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Director Assimilation: Helping the New Director Become Effective

By Donley Townsend

Personal liability, term limits, increased independence, more rigorous evaluation—these areas of growing concern are contributing to increased turnover on boards of directors, the one area of business not previously racked by ever shortening tenure. With organizations changing the composition of their boards with greater frequency, more and more directors are new in their roles.

New organizations face an even more dramatic challenge. They must attract competent directors and then assimilate them so they can provide effective guidance to the firm during a dynamic, often volatile, start up. How can organizations help new directors learn what they need to know to be effective in their ever more challenging responsibilities?

To understand how CEOs, chairs, and directors are approaching the assimilation of new directors, we interviewed top corporate leaders in a variety of industries including technology, financial services, consumer packaged goods, energy, manufacturing, healthcare, and a broad range of professional services from information technology to engineering. A number of the men and women we spoke with, in fact the majority, had multiple perspectives. Some serve as outside directors on multiple boards and provided keen insights based on the practices they've experienced in different companies and industries. Some are CEOs at one firm and serve as outside directors on other boards. Most brought additional insights from university and other not-for-profit boards on which they serve.

Our conclusions provide a practical roadmap for business leaders in building high performance boards of directors, strengthening corporate governance and establishing an effective balance between oversight and support.

Director Summary: Key practices in assimilating a new director into a company's corporate culture are to set the competitive environment; offer details about the company; describe and explain specific board practices; provide an ongoing external frame of reference; and build personal relationships among board members, the CEO, and the chair.

Five Keys for Effective Director Assimilation

Once a new director agrees to join the board, how can the organization help him/her become effective? Key practices are:

- Set the competitive environment.
- Detail the company.
- Describe and explain specific board practices.
- Provide ongoing external frame of reference.
- Build personal relationships.

Set the Competitive Environment

Begin by helping the new director understand the company's broad, as well as specific, industry segments, markets, key competitors, customers, and suppliers. Describe the regulatory environment and the technologies that are essential to the business's success. Make sure the new director knows the forces that shape the environment in which the company operates. Be candid about the competitors that represent the bigger threats. The 80/20 rule provides a good framework for helping new directors understand the external forces on the organization. Who are the 20 percent of your customers that probably account for 80 percent of your sales and profits? Similarly, who are the 20 percent of your suppliers who probably receive 80 percent of your spending?

The CEO of a Silicon Valley technology firm with a wide product range addressing a number of disparate markets described this element of director assimilation: "We planned a six-month acclimation rather than an event because of our complexity."

Once grounded in the firm's external competitive environment, a new director is ready to develop a fine-grained understanding of the company's strategy—its plans for succeeding in its environment. Interestingly, few organizations focus any attention on providing an industry context for the new director. Most simply plunge into facts about the firm itself. That should be phase two, the details about the company.

Detail the Company

New directors, chairmen, CEOs, and nominating committee members all understand the need to provide the board's new member with information about the enterprise. Most organizations provide something. Yet all too often, the materials, the briefing book, are nothing more than an amalgamation of what the corporate secretary or the general counsel thinks a new director might want.

Chairmen, CEOs, and nominating committees need to give more attention to understanding the requirements of a new director and preparing materials and activities to meet the new director's specific needs.

One new director, a senior line executive at a refining and marketing company, recently joined the board of an exploration and production company. He described the orientation he received as "multiple portals into the company." His election coincided with the company's annual meeting where the "presentations made a good foundation." However it begins, this phase of director orientation should provide the new director with a thorough understanding of the company and the challenges and opportunities before it.

A former CEO who sits on the boards of three *Fortune* 100 companies found "a two-and-one-half-hour strategy presentation before the first board meeting I attended" extremely valuable. That first board meeting with her new board colleagues followed soon after the strategy briefing, and was followed quickly by an all-day orientation, which included one-on-ones with the general counsel, the HR executive, and senior management. With this three-part introduction, she felt comfortable in her ability to begin contributing effectively to the board. Keep in mind, though: this new director had been the CEO of a multi-billion-dollar publicly traded company and an outside director at two other *Fortune* 100 companies for more than 10 years before she joined this board.

