Four Fundamentals of Highly Effective Boards

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When done well, the cost of assembling a peak-performing board is more than offset by its overwhelming benefits.

Companies throughout the engineering and construction industry are seeking innovative solutions to the myriad challenges they face in today's competitive business environment. Leaders are confronted with talent pressures, changing technologies, increased competition, demographic shifts, economic uncertainty and various other seemingly random obstacles on a daily basis. To find solutions, leaders are considering a long list of options, including re-examining the way they recruit, onboard, train and develop their people; hiring talent with unique skill sets; re-examining their business models; forming new partnerships; joining peer groups; and finding ways to cut costs and increase productivity. Through it all, one powerful asset is often overlooked or not fully utilized: the board of directors (even more specifically, the use of independent outside directors as members of those boards).

Most businesses are legally required to elect a board by its authorizing state. And while public corporations have strict guidelines specifying the board's role, all organizations can benefit from moving beyond the basic requirements. An effective board protects the interests of the executive team, stakeholders and the larger organization, while also providing perspective that can bridge gaps between these groups.[1] A board of this nature, performing at its peak level, can contribute directly to a company's competitive advantage. Unfortunately, too few organizations in the construction industry have neither fully leveraged this resource, nor taken the time to attract top-level external talent to fill its seats.

Transforming Organizations

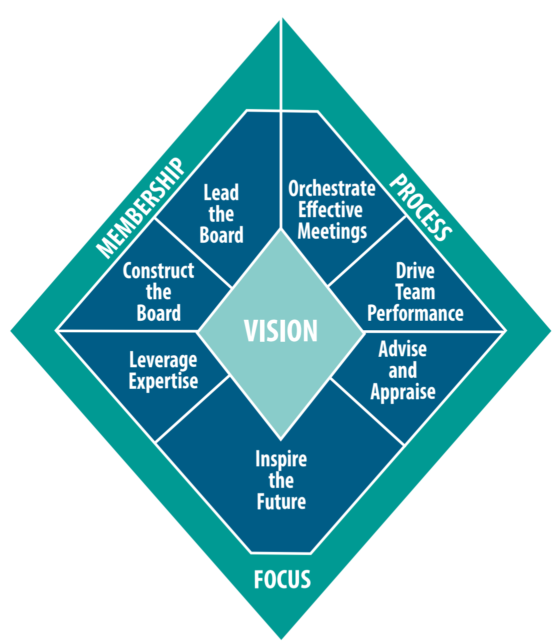
Owners and management of closely held firms often underestimate the power and potential of a carefully selected board. We hear comments ranging from, "No one will be interested in serving on our board," to "Where would we go to even begin the process of finding high-capacity, experienced outside directors?"

When properly formed and leveraged, a board of directors can help transform a company by utilizing collective experiences and different perspectives. Building, developing and utilizing highly effective boards takes the right people, positive group dynamics, proper evaluation, continual adjustment and a mentality that the group's purpose is to better the organization itself. It also requires an intentional, focused process that's clearly aligned to the organizational vision.

FMI works with engineering and construction firm leaders across North America who want to know how they can either form an effective board, or ensure that their current board is operating as effectively as possible. Based on extensive research on boards and in-depth conversations with key leaders in the industry, FMI designed the Peak Boards model to help organizations ensure their boards of directors reach their peak level of performance (Figure 1).

The model comprises four areas that are

EXHIBIT 1 **FMI'S PEAK BOARDS MODEL**



Source: Model developed by FMI. Concept is based on in-depth industry research.

critical for developing an effective board of directors: vision, membership, process and focus. It is important to remember that creating a peak board is a process and not a stand-alone event. Here is how you can get started:

Vision

Before any board-related discussion can take place, an organization must clarify its own unique vision. The best organizations have clearly identified and communicated their Core Purpose, Core Values, Big Hairy Audacious Goal (BHAG) and Vivid Description.[2] The board must understand the organization's vision and align its actions accordingly. Without a clear vision to guide the board, its members can easily lead the organization astray.

