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**BOARD EFFECTIVENESS: PRINCIPLES  
AND PRACTICES**

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## **Board Effectiveness: Principles and Practices**

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Corporate boards in the United States are assigned a critical role in the governance of corporations. A considerable amount of research, theory and speculation exists about what creates an effective board. Although there are few definitive answers to the question of what makes a board effective, there are a number of principles and practices which research and theory suggest are likely to contribute to board effectiveness. These will be presented here as guidelines that boards should consider adopting in order to optimize their chances of being effective. Before they are reviewed and their rationale stated, however, it is important to identify the key activities of boards and to discuss what research has shown to be the major determinants of group effectiveness. First we will look at the key activities of the board and then briefly consider what makes groups effective.

### **Key Areas of Board Activity**

Corporate boards have the responsibility for the overall governance and operation of corporations. They are in a unique position to influence the direction and mission of corporations but the time they have available is very limited. It is impractical, therefore, for them to be involved in the day-to-day operating decisions of corporations. Thus a key question concerning board effectiveness concerns what key activities they should engage in so that they optimize their contribution to organizational effectiveness. It is critical that their activities focus on areas where they can have a great impact and areas that are critical to the effectiveness of the organization. And, of course, they must fulfill their legal responsibilities as overseers of the corporation. Using

the criteria of high leverage and legal oversight, we can identify six areas where boards should be active. A brief discussion of each of these follows.

### **1. Strategic Direction and Advice**

Fundamental to the operation of any business is its strategy. Boards are rarely in a position to develop strategy, but they are in an excellent position to provide input and advice on the strategic direction that the CEO and senior management team develop for a corporation. Because of their special relationship with the company, boards are advisors who can be trusted to keep information and plans confidential and who have a strong vested interest in seeing that the plans are successful. Often, they can bring opinions, viewpoints, and information to bear on strategic plans that are not readily available to the members of the corporation's management. Particularly when board members come from different backgrounds, spend their time in different countries, companies, and types of organizations, they can provide a wealth of information about the potential effectiveness of strategies. They also can be an important reality check and credibility check on the strategies developed by management teams. Because they are not involved in the development of the strategy, often they can provide a rigorous reality test for proposed strategies and provide an outsider's view of their potential effectiveness.

### **2. Strategy Implementation**

Research on organizational effectiveness strongly suggests that developing a valid strategy is only the first step in creating an effective organization. Most strategies fail, not because they are flawed in concept, but because they are poorly implemented. Thus, it is critical that boards play a role in evaluating how effectively the business strategy of the organization is implemented. They

are often in an excellent position to do this because of their ability to take a relatively detached look at the performance of the organization and board members often have considerable experience in this area. In the case of a failing or failed strategy, they are often in the best position to decide when it is time to change strategies or at the very least, change the approaches that are being used to implement the strategy. Because of their experience and objectivity, boards are often in the good position to determine whether a strategy is failing because it is a poor strategy or because it is being poorly implemented. If implementation is a problem, they can give advice on how implementation can be improved and on appropriate organizational design changes which can help with strategy implementation.

### **3. CEO Development and Evaluation**

The board is uniquely positioned to evaluate and facilitate the development of the CEO. No one else in the organization or in the stakeholder community has the comparable combination of the legal mandate, information about the company and its executives and the expertise needed to evaluate, develop and select a CEO. The board should have knowledge of the organization's performance and the CEO's performance that allows them to do a good evaluation of the CEO relative to other CEOs in competitor organizations. They also should be able to help the CEO recognize needed areas of improvement and guide the CEO's continuing development.

#### **4. Executive Development**

The board's responsibility for the evaluation and development of the senior management talent in the organization should not and cannot stop with the CEO. The board needs to be positioned to look at the entire senior management of the organization and to be involved in planning their development. Doing this ties directly to their responsibility for selecting CEOs and being sure that an organization has an on-going, internal supply of senior management talent. Again, the board should have within it the expertise to comparatively evaluate the management talent of their corporation and to determine if the correct investments are being made in developing management talent for the future.

