS reported that all companies listed on the S&P 500 reached the milestone of having at least one racially or ethnically diverse director, compared to only 89% in 2020.

How can you optimize your board composition?

You can achieve this by leveraging two tools:



Skills matrix

A skills matrix is a visual framework used to evaluate and map employee skills and proficiency levels. At a glance, it helps you identify what skills you have available and those that you need to achieve your goals.

One of the drawbacks of using a skills matrix is that the skills listed can be vague and generic, thereby opening the doors to a pool of talent that lacks the specificity and depth of expertise needed for effective board participation.

To avoid this, ensure that your skills matrix is created by directors who are heavily involved in the organization and have a deep understanding of the board’s strategic needs.



Figure 2: Example of a skill matrix for employees Harvey Balls diagram

Crucial considerations to effectively use Board 2.0

Board 2.0 is one of the most powerful tools for board composition design, especially when used in tandem with the skills matrix. Its purpose is to facilitate a collaborative and comprehensive assessment by asking every director and key executive on how they define the ideal board composition for the future.

Utilizing this tool will provide you with the following benefits:

- Ensure that the board closely matches the organization's strategic goals
- Improve the quality of director recruitment decisions
- Nurture a governance team that is well-prepared to tackle the company's changing requirements and obstacles

The following are crucial considerations you should consider to effectively use Board 2.0:



Provide a template-based assessment

Begin with a template, like Figure 2, where every respondent evaluates the skills, experience, and background required for each board seat. The goal is to create the best board for overseeing the company's future, typically in the next 3-5 years.



Consider strategic changes

Participants should consider anticipated changes in the company's business or strategic direction during the specified timeframe. This forward-thinking approach ensures that the board remains aligned with evolving organizational goals.



Avoid naming current directors

It's crucial to note that this assessment is not about voting on the retention or removal of current directors. Instead, it focuses on defining the ideal skills and experience needed for the next generation of board composition.

One of the greatest advantages of Board 2.0 is that it can drill deep into the desired characteristics of a director, ensuring precise alignment with the company's strategic needs and goals.

For instance, if a respondent suggests, 'I'd allocate two seats for financial expertise,' you can inquire further to identify the specific role they had in mind, such as an investment banker or a private equity partner.

You can even dig further to identify why they believe this position is necessary. This can provide you with a more holistic perspective on the board composition requirements, facilitating better decision-making and director selection.

After conducting interviews, the Board 2.0 charts usually show some differences. However, there is usually a strong agreement on more than two-thirds of the board seats. For the remaining seats, the exercise generates new ideas and valuable insights, sparking productive discussions within the governance committee. These discussions often involve considering backgrounds that hadn't been previously regarded as important.



5. Streamlining board reading materials

The quickest way to heighten any board's performance involves streamlining and improving the board pre-reading materials.

In my professional experience collaborating with nearly 200 boards over the past 26 years, approximately 70% have identified board materials as an area of improvement, despite the majority of directors having never raised concerns about it.

Boards commonly encounter three prevalent issues when dealing with board reading materials:

- Repurposed materials
- Cumbersome board packs
- Data dumps

	It impacts the board as...	It happens when...	
Repurposed materials	Many busy executives tend to share materials they originally made for their colleagues in executive management with the board with few changes. However, it's crucial to realize that the board is a different group from the executive team. While most directors are experienced in business, only a few have extensive industry knowledge.	These materials often contain industry-specific terms and acronyms that are familiar to those who work in the company every day but not to those who haven't focused their careers on this industry. Additionally, as board members serve longer terms, they are less likely to ask for clarification when they come across terms or references they don't understand.	Addressing these problems usually requires a thorough examination of the board materials, constructive feedback from directors pinpointing areas for improvement, and implementing strategies like CEO letters and executive workshops. These actions often lead to significant improvements in a relatively short period.
Cumbersome board packs	An executive faces a question in a board meeting that they didn't prepare for and don't know the answer to. They feel embarrassed and decide to include this information in all future board packages. However, in the next meeting, another unexpected question arises, and they commit to adding it to future packages as well.	This cycle continues and snowballs, causing their board packages to grow larger. Some executives may wonder why it's a problem to include more information. Recent research by Board Intelligence and ICSA address this by stating: 'The amount of time board members can effectively read and digest board papers is about four hours per meeting, irrespective of the length of the board pack. The longer the board papers, the more that goes unread.' ⁷	
Data dumps	These are usually lengthy board documents filled with charts, graphs, facts, and bullet points, but they lack a clear narrative. Directors are left to interpret the meaning from this overload of information.	Board members often become overly focused on minor details or topics that management doesn't see as important or relevant. However, this is because management has overwhelmed them with excessive details and hasn't provided a clear explanation of what it all signifies in the context of the company's performance and operations.	

⁷ Chris Hodge, 'The Hidden Cost of Board Meetings', Board Intelligence (May 17, 2018). Accessed September 28, 2020, <https://www.boardintelligence.com/blog/the-hidden-cost-of-board-meetings>

A high performing board can become a key component to achieving quantum growth

The business world today is cutthroat and moves at great speed. Only those who are able to make fast, calculated decisions with the guidance of a high-performing board will stay ahead of the competition and achieve sustainable growth.

Through this white paper, we have provided a comprehensive exploration of the key factors and best practices involved in creating a board that excels in its role.

The 8 key factors of board building form the foundation upon which board effectiveness is built. Each of them, from board information and agendas to leadership and committee dynamics, plays a critical role in shaping the board's ability to make informed decisions and provide valuable guidance to management.

Yet, correctly constructing the board from the bottom up is not enough. It needs to be continuously nurtured and fine-tuned through the five quality practices outlined in this paper to maximize performance. Follow these practices, and you'll see a ripple effect across the board, influencing everything from leadership to performance through to accountability.

Directors will know what levers to pull. Actions will be carried out with greater accuracy and there will be a level of clarity that fosters stronger decision-making. With this level of unity and cohesion, your business will make greater strides towards your goal at speed.

So what will this lead to? Exponential growth.

About the author



Beverly Behan is one of the foremost global experts on board effectiveness, having worked with nearly 200 Boards of Directors (largely S&P1500s) over the past 25 years.

She's worked with boards across North America and around the world on a range of issues including the design of genuinely worthwhile board and director evaluations and the development of comprehensive CEO and board succession plans using CEO succession roadmaps and Board 2.0.

She also provides advice to Board Chairs and new CEOs about optimizing their effectiveness in leading and working with their boards. She recently developed the CEO/Board-Building Exercise for a U.S. client with assets of \$30 Bn.

Beverly is the author of books such as Great Companies Deserve Great Boards and Board & Director Evaluations: Innovations for 21st Century Governance Committees, a #1 Amazon best-seller in the Corporate Governance category.

” All board meetings since inception have been conducted through iDeals board. Without it if we were to manage board activities through email, Excel, Outlook, etc, we would likely spend at least twice as much time.

Falco Construction



Independently rated as the most effortless experience.
4 years in a row.

