



Counsel for  
BOARD AND EXECUTIVES

# Acredula®



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**A**credula is the Latin word for "owl," connoting wisdom. This newsletter is intended as wise counsel for boards and executives. Acredula is available to clients and friends of the firm. It is not to be construed as legal advice or opinion.

## Focus on Board Composition

This issue continues our focus on board composition and the "expertise" board: A board selected based upon the diversity of their competencies.

A survey of financial institution directors by Harvard Business School found that directors themselves believed their boards did not have all of the expertise and competencies necessary to understand the risks inherent with the business models and strategic direction of the institutions.

The media and commentators have blamed boards with headlines such as "Independent boards, but ineffective directors."

The SEC began requiring publicly-held companies to disclose, with respect to its directors, "the specific experience, qualifications, attributes or skills that led to the conclusion that the person should serve as a director for the registrant at the time that the disclosure is made, in light of the registrant's business and structure."

Examples of bad board composition that I have encountered include a board composed of an

equal number of representatives of employees and of employers and one member from the "general public." Almost every decision had to be made by the general public member.

Another was a board composed entirely of CEOs. No one wanted to serve on the audit or legal compliance committees.

Another example is a board composed of 40 members of diverse backgrounds and experiences. The board was so large that a different permutation of directors appeared from meeting to meeting, often resulting in a decision by one permutation that

appeared at one meeting being reconsidered by a different permutation that appeared at the next meeting.

This issue of Acredula contains an article on how to determine which competencies are core to a board's composition and an article by Kevin Kinross on whether there is an optimal size for a board.



### COMMENTARY

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## How a Board Should Determine What Expertise and Competencies Are Core

Last month's article, "The Case for the 'Expertise' Board: Selecting Board Members on the Basis of 'Competencies' rather than 'Constituencies'" discussed (i) the concept of an "expertise" board selected on the basis of their members'

collective competencies and (ii) the empirical data and basic corporate governance tenets supporting such a selection. This month's article considers how a board should determine what expertise and other competencies are core.

By  
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Unlike most of our articles, this article is based upon practicalities of what we have learned in working with boards over the last decade rather than principles of law.

The first step in “how” was discussed in last month’s article: There must first be an agreed strategic direction for the organization. The “agreement” is typically more in the form of the board’s confirmation or ratification of direction recommended by management than a strategy initiated by the board. Only after the board and management commit themselves and the organization to a future strategic direction can they determine the particular expertise and other competencies necessary to achieve that direction.

In other words, structure such as board composition should emerge from strategy. Accordingly, an agreed strategic direction must come first.

### The “How” Must Result in a Gap Analysis

Numerous steps can occur after agreeing upon a strategic process, but we believe in a process including at least the following three steps:

- **Inventory the knowledge, skills, experience, expertise and other competencies present among the current members of the board and management.**
- **Project the knowledge, skills, experience, expertise and other competencies that are believed beneficial for achieving the agreed future strategic direction.** A board and management often need help in identifying the categories of competencies that should be considered, and this is the purpose of this article.
- **Compare the current collective competencies with the desired future collective competencies and identify the gaps.** This is simply deducting current competencies projected to remain among the board and management from those believed beneficial in the future.
- **Determine how best to address any gaps.** Next month’s issue of Acredula will discuss how to fill those gaps.

### The Categories of Competencies to Consider

A board can consider numerous competencies. In order to assure some depth as well as structure in the consideration, we recommend that at least the following categories of competencies be considered:

- Business and professional expertise and experience
- Character and demographic suitability

- Personality characteristics and temperament

### Business and professional expertise and experience

Our experience is that boards and management need little help in inventorying their current expertise and experience. This is typically done by questionnaire and discussion.

A questionnaire is helpful because it allows each member of the board and management initially to state his or her competencies in his or her own words. We recommend including at least one open-ended question such as, “Do you have any expertise or experience that the organization is not fully utilizing?” We find that almost every board member and many management members believe they have some expertise or experience that is under-utilized.

Discussion is important because it will give context and depth to those initial statements. Discussion is especially helpful in identifying under-utilized expertise and experience.

A helpful result is an expertise-and-experience matrix showing in tabular form the expertise and experience of each member of the board and management.

Boards and management may need help in identifying possible, desired fields of expertise or experience. The human resource officer or department may be helpful in providing an initial list of possible fields. Boards also should consider fields of expertise and experience considered important by peer organizations. The following is a sampling (but not an exhaustive list) of some fields considered recently by organizations that we have helped:

- **Accounting knowledge** of financial reporting, accounting principles (including those for accounting for estimates, accruals and reserves), internal controls, record keeping, and the auditing process and knowledge of related considerations and issues;
- **Audit committee experience** with the operations, role and function of audit committees;
- **Board of director experience while** being a member of a board of a comparable organization;
- **Brand marketing experience** -- Experience with brand marketing of comparable organizations;
- **Corporate governance experience** with corporate governance of a comparable organization domiciled in the United States;

- **Executive compensation experience** with executive recruitment and retention, compensation structures, performance reviews and aligning compensation and incentives with organizational values and performance;
- **Financial officer experience** as, or in actively supervising, a chief financial officer;
- **Governmental knowledge** of, a federal or state agency having jurisdiction relevant to the organization's business;
- **Industry knowledge** of the industry of one or more of the important business lines of the organization;
- **International or global knowledge** of relevant international markets;
- **Investment knowledge** of investment best practices of comparable organizations;
- **IT experience** with information technology systems and developments;
- **Large company experience** with directing or managing a large and complex organization;
- **Legal or regulatory knowledge** of legal, regulatory issues and public policy relevant to the business of the organization;
- **Merger and acquisition experience** – Experience in business mergers, including both acquisitions and dispositions, as well as joint ventures and affiliations;
- **Operations experience** – Experience as a chief operating officer or otherwise in managing the operations of a comparable enterprise;
- **Public relations experience** in dealing and communicating with the traditional media, social and Internet media, public officials, trade associations and community groups;
- **Risk management experience** in identifying principal enterprise risks to understand whether management has implemented the appropriate systems to manage risk;
- **Sales distribution experience** with sales distribution models;
- **Strategic business planning expertise** in the strategic planning process for a comparable enterprise.