#### **5. Monitoring the Legal and Ethical Performance of the Corporation**

Monitoring the ethical and legal behavior of senior management and the corporation is an activity that must be done by boards. They are uniquely positioned with respect to gaining information about ethical and legal behavior and they have the power to act if problems occur. Thus, they need to be a visible and proactive check on the way senior management and the corporation do business. Carrying out this role effectively is critical to making it unnecessary for outsiders to be involved in identifying and correcting problems. It is much more disruptive and dysfunctional for an organization to have to respond to outside groups which challenge its behavior. Further, boards can often recognize early warning signals concerning unethical and illegal behavior before they precipitate a major problem for the organization.

## **6. Crisis Management**

In today's turbulent business times, corporations are frequently faced with unexpected crises and developments. These range all the way from hostile takeovers to illness striking a key member of the senior executive team. When major crises such as these strike an organization, the board must be prepared to act swiftly and effectively. Particularly in the case of crises that involve senior management and major corporate financial transactions, they are the only ones who are legally empowered to act and thus must be able to act swiftly and effectively.

### **Key to Effectiveness**

Research on organizational and team effectiveness suggests that there are five attributes that any team or group in an organization needs in order to be effective. Knowledge, information, power, motivation and opportunity are the key elements that are required. In the case of boards, the challenge is to specify how they need to be structured, trained, organized, staffed and developed so that they have the right mix of knowledge, information, power, motivation, and opportunity. Before we discuss how they do this, it is worth taking a moment to define precisely what is meant by each of them:

Knowledge. Knowledge refers to the expertise and understanding that is resonant in a group or individual. In the case of boards, of course, it involves expertise concerning areas such as business strategy, finance, government, technology, society and how organizations operate.

Information. Information refers to data about occurrences, events and activities that affect business. In the case of boards, it specifically means information about the operations of the

organization as well as information about the business environment and the performance and activities of competitors.

Power. Power is the ability to make and influence decisions. In the case of boards, it means the power to reach decisions about the key issues a company faces as well as the ability to have it accepted and implemented by the members of the corporation.

Motivation. Motivation refers to the willingness of individuals to commit their energy to perform a particular task. In the case of boards, it refers to the motivation to attend meetings, spend time on corporate activities, and, of course, to make decisions which will contribute to organizational effectiveness.

Opportunity/Time. Opportunity literally refers to groups having the chance to actually make effective decisions and to perform effectively. It is a necessary precondition to the effective utilization of the knowledge, information, power and motivation that exists in a team or work group. In the case of boards, relevant issues include the availability of time for meetings, having time during meetings for dealing with key issues and having time to prepare for meetings and important decisions.

Overall, in order to be effective, groups or teams need knowledge, and information, and power, and motivation and opportunity. The absence of any one of these is enough to render a group ineffective. Thus, in the case of boards, it is not enough to simply have a knowledgeable group of individuals or a highly motivated group of individuals and so on. The individuals must,

in combination, form a work group that has the right levels, mix and kinds of knowledge, information, power, and motivation. It also must have the opportunity to utilize them in a way that contributes to organizational effectiveness. It is impossible to specify exactly what is needed in order for this condition to be created. But it is possible to state some principles which represent a good starting point and if followed, should lead a board toward having an effective mix of information, knowledge, power, rewards and opportunity to operate effectively as a board. It is also possible to identify one or more practices which are consistent with each principle. These will be presented as examples of steps that can be taken to implement the principles.

### **PRINCIPLES AND PRACTICES FOR BOARD EFFECTIVENESS**

In order to create boards that have the right mix of information, knowledge, power, rewards and time available, it is important to look at both the membership of boards and how they function. This discussion of principles and practices will first focus on board membership and then turn to how boards need to operate in order to be effective.

## **Board Membership Principles**

Membership issues are critical because they determine the talent that is available on the board as well as the amount of power that the board has. It is, for example, particularly critical to the independence of the board and its ability to challenge management if necessary.

Principal 1: The selection of board members need to consider the expertise and knowledge of members so that the board as a whole has the ability to understand the business, develop key executives, contribute to the design and management of the organization, and understand the business and the technology of the organization.

