

WHEN TO DISRUPT THE BOARD OF DIRECTORS

By John DiDonato and Ray Anderson

Organizations undergoing a transformation devote most of their attention to matters that are within the management team's control, such as financial performance metrics, product and service portfolios, and C-suite turnover. This hyper-focus on management's responsibilities often comes at the expense of another essential factor: adapting the board of directors.

Regardless of industry, all organizations progress through a lifecycle. Start-up ventures morph into growth-stage companies, then become mature corporations focused on managing costs and profitability. In some instances, that lifecycle encompasses periods of distress that require operational and strategic turnaround.

An organization's ability to evolve requires qualified management, and qualified advisers to support them. A board of directors that sufficed in earlier stages may not hold the right experience, skills or relationships to support a business during a financial decline or strategic transformation. As business models, consumer expectations and industry boundaries shift, knowing when to disrupt the board can create an outsize impact on future results.

Where Corporate Boards Break Down

Although the [average tenure](#) is declining, board members of large and small-cap organizations still hold positions for eight to nine years. At this rate, many businesses may retain directors well beyond their ability to help fulfill current and future objectives.

Maintaining a board that is misaligned to an organization's evolutionary state creates a variety of problematic scenarios.

A weak board can become non-functioning over time, serving as a governance checkbox rather than providing true oversight. Directors who aren't appropriately empowered or experienced do little to guide management through critical planning or operational decisions. Board members with exemplary credentials on paper can also prove noninfluential in practice. For example, the prestigious board of ill-fated biotechnology start-up Theranos included an array of former government leaders—but few directors with technology, medical or legal acumen.

Assembling a board that brings additive skills and perspectives into an organization is critical as investor scrutiny intensifies. Activist investors targeted [136 organizations](#) valued at over \$500 million in the first half of 2018, up 45 percent from the same period in 2017. Activist investors also won more board seats in the first half of 2018 than in 2017 entirely. Although activists have historically targeted large corporations, their focus is increasingly expanding to include smaller companies (which are more likely to have deficient boards).

Questions to Ask When Reorganizing a Board

There is no one-size-fits-all approach to evolving an organization's board of directors. Rather than treat the board as an entity up for formal review only during election cycles, executives should adopt a mindset of continuous improvement and reflection.

To determine whether it's time to renew a board, leadership teams must regularly think through:

Where the organization is in its lifecycle, and where it's headed. To ensure board relevance, leaders need an acute awareness of where their organizations stand today, and where they want to be in the future. Growth stage businesses benefit from directors with entrepreneurial track-records, venture capital connections and IPO experience. Mature organizations navigating emerging market threats and fluctuating buyer behavior demand a different set of skills. In these scenarios, a familiarity with innovation and restructuring can be equally (if not more) important as industry knowledge.

Director independence. For incumbent organizations, a board's level of independence from ownership and management can materially impact future outcomes. Board members with close personal or professional ties to the C-suite—regardless of their own accomplishments—may not have the latitude to ask tough questions during turbulent times.

Board diversity. Despite recent improvements, corporate boards remain a homogenous group. Women and minorities held [22 percent and 17 percent](#), respectively, of S&P 500 board seats in 2017, and the average director age [rose](#) to 63. Organizations across the lifecycle should strive for a greater mix of director backgrounds, industry exposure and points of view. Prioritizing diversity of culture and opinion at the board level sends a valuable message to employees and shareholders, and facilitates stronger, thoughtful decision-making.

Fiduciary responsibilities. Along with monitoring board independence, it's critical to verify that the board of directors is positioned to carry out its shareholder obligations. Fulfilling the duty of care and duty of loyalty becomes more vital when management teams are exploring a financial restructuring, mergers, acquisitions or divestitures, and other key events.

Board relationships. When assessing current and future board director fit, networks matter. During periods of distress, for instance, the right board

members could facilitate conversations with new potential customers, suppliers or merger partners. Directors tied in to the capital markets could also prove pivotal when interacting with lenders and investors.

When transforming a company's leadership to spur innovation or navigate a downturn, change must extend beyond the C-suite. Corporate boards should no longer be immune to adaptation.

By proactively disrupting the board of directors, organizations can respond faster and more strategically to shareholder, employee and management needs.

Key Takeaways

To maintain a board that can support your organization at each stage of its evolution, it's critical that leaders:

Think differently.

Frame boards not as a permanent fixture, but as a dynamic asset that should be reviewed consistently.

Plan differently.

Get ahead of shareholder pressure by instituting stronger standards for gauging board efficacy.

Act differently.

Define a set company needs and board skills or characteristics, from independence to specific expertise, to help determine when the board of directors is due for change.



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