

Directors&Boards

Four Steps Toward Increased Board Effectiveness

ARTICLES BEST PRACTICES February 26, 2024



According to a recent survey of more than 600 C-suite executives, only 29% rated their board's effectiveness as excellent or good; the majority said it was fair. Among those surveyed, there was a strong sentiment for higher board turnover: 34% thought two directors should be replaced and 34% said three or more directors should be shown the door.

But that level of near-term board turnover is likely unwise and impractical. Indeed, to the extent that there is a gap in board effectiveness, management can take a leading role in remediating it in far less drastic ways that will take advantage of, and not forfeit, the depth and breadth of experience in corporate board rooms.

The following four strategies can enhance board performance.

Increase attention to director orientation and education. Boards are being asked to address an array of topics that may be unfamiliar to them — from artificial intelligence to biodiversity to far-reaching European Union ESG disclosure regulations. The response to these challenges is not to populate the board with experts in each of these ever-emerging areas. Nor is it

to hope that the board somehow educates itself. Instead, management should ensure there is a robust, ongoing director orientation and education program.



- Advertisement -

For example, according to that same survey of C-suite executives, 50% say their boards do not have a good understanding of the impact of technology on the company's business. If such a deficit indeed exists, management is primarily responsible. And management should not be shy about bringing in the best available resources to help educate the board (and itself) about developments that are relevant to the business. In the S&P 500, the share of companies using both internal and external resources to educate their board grew from 25% in 2018 to 37% in 2023.

For their part, directors need to bring open-mindedness and intellectual curiosity, along with a diversity of perspectives that is essential to helping them make informed decisions, adapt to changing circumstances and steer clear of groupthink.

Supplement annual board evaluations with other discussions of performance. For more than two decades, U.S. public companies have been required to conduct annual evaluations of board and committee performance. Those evaluations now commonly include assessments of individual director performance. According to an analysis published by The Conference Board in partnership with ESGAUGE, the share of S&P 500 companies conducting a combination of full board, committee and individual evaluations grew from 37% in 2018 to 56% in 2023. Among the Russell 3000, the percentage more than doubled, from 18% to 38%.

Annual board and committee evaluations can, however, become rote exercises. So, it can be helpful to enhance them every few years by conducting a more in-depth analysis of board performance, sometimes with the assistance of an outside facilitator. The use of such facilitators has risen in the S&P 500 from 14% in 2018 to 36% in 2023, while it trebled in the Russell 3000, from 5% to 17%.

But self-assessment should not need to wait for annual or triennial formal processes. Most boards and committees conclude their meetings with an executive session. That's an ideal time for the lead independent director or committee chair to ask how the directors felt about the most recent meeting, including the board's and committee's performances. These "pulse checks" can be very helpful for identifying corrective action that can be taken before the next meeting.

Foster ongoing conversations about directors' time requirements. Directors can spend a few hundred hours each year in connection with each of their public company boards. It is therefore not surprising that a majority of public U.S. companies now have policies addressing the number of boards on which independent, nonexecutive directors can serve. The share of S&P 500 companies with such a policy grew from 64% in 2018 to 75% in 2023, and from 45% to 53% in the Russell 3000. The share of S&P 500 companies capping additional board services to three seats increased from 36% in 2018 to 60% in 2023, while in the Russell 3000 the share grew from 33% to 49%.

While such policies can be useful, it's more important for directors to regularly have candid conversations about their evolving time requirements and their individual and collective ability to devote the time and attention necessary to fulfill their growing responsibilities. While such discussions can prompt directors to consider whether they may be overcommitted, their more immediate benefit may be to encourage the board to more effectively allocate its time in meetings, streamline management presentations to provide more time for discussion, and improve briefing materials to ensure that they are both concise and focused on key issues for discussion in advance of the meeting.

Consider adopting a policy on rotating committee memberships as a way to support board education and excellence. One way to enhance board members' familiarity with the company's business, as well as fluency in a range of topics, is for there to be a healthy level of rotation on board committees. The share of S&P 500 companies adopting committee rotation policies increased from 33% in 2018 to 36% in 2023. In the Russell 3000, the share grew from 16% to 26%.

Serving on different committees not only offers directors a more holistic understanding of the company, but it brings new individuals with fresh perspectives to committee discussions and enhances knowledge-sharing across the board.

Positioning a Board for Success

Board orientation, education, evaluation, overboarding and rotation programs are areas of board governance that often receive less investor and public attention than topics like board composition and diversity. Nonetheless, they are indispensable for board effectiveness. Management can play an essential role in making sure directors are well-equipped with relevant knowledge, and in supporting the directors in evaluating performance on an ongoing basis, allowing directors to devote sufficient time to their responsibilities and develop policies that help directors serve over time on different committees. The end result will be a board that is better positioned to serve as a truly strategic asset for the company.