Because of the complexity of most businesses, it is impossible for anyone or even a small number of individuals to understand all the issues that are likely to come before a board. The issues range from financial and legal through technical, human development and organizational development. It is important, however, that boards have the knowledge to discuss all these issues intelligently and offer guidance. This argues for building a board on the basis of the competencies and knowledge that individuals bring so that the board as an entity constitutes an expertise base that covers all the key organizational issues.

Building an effective board with the right knowledge base should begin by identifying the key areas where the board needs to be knowledgeable. These typical areas include business strategy, executive development, the technology of the organization, organization design, the management of change, finance, government affairs and business law. Each organization, of course, needs to develop its own list of key competencies that are needed on the board and staff accordingly. An important staffing criterion for a board is to see each individual brings at least one key competency to the board and, in the end, to create a board that has knowledge of the key issues and complementarity among the experts of the members.

It is often desirable to have on a board at least one sitting or former CEO of a comparably sized corporation. This provides a “peer” for the CEO to talk to and to get advice and coaching from. Although they may not be a subject matter expert, they can provide a perspective that potentially integrates the knowledge areas represented by the other members of the board.

Finally, it is useful to have board members who have knowledge of key stakeholders in the organization. Potential stakeholders to be represented include customers, employees, major investors, vendors, the public, and the government. The argument here is not that individual board members need to represent these stakeholders, rather that care be taken to assure that at least one individual on the board is able to understand all stakeholder groups and is able to present their views when issues are discussed on the board.

**PRACTICE:** Develop a board member expertise matrix or guide chart to use in selecting board members. This matrix should include board members on one axis and key knowledge areas on the other. This allows a board to quickly assess where it has knowledge gaps and to take that into consideration in future appointments to the board. A critical issue in developing an effective matrix is the identification of the knowledge areas that should be represented on the board. Often missing are expertise in organization design, management development, change management, and business strategy. It is also important to consider company size and age. Boards need to play different roles and need different skills as corporations grow and become more established.

**PRACTICE:** Include a non-management employee or a union representative on the board. It is common in Europe to have a representative of the workforce on

corporate boards and a small number of U.S. corporations have done it as well. Particularly as employees own more stock in major corporations, it makes sense to have a representative of the general workforce on the board. They are not only an important group of stakeholders, but they also can represent the views and link the board to the employee stockholder group.

**PRACTICE:** Board size should be partially determined by the skill needs of the board as well as by group dynamics. There is no magic number for what represents an effective board from either a group dynamics view or a knowledge coverage area. A good starting point for board size is a skill matrix. Obviously, the more diverse and complex the corporation, the more board members are likely to be needed. However, there should be an upper limit to boards. Large groups of individuals are always difficult to manage and organize. A good rule of thumb is that major corporations should have at least ten members, but probably no more than twenty.

**PRACTICE:** Have existing board members interview prospective new members to determine if there is a good “fit.” Boards need more than just the right mixture of technical and business expertise; they need to be able to effectively utilize the knowledge of their members and operate as a team. Selecting individuals who can work well with the existing board members can help create an effective team.

**Principle 2:** At least 75% of the members of a board should be independent directors.

The most important key to boards having the power to influence the direction of a corporation lies in its independence from the senior management of the organization. This argues for a substantial majority of the board members being independent of the senior management team. Without board members being independent, it is difficult for them to make tough decisions concerning executive compensation, the evaluation of senior managers, and, of course, the appointment of individuals to senior management positions. It is also difficult for them to effectively challenge new strategic thrusts in the business and to deal with issues of malfeasance and subpar behavior on the part of senior managers.

An effective definition of what constitutes an independent board member is, a bit difficult to state. At the very least, an independent director is someone who is not a full time employee of the corporation. But beyond that, it should be someone who does not have family, close business relationships, or charitable activity relationships with members of senior management. Independence also requires that board members not have anyone from senior management sitting on their board of directors if they are a sitting CEO.

It goes without saying that board members lose their independence when they have extensive or other business relationships with the corporation where they are paid for their services. All too often it may be perceived that the payment may be jeopardized by the board member taking a position against the senior management during board meetings.

**PRACTICE:** The only full-time company employee on the board is the company CEO; the rest of the board is made up of independent directors. Although perhaps

to an extreme for some companies, this practice assures a strong board power position for independent directors.

