



# Best Practices for Highly Effective Boards

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# Quick Questions to Start

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*Does your company have a formal Board of Directors?*

*Do you currently serve on the Board of Directors of your company?*



*Does your company currently have outside (independent) Directors?*

*Does your company formally evaluate the effectiveness of the Board?*

# Board Trends in the EC Industry

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- ❖ More attention with executive team accountability
- ❖ Guarding against insularity or “inbreeding”
- ❖ Increased interest for outside input
- ❖ Selecting Directors based on capability – rather than role, title or ownership
- ❖ Creating terms for Directors to keep the team fresh with ideas
- ❖ Moving out Directors who do not perform



# The Role of the Board of Directors

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The primary responsibility of the Board of Directors is to protect and enhance Shareholder value.

***The Board is accountable to and has a fiduciary responsibility to the Shareholders.***



# Board Focus and Duties

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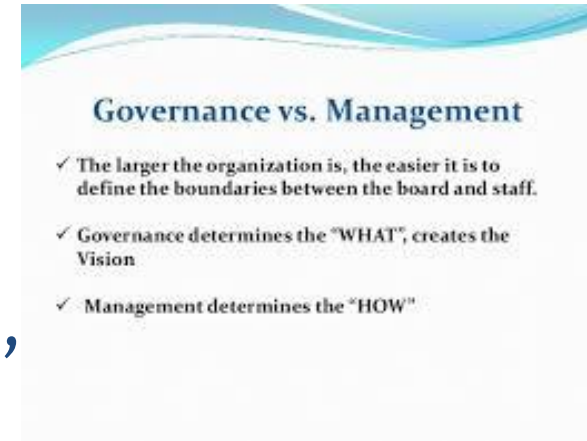
The duties of a Board of Directors doesn't depend on company size. No matter the size, a Board should focus on:

- ☐ Strategy
- ☐ Policy and objectives
- ☐ Assuring adequate financing of the company
- ☐ Approval of annual budgets/ business plans
- ☐ Hi-level oversight of operational performance
- ☐ CEO topics – appoint, review and compensation
- ☐ Succession planning



# Management vs. Governance

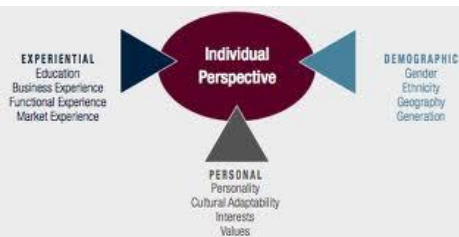
- ❖ A Board provides oversight and accountability
- ❖ The CEO implements and executes
- ❖ Boards should resist operational tactics, personalities, etc.
- ❖ Directors represent the shareholders – not senior management (which have different interests)



***Stay out of the weeds and avoid personal preferences... getting too involved often undermines the efforts of the CEO***

# Board Size and Composition

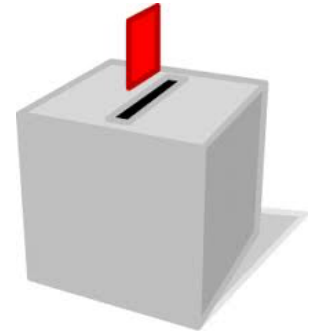
- ❖ 3 to 7 is ideal for most – under 10 is best
- ❖ Business and financial acumen is mandatory
- ❖ Using “outside” objective input is a plus
- ❖ Consider term limits – “staggered” to provide continuity
- ❖ Board size may require more use of committees
- ❖ Diversity and chemistry are important



# Selecting Internal Directors

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- ❖ A corporate Board is not a
  - ✓ “old boys or girls” club
  - ✓ popularity contest or reward for longevity
  - ✓ training ground
- ❖ A transparent and formal process should be used
  - ✓ nomination process and Shareholder vote
  - ✓ Chair appointment
- ❖ Identify candidates with proper qualifications
- ❖ Select candidates that address a need (perspective or quality)





# Internal Director Qualifications

## **Directors should:**

- ❖ Know they represent the Shareholders
- ❖ Know the Board's role (governance)
- ❖ Have financial literacy and business knowledge
- ❖ Understand the industry, risk management and legal
- ❖ Be a strategic thinker – problem-solving capability
- ❖ Successfully engage and thrive in a team environment
- ❖ Express thoughts well and provide constructive feedback
- ❖ Hold senior management accountable for results

