Getting the Most Out of Your Board

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Recently, after giving a speech on the value of strong boards of directors to family businesses, I was approached by one of the attendees:

"You know, I heard a similar speech a couple of years ago and was convinced of the value of a board," he said. "I was facing some challenges where I really could have used some board input. But today I can't name one decision the board has helped me make. My directors spend all their time reviewing my financials and questioning my decisions. It's just not worth the money I pay them. At the outset, I asked them to stay for two years. This spring when their two years is up, I'm going to ask them to step down."

What he didn't realize was that finding the right board members is important, but it's only half the battle. Even if you've got people who have valuable information to share, are dedicated to helping you and are dutifully attending meetings, you will not necessarily get a return on your investment in a board. To get the most out of your board, you have to give board members a meaningful role and set up board meetings so that they can really contribute.

Here are some suggestions to ensure that you take advantage of all your board has to offer:

Clearly outline your expectations of board members.

How many meetings will you have a year? How long will they last? Do you expect board members to spend time preparing for meetings? What kind of boardroom dynamic would you like? Do you expect directors to question your decisions or just provide advice? Good board candidates will make sure that they understand your expectations before they accept the position. So, make sure you are clear in your mind about how much you expect from them.

Educate them on your business.

Put together a board orientation process that includes an initial set of materials as well as ongoing communication and activities. One retailer requires his board members to visit a set number of stores every year so that they understand the issues facing the business. Orientation information should include marketing materials, organization chart, financials, biographies of key management, articles of incorporation and bylaws. Board members should also receive copies of press releases, news coverage of the business and other relevant materials on an ongoing basis.

Empower the board.

If you want to get the most out of your board, give the board meaningful responsibilities. One owner of an industrial laundry does not make any significant capital expenditures without his board's approval. The board is required to approve the budget and strategic plan each year as well. Other useful areas for board input are executive compensation, corporate policies, major investments, benefits plans and dividends or distributions. While it is threatening to some business owners to open up these important decisions to a larger group, you have to be willing to give up some control to get the benefit of their board's expertise.

Set a meaningful board agenda.

Distributing the board agenda and background materials in advance of the meetings ensures that your board will be prepared to provide meaningful input on the topics under discussion. It is the board chair's responsibility to ensure that the agenda's content and structure allow the board to have substantive discussions.

In the case of the gentleman above who had decided to disband his board, his operating costs were out of line with those of his competitors. He was contemplating setting up an assembly facility in China but was concerned that the benefit in labor costs might be eaten up by other unforeseen costs. He wanted board input, but he structured the board agenda so that they spent most of their time reviewing the past quarter's financials and hearing reports from key managers. He presented to the board rather than asking the board questions. So board members never had the chance to address opportunities in China in a meaningful way.

It is often a challenge to have a meaningful discussion of a key strategic issue in the half day that is generally allotted to board meetings. One way many companies ensure that they have time to discuss strategic issues with the board is to hold an annual board retreat, where 100% of the time is dedicated to discussing long-term strategic issues.

Provide exposure to key management members.

Have key management members make formal presentations to the board. This exposure will build the skills of your management team members and will allow you to take advantage of board insights when it comes to succession planning. However, one mistake many board chairs make is allowing managers to stay in the meetings after they make presentations. While it is good for key management to get exposure to the board, they should be dismissed after their portion of the agenda is complete so that board members feel free to bring up sensitive or confidential issues.

One way to ensure that you get board feedback on your managers is to allow time after the manager who presented is dismissed from the room for the board to discuss the individual and the quality of his presentation.

Establish a communication channel between owners and outside board members.

One area where outside board members can be most helpful in a family business is that of ensuring that owners who are not active in the business feel that their interests are represented. If you have owners who do not sit on your board, it is important for board members to understand those owners expectations and concerns. So create opportunities for the board to interact with owners both informally and formally. Many companies have an annual dinner for owners and board members, which can be scheduled at the same time as the annual shareholders meeting. Others invite shareholders to an informal lunch with board members at the end of board meetings. Some boards even share their meeting agenda and minutes with owners so that owners know what issues the board is addressing.

Evaluate board performance.

The best way to improve upon your board is to quickly identify when the board is not doing its job. A board evaluation process allows you to determine whether or not the board is living up to expectations. Board evaluations have become more popular over the past few years as the topic of board performance has been highlighted in the media. Many boards embark on an evaluation process by doing a self-evaluation where board members each evaluate their own individual performance as well as the performance of the board as a whole. Evaluations are reviewed by the board chair, who also does an evaluation of each individual to determine whether there are any performance issues with particular individuals or the group. For an example of board evaluation topics, see the list below:

Self-Evaluation

1. I can evaluate company financial performance and provide meaningful input.
2. I understand the company's businesses and the competitive environment in which they operate.
3. I prepare for meetings in advance by reviewing all materials sent to me.

4. I am willing to disagree with the chairman or management.
5. I base my actions on the interests of all shareholders.
6. I attend all or almost all board meetings.

Group Evaluation

1. The board deliberates issues effectively and thoroughly, with all opinions expressed.
2. The board takes the proper role of oversight rather than management of the company.
3. Board meetings are organized to get the maximum contribution from board members.
4. The board understands the owners vision and goals for the company.

Putting together a board that is actively involved in the oversight of a company is a significant investment. In addition to directors fees, an active board requires management time to educate directors, prepare for and conduct meetings, and manage relationships between owners and the board.

So before you decide to build a strong board, you need to make sure you're willing to make the full investment. If you make the investment that allows the board to play a meaningful role in your company, you will definitely reap the rewards.

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