Principle 3: Board members need to be selected who have time to invest in their board duties.

It seems obvious that members cannot exercise their responsibilities unless they have the time, but it is still worth stating as a principle. All too often, board members are on multiple boards and, as a result, simply cannot find the time to do their regular duties as a board member, much less to respond in times of crisis when intensive amounts of time may need to be spent.

**PRACTICE**: Select some board members who have the time flexibility to respond to crises. Often, retired individuals and self-employed individuals who can put in days of time in the case of organizational crisis such as the ones that might be brought on by an acquisition or a merger.

**PRACTICE**: No director who is fully employed as a CEO or senior executive in a firm is on more than two outside boards. Organizations should avoid selecting directors who are fully employed and are already on two boards.

**PRACTICE**: Directors are required to submit their resignation when their employment situation changes. As individual board members change their non board activities, they may no longer bring to the board the time, knowledge and information that led to their original appointment. Thus, when their situation

changes, it makes sense to review them and to determine if they still fit the board's needs.

### **Board Operating Principles**

Specifying how a board should operate is a complex challenge, but critical to its success. Selecting the right member simply positions it to be effective; to actually be effective, it needs to adopt principles and practices which give it the knowledge, information, power, motivation and time required to be effective.

#### **Knowledge**

Assuring that a board has the right knowledge to do its job begins with the selection process but should not end there. It is not reasonable to expect all board members to come to any board with all the knowledge that they need to operate effectively as members of a group. Thus, the board needs to take steps to build the knowledge base of its members and of the board as a functioning entity.

Principle 4: Provide learning opportunities that focus on the competitive, technological, organizational and financial challenges the company faces.

Often board members have considerable knowledge with respect to the key business issues that face the corporation. Thus, it is hard to be specific about the content of their training needs. Generally it should focus on the key technologies of the organization, what its competitors are doing, and how it measures its performance.

PRACTICE: Provide board members with opportunities to attend company training programs and provide them with a budget for attending development programs of their choice. These sessions can be run as tutorials or as presentations for the entire board. In some cases, it may be best to utilize courses that are offered by universities, consulting firms and professional associations.

PRACTICE: provide new board a tutorial on the corporation and its business challenge. Board members tend to be selected for their in-depth knowledge in certain areas and, as a result, they may not have the breadth of knowledge necessary to understand some aspects of issues that are presented to the board. The key is to bring all members of the board up to a minimum level of knowledge concerning the key issues that they are likely to face as board members.

Principle 5: Spend time training and developing the skills of the board with regard to group process and decision making skills.

Group decision making is an extremely complex activity. It is particularly difficult when individuals spend only a few hours together and are expected to make complex decisions. It is also difficult when they come to the group with different backgrounds and different perspectives on issues. One of the issues where they often have different beliefs concern how a group should operate and how decisions should be made. Thus, it is important that boards spend some time on a regular basis deciding how they want to operate in terms of their decision making, group discussion and interpersonal relations. Although such process training and group development

may seem like an unwise use of time, research suggests that it saves time because it improves the decision making efficiency of the group and, as a result, pays off in quicker and better decisions in the long term.

**PRACTICE:** Spend several hours at least once a year in group process training and the evaluation of the group's process performance in the past year.

**PRACTICE:** Hand out a survey to all board members to ask how they feel about the operations of the board and give the board member's overall evaluation of their performance to the board.

**PRACTICE:** Provide an expert who can facilitate the board's discussion of their survey data with respect to the board's process and help them improve their process through operating procedures and norms.

**PRACTICE:** Develop key crisis scenarios and get agreement from the board members what the appropriate board response is to each of the key crisis scenarios. It is particularly important for board members to decide in advance how they will operate in a crisis environment. Possible crises range from a takeover bid for the corporation to an accident or health issue that disables the CEO or board chairman. Instead of waiting for the crisis to occur, it is helpful if the board has a predetermined response scenario that they will use in crisis situations. This may include, for example, a designation of an outsider who is charged with calling and

chairing a crisis meeting in case something disables the chairman and/or the board secretary.

PRACTICE: Appoint an outside director who is able to call a board meeting in case of a crisis.