Directors with less experience need a different orientation, one that balances learning through reading, listening, and seeing. For a new director with little or no previous experience on the board of a public company, begin by providing more reading material than anyone would ever want, including:

Make sure the new director knows the forces that shape the environment in which the company operates. Be candid about the competitors that represent the bigger threats.

- Bylaws and articles of incorporation.
- 10-Qs and 10-Ks for the last three years.
- Board minutes for the last two to three years (so the chain of decisions is clear).
- Organization charts (including the existing board and its committees).
- Proxy statements.
- Corporate governance guidelines.
- Code of ethics and anti-insider trading policy including section 16 reporting procedures.
- Disclosure controls and procedures.

In a box, all this reading material could put the new director's back in jeopardy. So consider providing it in CD-ROM format if possible. In this way, the odd hour or two on a plane can be used by the new director for learning about the company.

While all this reading is underway, supplement the learning with conversations. One new director appreciated a lunch with the CEO that allowed him to ask questions on what he was learning, and continue building a personal relationship simultaneously. Soon after, the members of the nominating committee called to welcome him to the board and fill him in on company business. These calls and meetings prove especially valuable when part of an overall orientation plan where each board member covers a specific topic, while beginning the process of building personal relationships.

The third leg of the orientation for learning the company involves *seeing*. Virtually every director who had site visits or plant tours as part of their assimilation process gave high marks to the experience. Whether it is a tour of a manufacturing plant, a brown bag lunch with a dozen or so engineers, or a coffee meeting with customer service representatives, new directors place a high value on opportunities to visit factories, key development centers, or customer service centers. Not surprisingly, employees like it as well, getting the rare opportunity to

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meet a director of the company in an informal, give-and-take environment. In addition to orientation for the new director, such meetings provide informal investor relations since, in many companies, employees are, in aggregate, significant shareholders with the potential to invest more in the future.

Reading, listening, seeing...good director orientation hits all three as the new director goes through an immersion process learning the new company.

Describe and Explain Specific Board Practices

Perhaps nowhere does good orientation matter more than in the practices specific to an individual board. Learning how to be effective and make your experience and expertise count when you join a new group is always a challenge. When you are an *independent outsider* in a group that meets for a day or so every couple of months, the challenge becomes greater. And isn't the gist of much of the recent legislative changes and the new exchange requirements centered on having independent outsiders on the board and making sure they are doing a great job of being a director? Unfortunately, this aspect of orientation is frequently overlooked. After all, in the not too distant past, directors were chosen in part because they were already well known to other board members and the atmosphere was collegial from the beginning.

Filling the new person in on how the board operates and why it works that way helps the new director contribute and the whole board perform effectively and efficiently.

Consider these actual situations to understand why it is important to let new directors know the scoop on how the board actually operates.

• A major healthcare company began using presentations to the board for development and succession planning purposes. At each meeting a manager would make a somewhat formal presentation to the board on an important topic. For most of these high-potential managers, this was their first interaction with the outside directors. A new director joined the board about six months after these presentations began. He was also on the board of a consumer packaged goods company where presentations by senior managers were a long-established practice. There the presenters expected and faced tough questions from board members throughout their presentations. The norm was a vigorous give-and-take exchange between the presenters and directors. Not surprisingly, the new director interrupted the presentation at the new board to ask a pointed question. No one had told him this board's norm was to hold questions to the end of the presentation and then let the chairman begin the questions. The presenter was thrown off and so were the other directors. All the embarrassment could have been avoided with a brief review of the agenda by a mentor with the new director before the meeting.

• Another avoidable situation arose when a new director came to his third board meeting (about six months on the board) only to find himself in the midst of a contentious board self-evaluation process which included an effort by the chairman to seek the retirement of a poorly performing board member. The new director was unfamiliar with the evaluation process and knew nothing of the situation surrounding his fellow director (other than that he missed most meetings). Again, a simple process of showing the ropes could have made the meeting more productive and avoided embarrassment.

