

INITIATING CHANGE IN THE BOARDROOM: EASIER THAN YOU THINK

The move to reinvent corporate governance has begun. The vision of a board that is fresh, alive, and full of constructive controversy and debate, and in which directors are not only individually strong but also able to pool their experience and perspectives to help the CEO and the company compete is now becoming a reality.

Boards that have not yet begun to improve their practices will soon find themselves far behind the times and targeted for “solutions” imposed from the outside. It is time for boards to take control of their destiny and to begin the change process. **The best way to initiate this change process is to begin with an honest and candid self-assessment.**

Many critics of corporate boards and many directors themselves sense the overwhelming power of the ingrained culture of the boardroom. They share a kind of despair that change will come painstakingly slowly and at great risk. There is good news for them: **Change is easier to accomplish than many people think. The real risk lies in preserving the status quo.** When the CEO or even just a handful of directors turn their motivation into action, change happens quickly. Boards are relatively small groups of people. The openness and candor of one or two people can be infectious and have an immediate effect on the rest of the group. Momentum builds quickly, because most directors really want to understand and help.

Any board member, including the CEO, can be the icebreaker or catalyst that gets the change process started. Each member can start by simply behaving differently, or s/he can advocate simple changes in board practices that make behavioral change easy.

Key points

- The unwritten rules of corporate governance are changing. Most existing board practices do not meet today’s demands. Standing still makes boards obsolete quickly.
- The change process takes root quickly when a CEO or other director puts a substantive issue on the table and people begin to talk. The right operating mechanisms can encourage open dialogue.
- Changes in leadership or ownership are golden opportunities to do things differently.

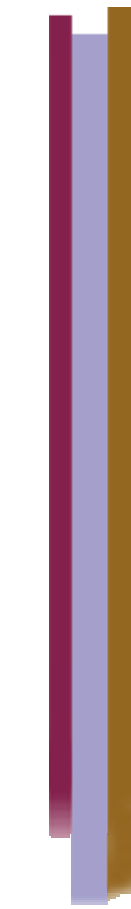
Many boards have begun some kind of review of their practices. A select few have become very good at it and have benefited from it. Most, however, do not overcome the real barriers to improvement. **The only thing many boards do less well than review CEO performance is review their own performance in a meaningful way.**

Often in the name of politeness, accurate descriptions of reality do not get put on the table. Issues that are not adequately addressed may include board behavior or the relationship between the CEO and the board. A board self-assessment that is well designed brings the issues that people instinctively dodge into an open forum for discussion and debate; it can help make board deliberations intellectually honest.

Survey instruments and questionnaires should not be used mechanically. Their value comes from the discussion that ensues, not from numerical tabulations of the results. An honest board periodically asks itself whether it collectively can take the company to the next level. Discussion of the answers leads to many points of action. **More importantly, as the discussion takes place, behavior patterns begin to change, and new board dynamics begin to emerge.** The process can be transforming.

Ultimately, efforts to help a board function at its peak should get down to the level of each individual’s performance. However, boards should proceed cautiously when venturing into the murky waters of director





peer review. Although evaluation of individuals can help a well-functioning board become world class, it tends to exacerbate existing tensions. When the board is already factionalized, peer review can become a witch hunt. Working with a trained and neutral third party is critical to a successful and constructive self-evaluation and peer review process.

Key points

- Board self-evaluation can identify areas to improve, but more important, it gets directors talking about real issues in an open forum. The board dynamics begin to change.
 - Board self-evaluation should not be forced or mechanical. Trust is everything.
 - Director peer review can help good boards become world class. But it is not a shortcut to good board dynamics. Unless conditions are right, it can damage board dynamics or
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Taku Group supports our clients through assessment processes to help companies identify challenges that may be keeping their boards stuck in old patterns of behavior and to become more effective as high performance teams.

Authors: Schuyler Morgan and Karin Hollerbach bring financial and transaction expertise as well as real-world management experience to work with companies to complete successful financings, mergers & acquisitions, and strategic partnerships. To us, deals are not just financial and legal transactions; they are relationships among organizations powered by humans.

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