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How to Build a Great Board

Good governance means good people. If you get the people right, you will be able to create a strategic board that delivers a powerful competitive advantage to your organization. You will have access to outstanding individuals whose knowledge and abilities you could leverage in no other way. And, they will be the right people with the optimum skills and attributes for your particular board.

The Steps:

1. Agree on the company's mission and the role of the board.
2. Identify critical needs going *forward*.
 - a. List, detail, and prioritize your most *critical issues* for your future success.
 - i. Brainstorm with your board, management, and others whose input you value, such as outside consultants, counsel, accountants, shareholders, and stakeholders.
 - b. Determine the *criteria*. What *expertise and attributes* do you need to best address those issues?
 - i. For example, deep Industry knowledge, synergistic industry knowledge (to impart innovative thinking); technology, pertinent global expertise, connections, distribution, manufacturing, IPO experience, M & A, finance, regulatory and government expertise, marketing, human relations (remember that the most important responsibility of the board is to select the right leadership and support them); marketing; sales, science, corporate governance, other.
 - ii. We conducted a search for a Chinese board member who had led a large multinational technology company in China to sit on the board of a publicly traded U.S. technology company. Think of the advantage that director's current knowledge, culture, contacts and "face" will deliver to the U.S. company's success, especially in Asia!
 - iii. What competencies, skills and attributes will be most valuable? Consider operating experience, diversity, board experience, team building, recruiting, geography, vision, business expansion, communications skills, and, most important, the cultural fit with the organization and your management. If the culture is not a fit, nothing else matters.
 - iv. Diversity deserves special focus. Only 16% of all directors are women, and a mere 162 minority directors sit on the boards of the top 200 S&P companies. Of course, diversity encompasses far more than gender and ethnicity – it includes discipline, age, experience, skills, intellect, expertise, geography, perspectives, education and culture. For example, over one-third of new board members are financial experts.
 - v. Traditionally, the majority of corporate directors have been active and retired CEOs. At the best boards, this model is passé. CEOs are sitting on only .7 boards compared with an average of two outside boards 10 years ago. When

asked what they are looking for in future directors, S & P survey respondents cited a stronger need for relevant industry expertise than in past years. A strong argument can be made for including directors who have a perspective of a broad range of companies.

If you have 9 people just like you sitting around the board room, you may as well be talking to yourself.

3. Create a *Board Matrix*
 - a. List the criteria in a simple chart with, for example, criteria on the left and directors along the top.
 - b. Define the current board members in the context of those criteria. Catalogue their qualities and experience. Rate them on a 1 to 7 scale.
 - c. This is an evolving roadmap for the future of your board. Your needs will be visually apparent, and the Matrix can be shared with the board and other decision makers. If you don't know what you are looking for, how can you find it?
 - d. Create profiles with checklists of desired attributes, and the board overview, including meeting dates, compensation, and other information. Circulate these among the decision makers for input and continuously update them. Of course, criteria are bundled. Every director fulfills multiple needs.
4. *Proactively recruit* to fill in the blanks
 - a. Where are the weak spots? How can you supplement your existing board?
 - b. The Governance Committee is responsible for the process.
 - c. In order to optimize independence and objectivity, for example, the New York Stock Exchange requires companies to disclose the *manner* in which directors are recruited to the board. Last year, 51% of companies disclosed the source of their new directors. As more companies reveal not only who, but also how directors are recruited, objectivity and thus independence will be the standard.
 - d. For independence, reach, and validation of the process, the ideal is to partner with a search firm with special expertise in board recruiting. Do go beyond a list, beyond friends of friends. Proactively reach out to the best. Brainstorm best companies and industries and conduct targeted, original research. The only limit is your imagination. The only person who won't serve is the person you don't ask.
 - e. Being proactive allows you to be specific – and very particular.
 - f. Create position profiles for each position
5. Maintain a Continuum and rotate directors
 - a. Continuously refine your charter, your Board Matrix, and director profiles. Maintain a list of prospective candidates, although prospects may not know they are “in line.”
 - b. Recruiting should be continuous, not a series of isolated, reactionary events.
6. Evaluate and educate
 - a. As a rule, we learn how effective a board is when something bad happens. How do we know *before a crisis* if we have a good board? We measure it— independently, confidentially and professionally.
 - b. If there is no evaluation, no accountability, how can directors be confident they are doing everything within reason to be sure your board is the best it can be? How can shareholders know that the board is effectively representing them and doing its job?

Good boards mean good companies.

Strategic boards offer tremendous advantage to all companies, large and small, especially companies without the resources of large Fortune 100s. There are so few director positions. Don't waste them. A director seat is not an entitlement in perpetuity. There is nothing wrong with thanking a good director for his service and bringing on a new director whose currency will add more value to the company.

Today, we have an extraordinary opportunity to further diversify and build truly independent boards. Too often recruitment has more to do with relationships, co-workers, golf buddies, or celebrity, rather than strategic value. Too often, recruitment starts with the person, not the need.

When recruitment begins with a substantive evaluation and focuses on the future - a matrix of talent, attributes and objectives; when each director position is profiled to complement existing strengths and fill in weaknesses; when the board has a choice of excellent candidates, great boards are the result. When such a process is in place, it validates the board, and it attracts the best. And, it adds real value.

The untold success stories are the thousands of organizations with great boards whose directors have helped to avoid crises and accelerate success. It is about the people.

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Susan F. Shultz

Susan Shultz founded SSA Executive Search International, Ltd./INAC in 1981, and has conducted senior level searches locally, nationally and internationally, with a specialty in recruiting and structuring boards of directors. Recognized as a leading expert in corporate governance, she authored the highly acclaimed *The Board Book, Making Your Corporate Board a Strategic Force in your Company's Success* (AMACOM). She has been featured in the *New York Times*, *The Wall Street Journal*, *Business*

Week, *USA Today*, *Strategic Finance*, *CFO Magazine* and numerous other media. She has spoken about corporate boards and executive search at The Business Roundtable, the Economist CFO Forum, Tokyo, the advanced director symposium at the Anderson School, UCLA, The Commonwealth Club, the Canadian Chartered Accountants, Montreal, the Financial Executives Int'l Annual Summit, Semantic Annual CIO Symposium, various CEO gatherings, and to many other organizations.

In 2002, Susan founded The Board Institute, Inc., to improve boards of directors through a suite of web based, independent, educational tools to help directors evaluate, educate and improve their boards, committees and individual directors.

Susan chaired the Phoenix Committee on Foreign Relations for 16 years, is a member of the Council on Foreign Relations (NYC), Pacific Council on International Policy (Los Angeles), is a director for the Arizona Technology Council, The Council Foundation, the School of Global Studies, ASU and Charter 100, and is past President of the Arizona Business Leadership Association. She served on numerous other boards, was a Presidential Delegate to the White House Conference on Small Business and is recognized in numerous publications including *Who's Who in the World*, *Who's Who in America*, and *Who's Who in Finance and Industry*. Susan received a BA in Government and Economics from the University of Arizona and completed all core graduate work in International Affairs and International Economics at George Washington University.