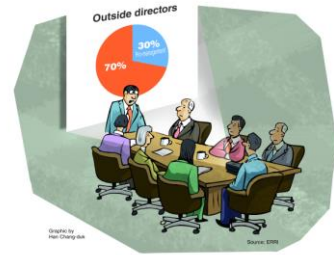


***... again it's not a training ground***

# Why Add an Independent Director?

## *Independent Directors:*

- ❖ Have a good understanding of the Board's role
- ❖ Bring an unbiased approach to issues
- ❖ Are not emotionally biased in making decisions
- ❖ Generally bring a good strategic perspective
- ❖ Will challenge the status quo and internal “group think”
- ❖ Will not quickly “dump” innovative ideas



*... they bring fresh perspectives*

# Independent Director Qualifications

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*Independent Directors also should have experience with:*

- ❖ M&A and financing strategies
- ❖ Trends impacting businesses
- ❖ Industry markets or in different industries
- ❖ Adapting to growth and change
- ❖ Monitoring the CEO and executive team
- ❖ CEO selection and transition



# Terms of Service for Directors

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*There are various ways to approach Director terms:*

- ❖ No specified duration of terms
- ❖ Specified duration of terms – mandatory rotation
- ❖ Terms for inside Directors
- ❖ Terms of all inside and independent Directors



Terms



There are pros and cons to approaches... but avoiding the “Director for life” approach is best

# Board of Director Committees

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## Common Standing Committees

- ❖ Audit/ finance
- ❖ Nominating and governance
- ❖ Compensation
- ❖ Risk
- ❖ Executive

## Ad-hoc Committees

- ❖ Address relatively short-term activities
- ❖ Recommend policies for Board approval

