Has your company outgrown its board? Here's how to tell

By answering the following brief list of questions, CEOs and nominating committees should be able to gauge how well their board measures up.

BY SAMUEL H. PETTWAY AND DENNIS C. CAREY

MARKET DYNAMICS continue to push companies in unexpected directions. For some, such as high-tech companies, the pressure comes from explosive growth. For others, such as those in the hospitality and automotive industries, acquisitions, roll-ups, and globalization are major forces. New markets, new products, and new definitions excite a host of industries, and equity carveouts, spinoffs, and demergers are regular occurrences.

The pressure on boards has never been greater, nor the expectations higher. Deregulation is everywhere (financial services, utilities, airlines, and telecommunications), and even reregulation (tobacco) is turning formerly sound strategies — and the executives who created them — on their heads. Even slow growth (as in some specialty retail segments) highlights the current necessity for boards of directors to play a critical strategic role in the guidance and governance of their companies.

Not all boards, however, are up to the task. Just as military leaders are often accused of planning for the last war, some boards may be best equipped to handle yesterday's issues. These boards, even those with directors who have been strong contributors over long periods, may not be fully prepared for today's stepped-up challenges.

Having completed more than 1,000 board searches during the last five years, we at Spencer Stuart have developed an appreciation for the extraordinary value the right board can add to a company. The most successful boards have CEOs and nominating committees that periodically take a comprehensive look at three critical concerns regarding the make-up of their boards:

• *Fit* — Is the board's current mix of talent equipped to handle the critical imperatives facing the company?

• *Balance* — Does board composition strike a happy medium among a diverse group of directors?

• *Competitiveness* — Is the board of directors, as currently composed, a genuine strategic asset to the company?

By answering the following brief list of questions, CEOs and nominating committees should be able to gauge how well their board measures up in these three critical broad areas. This diagnostic is not intended as a formal evaluation tool — either for the board or for individual directors — but rather as a way to get a quick take on the board's collective ability to add the strategic value that is so important in a rapidly changing competitive environment.

Fit

1. *Can each director clearly articulate your most critical strategic initiatives?* An informed board is a resourceful board.

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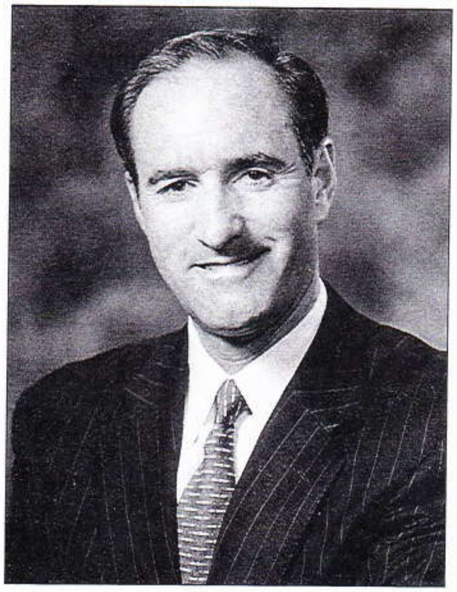
While unanimity on the various initiatives may not be a realistic or even desirable goal, your directors should certainly understand the company's key priorities and the logic behind them. If the CEO were incapacitated, could the current board be expected to be a cohesive guide and resource for the designated successor?



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— Dennis Carey

2. *Does each outside director have the capacity to contribute meaningfully to at least two initiatives?* A corporate board of directors is no place for single-issue advocacy or for narrowly drawn expertise.

3. *Will strategic initiatives profit from the input of at least two current directors?* Just as there should be no single-issue directors, every one of the CEO's major initiatives should incorporate the relevant acumen of at least two outside directors. If this is not the case, either the strategy or the board should be reexamined.

4. *Does your board engage your senior management team in open discussion?* A board should have regular exposure to the company's top executives and be capable of engaging them in creative dialogue and problemsolving.

Balance

1. *Does your board comprise a balance between wisdom and dynamism, between experience and innovation?* The average age of S&P 500 directors is 60, according to the 1998 Spencer Stuart Board Index, but age per se offers no yardstick by which to measure maturity, prudence, energy, or insight. Moreover, boards that routinely overlook non-U.S. nationals or women who are not yet CEOs risk categorically eliminating a potentially compelling asset.

2. *Do you value the advice and judgment of all your directors?* Every director should add to the quality of board-level deliberations. The most compelling boards are made up of members who themselves are compelling and who collectively constitute a powerhouse of resourcefulness.

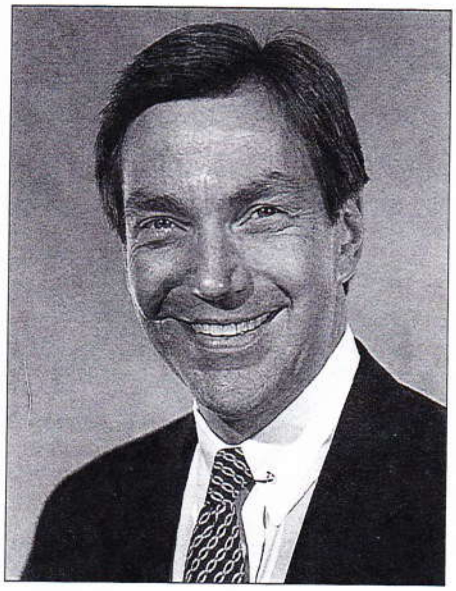
3. *Are there more than two insiders on your board?* If so, you may be missing important opportunities to add outside directors with the skills, experience, and objectivity crucial to the future of your company.

Competitiveness

1. *Are your directors comfortable with the next generation of your markets, your technology, your employees?* No individual director can be expected to be an expert on all your constituencies, processes, or products, but no valued director can afford to be out of touch with the direction in which the company is heading.

2. *Are your outside directors experienced in arenas as ambitious as those contemplated by your strategy?* The boardroom makes a poor training room. Have enough of your directors "been there, done that"? Almost 85% of our current board searches specify CEOs or CEO material: executives with an appreciation and understanding for the challenges and opportunities unique to corporate leadership.

3. *Does your board constitute, on its own, a competitive asset?* A board's impact is often inversely proportional to its visibility in the marketplace; after all, the CEO should be in charge of the company. As a resource with high impact, though, the board of directors can provide a significant competitive edge. Do competitors envy your board list? Would the loss of a given director, especially to a competitor, represent a genuine loss to your company?



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By walking through these questions together, the CEO and the head of the nominating or governance committee can assess how the current board matches up with the company's strategic direction. Considering the pivotal role boards can play in their company's success in today's fiercely competitive global environment, no company can afford to settle for less than the best.

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