### **Information Support**

In order to be effective, the board needs a broad range of information about the condition of the corporation. It needs to be particularly concerned with the kind of information it gets as well as the source or sources of that information and that it can judge its validity . Good decision making is impossible without comprehensive data. This leads to three principles with respect to information.

Principle 6: Provide boards with comprehensive measures of corporate performance.

At the most basic level, this principle means that the board needs to see more than the accounting data that is gathered in order to report to shareholders on the corporation's financial performance. They need these data but it represents only one facet of a corporation's performance. A balanced scorecard approach is needed that measures all the relevant areas of corporate performance. Specifically, it needs to measure how the company is dealing with its multiple stakeholders: customers, employees, vendors and communities. It also needs to look at financial performance with a focus on how assets are being employed. Finally, the board needs

measures of operational effectiveness such as cycle time, quality, data on the introduction of new products and on the kind and type of products and services which are being developed.

PRACTICE: Board gets and reviews customer satisfaction data, employee satisfaction data, corporate image data with respect to the company's position in the community with its vendors and with its customers.

PRACTICE: The board gets accounting reports as well as economic analyses that includes economic value added numbers and such operational measures as productivity, quality, rejects and cycle times.

Principle 7: Boards should obtain information concerning company performance from multiple sources.

There are a number of sources for data about corporate performance; using only a few is very dangerous and potentially misleading. Often corporate performance is seen differently by individuals who hold different positions or use different measurement approaches. In order for boards to have a balanced view of corporate performance, they need multiple sources for their data. In particular, they often need to combine their own observations of corporate performance with reports from corporate staff and outsiders who are retained to gather specific data about company performance. It is only through combining data obtained from multiple sources and by using multiple measures that a board is likely to get a comprehensive view of corporate performance.

PRACTICE: Provide opportunities for regular site visits to company locations for board members so that they can observe first hand how the organization operates.

PRACTICE: Provide boards with an opportunity to meet with major suppliers of the organization.

PRACTICE: Provide board members with an opportunity to interact with customers and if possible, to use and experience the services as a typical customer would.

PRACTICE: Provide a convenient and secure channel for disgruntled employees, vendors and customers to communicate directly to the board. One channel can be a phone number that provides direct access to board members so that individuals can report cases of fraud or misbehavior on the part of the organization and its executives. A second channel can be a mailing address that employees can use to directly communicate with outside directors with respect to their concerns about how the company is operating.

PRACTICE: Identify a lead outside director as the individual to whom employees, customers, vendors and communities can report actions that they feel violate the corporation's standards. This director should be highly credible and trustworthy.

Principle 8: Schedule periodic reviews of the development plans for the corporation's executives.

Staffing senior management positions and identifying the key executives is a very important part of the board's role. In order to do it well, they need regular information about the development of managers in the corporation. The board needs to review the development plans that exist for key executives in the corporation and develop a comprehensive plan for filling key executive positions of the future.

**PRACTICE:** Have key executives make regular presentations to the board so that they are familiar with how boards operate and so that board members can become acquainted with them.

**PRACTICE:** Have a succession plan in place for the corporation and review it at least annually with the board. This plan should include who the backups are for all the key positions, and the planning and development activities for at least the top fifty executives in the corporation.

## **Board Power**

Having a board made up of at least 75% independent directors is only the first step in assuring that the board has sufficient independence to govern the actions of management. A board needs specific operating principles and practices that give the outside board members a chance to directly influence and control how the board operates and the decisions it makes.

Principle 9: Provide independent board members the opportunity to meet without company executives present.

In order for outsiders to take advantage of their majority position on the boards, they often need to develop action plans and positions. Since they often don't have a reason to get together independent of their board activities, it is important that their board activities provide them with this opportunity. Frequently, it is only when they meet in the absence of company executives that they can discuss sensitive issues concerning executive succession and corporate performance. It is also the only opportunity they may have to develop strong positions that are contrary to the stated preferences of senior management.

**PRACTICE**: All outside board members arrive early for formal board meeting and meet for several hours among themselves.

**PRACTICE**: Outside board members meet for an hour after the board meets to discuss their reaction to the board meeting and identify issues that they feel need to be addressed in the future.