Membership

Many organizations select board members in a haphazard fashion and wind up with disappointing results. Leading organizations understand that who sits around the table is the most critical piece of board development. The best-designed boards have members with complimentary knowledge, skills and abilities, rather than large overlaps among individual members. In addition, the most successful boards have members who are independent from the organization (i.e., not employed or closely affiliated with it).[3]

As one research participant from a large, publicly traded firm explained, "We don't need a whole bunch of people on the board with industry knowledge because, hopefully, the CEO and the management team already bring that knowledge to the table."

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In addition to membership composition, leadership also plays a critical role in the board's success. While CEOs often serve as board chairs, the overall research evidence is mixed on whether this is an effective tactic or not.[4] Each organization will need to make its own decision regarding board leadership, and leaders must not take this decision lightly. Depending on the organization and its structure, vision and business goals, it may be more or less effective to have the CEO, or an external member, serve as chair. Alternately, a lead director is selected from the pool of outside members to work with the CEO/chair to ensure effective governance and proper board focus.

Too often, organizations speed through the board formation process without giving it the intentional focus it needs and deserves. When done right, this process ensures that the right people are sitting around the table and that they can offer a variety of different perspectives and leverage diverse knowledge and experience.

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Process

In our interviews with industry leaders, exactly how the board interacts, emerged as one of the biggest weaknesses of existing boards. Without careful consideration of the structure and format of the meetings, they can easily deteriorate into unfocused, frustrating and ineffective events. The most productive meetings require advanced preparation and engaged board members who can focus their energies on organizational goals.

We strongly recommend that a board develops an annual calendar, determining what areas require focus and attention over the course of a given year. This ensures a balanced board calendar with ample time to tackle key strategic topics (versus a more casual review due to the agenda crush of other weighty issues).

Many organizations also forget that a board of directors is really a team. As such, team dynamics come into play with a board. How do the members communicate with each other? Is there trust among board members? How does the board handle internal conflict? Is there a process for giving and receiving feedback among the members? Many companies mistakenly believe a board will be effective simply by assembling a group of smart, experienced individuals. However, the best organizations are intentional about building a truly effective team at this level.

Focus

Far too many boards lose sight of their intended roles. Members of these dysfunctional boards do not fully understand their roles and typically devote time to operational and day-to-day issues rather than fulfilling the broader, more strategic roles of the board.[5]

Keeping an Eye on the Future

Effective boards serve a vital role by keeping an eye on the horizon and encouraging the organization to think long term about its vision and business objectives. This includes encouraging innovative thinking throughout the organization, driving strategy, assessing and mitigating risk and fostering financial health.

A CEO from FMI's personal interviews said, "Having an engaged, active, energized board with a lot of smart people on it is going to make me a better CEO. They help us recognize some of our blind spots and things we can't see because we're too close to the business."

Today's boards, in particular, must tackle the topics of talent development and succession planning. Best practices suggest that boards should be proactive not only in planning for the CEO's succession, but also for future board members.[6] Furthermore, boards can play a key role in appointing committees made up of board members and senior staff to develop new human resources policies and practices. Ideally, human resources experts are actively involved in board meetings and decisions.

Finally, the board needs to embody the role of steward of policies and procedures by following a Noses In, Fingers Out ("NIFO") approach. NIFO is one of the most critical aspects of directorship. Far too often, we see boards that operate like a shadow executive team, second-guessing the CEO and delving into the implementation details as if leading day-to-day affairs. This is most prevalent when the outside directors are either current or former CEOs. It is vital to understand that the role of director is very different from that of CEO. Ignoring this fact can create tension and conflict and erode trust in the boardroom.

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Finding a Seat at the Table

In this article, we've covered the critical areas for board development at a high level. Because each organization has a different vision, the board of directors will morph according to the organization's culture and strategic objectives. By focusing on the aforementioned areas and aligning the board with the company's unique culture, organizations can greatly benefit from this resource.

Based on our research, there is no greater untapped resource to help propel a business to new heights than a solid board of directors. When done well, the cost of assembling a peak-performing board is more than offset by its overwhelming benefits. Our industry is fortunate to have an abundance of talented, experienced leaders who can bring fresh perspectives to businesses of virtually any size or scope. Our hope is that more firms will see these leaders as a way to ensure a healthy business future by finding a seat for them at the board table. **Q**

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[5] Ibid.

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