Of course, directors ought to be thick skinned and adept at reading groups and situations. Indeed, the vast majority are. The thrust of any orientation effort, though, is to improve the effectiveness of new members of the group; it is good for them and good for the boards on which they serve. Successful orientation in this area requires only that one experienced director takes time to think through what is unique or unusual about the way the board operates and then takes the time to fill the new person in. Ideally, a director with several years experience and service on multiple boards takes on this task.

Provide an Ongoing External Frame of Reference

It is natural to focus the attention of a new director on the company he or she will help govern. It is also natural to shine a light on the strategy and other topics traditionally on the board's agenda. But with corporate governance taking a broader view, it makes sense for new directors to rapidly learn about the company's key external constituencies from two perspectives:

- External relationships important to the company, and
- External forces shaping boards and affecting individual directors.

Introduce the new director to the firm's outside audit partner, the outside counsel, and other consultants with whom there are important ongoing relationships. Conversations with commercial and investment bankers, as well as the external auditor, can be logically coordinated by the CFO. Through a series of four or five conversations, the new director could easily gain a solid understanding of the company's capital structure, credit facilities, and the historical issues surrounding them, while at the same time starting the work of building a relationship with the CFO and working acquaintances with key outsiders.

In larger companies, the board may have its own consultant for one or more matters. Executive compensation comes to mind. The chairman or lead director should introduce the new director to any consultants who report to the board.

The external frame of reference brought to the board and management by independent, external directors constitutes one of their chief advantages. Providing them with an orientation process that helps them develop a rich picture of the company and its external environment improves their ability to provide the advice and counsel for which they were sought.

Build Personal Relationships

People, even experienced senior executives, are more comfortable with others when they know something about them beyond their titles and résumés. In the old days (which for corporate boards were not all that long ago), new directors were generally well known to the chairman or the CEO or one or two other directors. It was not unusual for a new director to already know every other board member. As a result, new directors had mentors or sponsors on the board who showed the new directors the ropes. Now, in an increasing percentage of cases, this is no longer the case. Many new directors know their fellow board members only through the limited exposure of the highly artificial interview process.

With independent directors joining boards in record numbers, chairs and CEOs should include opportunities for building relationships among board members whenever there is a newcomer to the group. Often we rely on the social skills that almost all directors possess to carry the day. Indeed, few people ever make it into the boardroom without good skills in getting to know colleagues. Nevertheless, the active engagement and balanced participation that mark the work of effective boards is almost always based on the mutual respect that comes from knowing good colleagues well.

Boards of directors present some special challenges, however. First, they are episodic; they meet infrequently with considerable intervals between meetings. Second, the members have full lives outside the board. Often preparing for and attending the board meetings requires considerable scheduling legerdemain. Third, pressure to perform is high. The recent regulatory and exchange requirement changes have made boardrooms less relaxed. Given that new directors and the boards they serve on want contributions sooner rather than later, building relationships among directors is worth extra thought and effort.

One new director reported that a helpful element of getting to know his new colleagues was a simple series of phone calls with each board member prior to his first meeting. Coordinated and scheduled by the chairman's secretary, the calls were only 15 to 30 minutes each. Another board took this a step further. The CEO asked each of the board members to call and introduce themselves to the new director and brief her on one aspect of board business. In addition to learning a little about each other personally, the new director learned from fellow directors their views on six or seven topics of current interest to the board. At a third company, the CEO and the new director worked only 30 miles apart. Before his first board meeting, the new director and the CEO met for lunch. A few days later, the CEO came to the new director's office to brief him on the company's assets. By the time his real board service began, the director and CEO had laid a solid foundation for working together on the board.

A number of organizations time the beginning of new directors' service to coincide with an annual board retreat. This gives the new directors a period of concentrated assimilation during which they become familiar with strategy and begin building relationships with the other board members and senior management.

Conclusion

The old boy network meant that orientation and assimilation efforts for new directors were not really necessary. New directors already knew others on the board. With the rise of the independent outsider on boards and the recent legislative and exchange requirement changes, providing an effective orientation for new directors makes sense. In fact, without a clear orientation program, organizations may find it difficult to recruit the caliber of director they need and want. ■

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