**PRACTICE**: Outside board members have regularly scheduled virtual meetings by telephone or video conferencing.

Principle 10: Create a way for outside directors to call special meetings of the board and place items on the board's regular agenda.

It is critical for outside board members to have the ability to meet when they feel events call for it. They need the ability to call for these on short notice when they feel that a crisis or rapidly developing change calls for it. It is also critical that they have a vehicle for placing issues that they identify on the board's agenda.

PRACTICE: Identify a lead outside director who works with the CEO to develop the board's agenda and who can call special meetings of the board.

PRACTICE: Have the board chairman be an independent director.

Principle 11: There should be a systematic evaluation of CEO performance on an annual basis.

One clear way that outside board members have to influence corporate performance is by influencing the CEO. This influence process needs to be multifaceted, but one part of it should be an annual review of the CEO's performance. The results of this annual review should play an important role in determining the CEO's total compensation level. The evaluation process should include goals for the annual performance of the CEO as well as the systematic evaluation of how well the goals are accomplished. Goals should include personal development goals for the CEO as well as the organizational performance targets that the board deems are critical for the year.

PRACTICE: Begin the annual evaluation cycle with the compensation committee setting CEO performance standards for the year. End the year with a systematic

evaluation of how well these goals have been accomplished and use those for determining the cash compensation of the CEO.

PRACTICE: Outside directors provide a written report to the CEO at the end of the year on how effective they perceive his or her performance to have been during the year.

PRACTICE: Tie stock and stock option grants as well as other financial incentives directly to the CEO meeting key performance targets.

Principle 12: Independent directors should control the compensation committee as well as the corporate governance committee or whatever committee selects and evaluates directors.

Much of the critical work of boards gets done in committees. Thus the membership of these committees is critical in determining the amount of influence independent directors have over the operation of the corporation. One committee that should be completely made up of outside directors is the compensation committee. Beyond the compensation committee, whatever committee of the board selects new directors should also be predominantly, if not exclusively, made up of outside directors. In the absence of a majority of outside directors on this critical committee, there is a great danger that the CEO and other internal board members will pick and retain only those directors who they feel are “safe.” It is also critical that board members not perceive that in order to remain on the board, they need to be a good member of the board in the

eyes of outsiders as well as in the eyes of insiders. Thus, they need to be evaluated and selected by outsiders, not just by insiders.

PRACTICE: All key committees are staffed only by outside directors.

### **Board Member Motivation and Rewards**

The financial rewards that board members receive are clearly only one of several reasons why individuals join boards. Still, it is important that they, as much as possible, act to motivate effective behavior on the part of board members and align their interests with key stakeholders in the corporation.

Principle 13: The total compensation of board members needs to be clearly and substantially tied to changes in long term shareholder value.

The best way to assure that board members effectively represent the interest of shareholders is to put them in the same financial position as the shareholders of the corporation; that is to tie their compensation to changes in the value that shareholders receive. This is one way to assure that the interest of the shareholders will be in alignment with the thoughts, behaviors and actions of board members. It is also potentially a way to motivate board members to behave effectively as board members.

PRACTICE: Require that board members have substantial stock ownership in the corporation.

PRACTICE: Grant board members the same types of options that are granted to members of senior management.

PRACTICE: Be sure that stock option grants cannot be exercised for several years so that they create a long term view of corporate performance.

PRACTICE: Be sure that at least 50% of an independent board member's compensation is in the form of stock based compensation.

Principle 14: The amount of board member compensation should be based on the amount received by directors of other comparable corporations.

There is no right answer to how much someone should be paid for being on the board. The only way to gauge what represents a reasonable compensation level is by looking at what the competitive market place pays for similar labor. In the case of directors, this means determining what directors for comparable corporations are paid. With this as a starting point, it may make sense for an organization to pay above the market if its corporate performance is above the market for comparable corporations. In the absence of this, it is hard to argue for board compensation that is above average.

PRACTICE: Survey comparable corporations and after determining what they pay, create a total compensation package that is of comparable value. Put enough upside

potential in it so that if a corporation outperforms its peer companies, the total compensation package for directors will in turn be more than those of their peers.

