

Egon Zehnder International has been pioneering board consulting and director search best practices for more than 15 years. We are one of the world's largest privately owned executive search firms, with 58 offices in 36 countries.

For information on our methodology and specific case studies, please see our brochure, *Building Great Boards: People, Partnership, Performance*, or visit our web site: www.egonzehnder.com.

Ten Questions to Answer One:
How Effective is Your Board?



1 Do you have the knowledge and competencies you need?

Boardroom decisions increasingly involve new and complex technical, strategic, and financial issues. Keeping up often means acknowledging what you don't know, and engaging someone who knows.

Geographic expansion might require a new board member with specific regional understanding. Moving your business in any new direction may require shifting the composition of the board to reflect the new focus.

Whether expanding into new markets, spinning off a business, or acquiring a company with a different culture, your board should always have an in-depth understanding of the particular markets,

industries, and issues involved.

Your shareholders will check to see if there is anyone on the board who really understands where you are headed. If no one does, you have a competency gap. And you should want to fill it – before the competition does.

2 Do you measure up to your future strategy?

Boards need to be as dynamic as the businesses they represent. Yesterday's strategy may have been ably led by your current board, but if your focus shifts and your ambitions change, so perhaps should your board.

The people around the boardroom table may have developed your strategy for future growth but that doesn't necessarily mean they can, or should, see it through.

Your board should be a reflection of where you are going – not where you have been. Ensuring that companies stay ahead of the game proactively is what boards are for.

Imagine the board you would like to see providing critical oversight of the business that you have defined 3 to 5 years down the road. Then check the talent around your table. Your future should be reflected in the men and women you see.

3 Are your competitors better equipped?

The days are gone when boardrooms were simply places for bringing together powerful peers. Instead, boards must now behave as professional teams and contribute strategically in the competitive field of high-performance businesses.

Detailed benchmarking of competitors' boards is becoming common practice. Analysts evaluate the backgrounds of board members to compare confirmed competencies with announced strategies and gauge the probability of success.

An in-depth look at your competitors' boards may also reveal their future strategies, past success factors, and contemporary corporate governance values. These are all useful data in evaluating your own board and its effectiveness.

4 Do you function well as a team?

The effectiveness and success of your board has at least as much to do with the chemistry between its members as with their resumes or your corporate governance procedures.

Your board's agenda may be correctly set, its members may be exceptionally talented and sufficiently briefed, and they may have the time and space to perform. But its power should also be considered in terms of the dynamics of the collaborations of the individuals. The secret of a successful team goes beyond the respected talents, knowledge, and networks of each individual. Boards need to be evaluated on their ability to create an open, respectful culture built on combined strengths, constructive confrontation, and informed insight.

Analysing and balancing the power of the people around the table often requires a neutral, external advisor who can provide a fresh perspective on a multitude of human issues, styles, and synergies that will help to enhance a board's effectiveness.

5 What does your board deliver?

Shareholder expectations of boards are rising to unprecedented levels. Never has the demand for accountability been greater. And increasing management rigor is being called for in everything from accounting and communications to strategy and sustainability.

While boards are increasingly being judged on their trust, transparency, and accomplishment, assessing board performance is not an obvious exercise. The challenge lies in finding objective assessment tools that provide internationally accepted evaluations.

These tools exist; we pioneered their development. Our in-depth, competency-based assessments of boards are clearly articulated, applied with rigor, and leveraged for heightened credibility and performance. They offer competitive advantages to companies with the courage of their convictions. They deliver – so that your board will, too.

6 Are individual board members contributing their best?

Collecting quantifiable, objective data has become an essential part of achieving company objectives. So why should every level of a company's management be regularly evaluated – save one? The era of board performance review and of individual director appraisal is upon us.

Investors' trust is no longer based solely on the names and reputations of board members. They are now being evaluated on their skills and deliverables, performance, and professionalism.

As with management appraisals, comprehensive board evaluations monitor individual contributions, performance, and development over time. They also enable boards to deal more objectively with non-performing members.

7 Do you need more independent or non-executive directors?

Board structures vary by country and culture, but the message is the same everywhere: credibility counts and independent directors are seen as the key to increased transparency.

Globalisation and the power of international money is persuading companies to accept a greater degree of independence on their boards. Investors value independent non-executive directors and the credibility they bring.

This may require boards to accept unfamiliar ideas and perspectives and unknown names. The question for new board appointments has shifted from "Who do we know?" to "Who don't we know?"

The solution lies in having in place an appropriate process for appointing new members, based on strategic priorities, competency gaps, and the balancing of perspectives.

8 Are you in line with international corporate governance standards?

New corporate governance codes and standards have been forces for change for years, transforming boards into far more regulated and transparent entities.

The trend toward internationally accepted corporate governance standards continues today. Yet the degrees of transformation – and even the forms of organization – differ dramatically from country to country and from region to region.

Local norms may not demand immediate change. But gaining a thorough understanding now of the issues driving the pressure to conform will keep your company from having to catch up with new regulations at a later date.

9 Is your leadership style and structure strengthening your board?

Board leadership styles and structures differ around the world. In America you find the all-powerful executive chairmen, in the UK the more purposefully balanced boards, and in Germany and the Netherlands, the two-tier supervisory and management board structures.

As companies take on global standards and recruit board members and chairmen from around the world, individual board members will need to appreciate these different leadership styles and board structures to understand the diverse issues brought to the table.

The relative merits of different approaches have long been debated. But how structure affects performance and what style of leadership is required in each context will be critical issues in years to come.

10 Do your shareholders expect your company to perform well?

Academics continue to debate the link between boards and corporate performance. Shareholders are convinced of it, increasingly looking at boards to help predict future company performance.

As analysts and investors increase their scrutiny of boards, their crucial judgments will be reflected in their expectations for future performance.

Make sure your share price speaks accurately about your board. Particularly in turbulent times, a steady, visionary strategy executed with ingenuity is a competitive necessity.