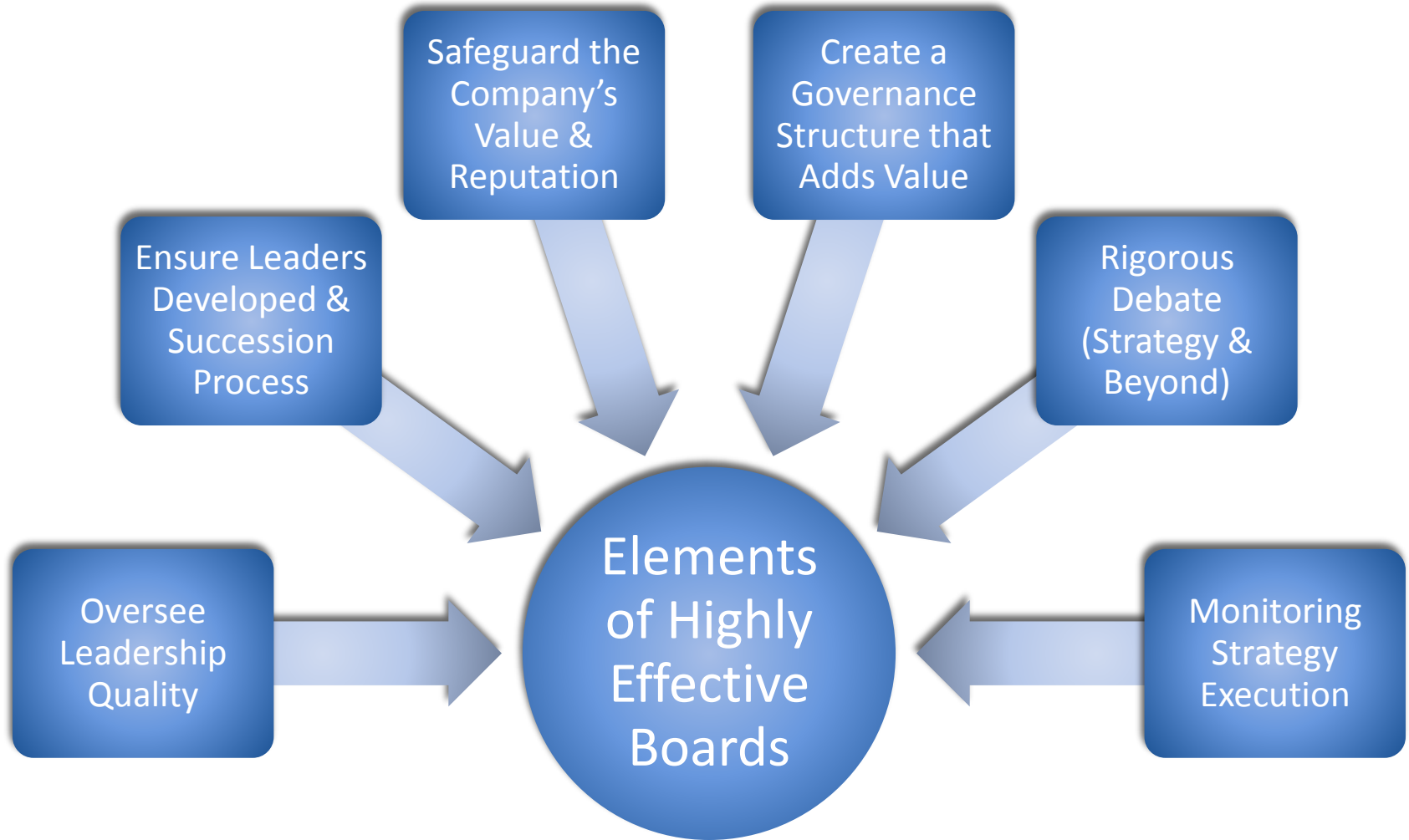


# Basic Expectations of Boards

- ❖ Hold regular (quarterly) meetings – structured agenda
- ❖ Do homework and exercise diligence
- ❖ Review and ratify (or not)
  - ✓ strategic plans and business plans
  - ✓ policy
- ❖ Provide input to and oversight on
  - ✓ financial reporting and integrity
  - ✓ succession and ownership transfer
  - ✓ ethics and compliance
  - ✓ company risk profile



# Elements of High Performance





# High-Performing Board Characteristics

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*The best Boards have 4 common characteristics:*

❖ Clarity regarding role and focus

- ✓ clear understanding of role
- ✓ charter helps define this

❖ An effective Chairperson

- ✓ identifying and recruiting the best Directors
- ✓ leads and effective meeting – rigorous debate, boundaries, etc.
- ✓ open and honest dialogue – no “sugarcoating”





# High-Performing Characteristics cont'd

## *The 4 common characteristics cont'd:*

### ❖ Strive to create the “right” team

- ✓ “best” minds around the table
- ✓ diversity – gender, ethnic, geographic, expertise, etc.
- ✓ mix of analytical and strategic thinkers
- ✓ chemistry



### ❖ Create a culture of trust and respect

- ✓ candid debate with respect for the individual
- ✓ constructive criticism vs. “trashing”



# Measuring Effectiveness

## *Questions should generally cover:*

- ❖ Meeting schedule, attendance and length
- ❖ Provision of agendas and materials in advance
- ❖ Committee evaluation and assignments
- ❖ Director participation in discussions
- ❖ Engagement of discussion around significant issues
- ❖ Quality of decisions
- ❖ Adequacy of minutes and “follow-up” items



*This process should be used for each Director, the Board as a whole and each Committee*

*Some final thoughts...*

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# Considering Formalizing Your Board?

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1. Start with the agenda – focus topics beyond the day-to-day
2. Ensure the best are at the table, there is diversity of thought and (some) Directors are different from the management/ operations team
3. Develop and implement a formal nomination and selection process



# Desire to Become a Director?

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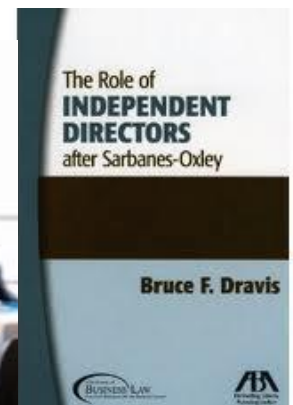
1. Prepare – educate yourself
  - ✓ strategy, finance, etc.
  - ✓ governance
  - ✓ a holistic understanding of business
2. Develop a mentoring or coaching relationship with a current Director
3. Express your interest to the Chairperson and determine how the process works



# Thinking of Adding an Outsider?

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1. Lay the groundwork internally, including making “room” around the table
2. Develop the criteria of the needs of the company
3. Use referrals and available resources
4. Develop a process and pick the best

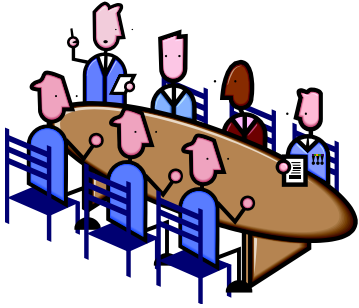


# Taking the Board to the Next Level?

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1. Develop a simple annual assessment process to identify “gaps”
2. Develop and implement a Board charter
3. Get the best around the table – outside and diverse views with strategic thought and debate
4. Set an agenda that focuses at the right level and drives continuous improvement





# Thanks!

***Let the panel discussion and  
questions begin...***



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