Principle 15: Perform an annual evaluation of the performance of all board members.

Board members should be given feedback about their performance in order to help them develop their skills as board members and to motivate them to be effective board members. In the absence of a formal evaluation process, individual board members cannot be held accountable for their performance. In the absence of formal reviews, all too often members are informally evaluated in a “hit or miss” process that does not provide good feedback or valid data. Typically, the appropriate people to evaluate board members are the other members of the board. This suggests a peer process in which board members evaluate each other and provide each other with feedback about performance.

**PRACTICE**: Once a year, distribute peer evaluation forms to all board members.

Summarize the data from these evaluations and feed them back to individual board members. Report summaries should include development needs of board members as well as performance feedback.

**PRACTICE**: Make performance appraisals available to whatever committee is charged with nominating individuals to the board so that poor performing board members can be replaced.

Principle 16: Regularly review the performance of the board.

The performance of a board is best measured at the collective level rather than at the individual level. Thus although individual evaluations are important, it is also important to evaluate how the board performs as a total entity. This requires a systematic annual review of board performance. One element in this review should be a self-review in which board members are asked to systematically look at how the board has performed during the last year, but may also be useful to get data from other stakeholders. Thus major investors, employers and communities should be considered as sources of data concerning board performance.

**PRACTICE:** Have all board members provide data on how they feel the board has performed. In order to improve the process, discuss these data at a board meeting and, if appropriate, agree on ways to improve board performance.

**PRACTICE:** Gather systematic data from key stakeholders (e.g., investors) on how the board has performed. Feed these data back to the board so that they will have multiple sources of evaluation to look at as they discuss their performance.

### **Opportunity/Time**

In order to be effective, a board needs to have the time and opportunity to influence decisions. Other principles have touched on elements of what a board needs to do in order to assure that board members do have the opportunity to influence key decisions. For example, the principles concerning the ability of outsiders to control agendas and meet independently falls into

this category. Nevertheless, there are some additional important principles that need to be stated in order to assure that boards have the opportunity and time necessary to perform effectively.

Principle 17: Schedule enough meeting time to be sure that key issues can be discussed thoroughly.

There is no magic number of board meetings that can be stated in advance as necessary for a large corporation. In most cases, however, at least nine or ten one-day meetings a year appear to be necessary. In addition, a number of committee meetings may need to be scheduled to complement full board meetings.

PRACTICE: Schedule monthly full board meetings with the opportunity to cancel them if there is not sufficient business to warrant a meeting.

PRACTICE: At least once every two years, schedule an annual multiple day board retreat to review key strategic issues and the overall business strategy of the organization.

Principle 18: Provide board members with critical information in advance of the board meeting so that board time can be used efficiently.

Board meeting time is typically not the best time to communicate information. It is more appropriately reserved for discussing information in reaching decision. In order to be sure this happens, the board members need to be sent relevant information prior to meetings so that they can come to the meeting prepared to discuss critical issues.

PRACTICE: If information is complex and difficult to understand, schedule phone meetings before the regular board meeting in order to be sure that individuals come to the meeting prepared to discuss the information.

PRACTICE: Be sure that all board members have background information at least one week before every board meeting.

PRACTICE: Provide a contact within the corporation who can discuss and provide clarification of each major piece of data and information in the report that is provided to each board member.

## Conclusion

The nineteen principles presented are meant to be taken as an integrated package. Implementing only some of them runs the risk of creating a board which lacks one or more of the five key elements that are necessary for board effectiveness. The specific practices suggested to support each principle are meant to be illustrative of how the principle can be put into practice and they are not necessarily appropriate for all firms. Each corporation must decide for itself what practices it needs to implement in order to effectively implement the principles. Indeed, many best practices for a particular firm may not be represented by the practices presented here. They are intended to stimulate thinking and provide examples for firms, not to be adopted as the one best way.

Establishing effective boards is not an easy process. It requires a substantial investment of time, dollars and thought, but the cost of an ineffective board often far outweighs the investment required to build an effective board. In an era when shareholder activism is continuously increasing and corporate performance is so critical, having an effective corporate board is not an option for a major corporation, it is a necessity.