### Character and Demographic Suitability

There are a number of character and demographic suitability characteristics that should be considered in selecting board members. Again, for organizations large enough to have a human resource department, the HR department can be helpful, especially in conducting criminal records, credit

and drug checks which are becoming more common in director selection. Assuming clearance in those checks, here are some additional character and fitness considerations:

- **Contributes to the diversity of people and ideas of the board.** We find that the primary goal of diversity should be that of ideas. Those generally come from people of differing gender, ethnicity, geography as well as differing backgrounds, experience and personality.
- **Is free of any apparent conflict of interest.** A candidate should complete the same conflicts questionnaire or otherwise be screened with respect to personal or economic interests that may adversely affect his or her independent judgment on behalf of the organization.
- **Has a reputation for honesty and integrity.** Asking for and check references is as important as the criminal records, credit and drug checks.
- **Is able to ask questions appropriately.** One of the most important skills of a director is knowing what questions to ask and when to stop asking questions. This may be reflected by a person's business or professional expertise and experience. For example experience or expertise in law, psychology, social work, recruiting and even teaching may be indicative of being able to ask questions. This also may be reflected by personality type or temperament. However, it is probably best reflected by the questions asked by a candidate in the selection process. When to stop asking questions may be taught through education of directors.
- **Is willing and able to take the time and focus his or her attention on performing the duties and responsibilities of being a director.** This includes learning the business model and structure of the organization and successfully committing to prepare for and regularly attend board and committee proceedings.

### Personality Characteristics and Temperament

Personality characteristics and temperament may be a factor in selecting board members. For example, a board composed solely of CEOs with extroverted, quick-judging, fact-based personality characteristics may focus too much on decision making and too little on the oversight duties of a board. Over time, a board may want to balance those personality types with personalities of different characteristics or temperament.

Board and committee chairpersons (as well as other members of the board or committees) often

find information on the personality types and temperaments of their members to be useful for them to lead efficient and effective board or committee operations. Because of the importance of having directors who have a variety of business and professional experience and diversity in thought and ideas, directors having in common one set of personality characteristics or temperaments should not dominate or frustrate directors having in common a different set.

Although there are many systems for classifying personality and temperament, three that are commonly used are:

**Myers-Briggs personality type indicators** based upon C.G. Jung's personality types (beginning with either "I" for introversion or "E" for extraversion as to mental focus; "S" for sensing or "I" for intuition for processing information; "T" for thinking or "F" for feeling for the basis of making decisions; and "J" for judging or "P" for perceiving" for managing life outside of oneself. The Myers-Briggs Type Indicator or "MBTI" is probably the most recognized and used assessment tool. However, its reliance upon initials for personality characteristics can be a deterrent. Information can be found at [www.myersbriggs.org](http://www.myersbriggs.org). A guide to the use of the MBTI is the [MBTI Manual: A guide to the development and use of the Myers Briggs type indicator](#) (3rd edition 1998) by Briggs Myers, Mary H. McCaulley, Naomi L. Quenk, and Allen L. Hammer.

**Spectrum Development Temperament Model** also largely based upon the Jung's personality types and Meyers-Briggs classifications, but using

colors (lavender or purples for introvert or extrovert interaction styles and then blue, gold, orange and green for temperaments). Information can be found at [www.spectrumdevelopment.com](http://www.spectrumdevelopment.com).

**Clifton StrengthsFinder** developed by Donald O. Clifton with the Gallup Organization that identifies which of 34 talents each person possesses. It is not generally based upon Jung's personality types. Information can be found at [www.strengthsfinder.com](http://www.strengthsfinder.com). A number of written guides are available including [Now, Discover Your Strengths](#) (2001) by Marcus Buckingham and Donald O. Clifton, Ph.D. for StrengthsFinder 1.0, and [Strengths Based Leadership](#) (2010) by Tom Rath and Tim Harter.

Each of the three systems assumes that individuals have preferred ways of thinking, interacting and perceiving the world. There are no "best" or "worst" personality or temperament types.

We find that the Clifton StrengthsFinder 1.0 is the easiest to use if personality characteristics and temperaments are to be a factor for selecting board members because it requires the least facilitation. Candidates can be given the [Now, Discover Your Strengths](#) book that is a quick read. The book gives them access to the StrengthsFinder 1.0 assessment tool over the Internet which is a relatively painless process.

### Next Article

"The Case for the Expertise Board" will continue in next month's issue of Acredula with an article on "Considerations in Addressing Gaps in Expertise and Experience."

## Structure Follows Strategy- The importance of having a developed strategy to drive the Board's composition.



By  
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To adapt to the ever-changing environment in which they must operate today, corporations, both for profit and nonprofit, need to remain flexible –this includes flexibility in an organization's strategy, its market, its workforce and even its board. This ability to be flexible is one key indicator of a high-performing board and makes board composition more important than ever.

Boards need to remember one theme while planning and structuring the board's composition: *Structure Follows Strategy.*

Organizations need to value every seat on the board of directors and recognize that each seat represents an opportunity to increase the organization's expertise.

Boards should strive to move from a random collection of individuals to a board of "experts" composed of persons each having particular skills or expertise needed for the board to have as a whole, all of the skills and expertise necessary to achieve its future objectives.

The composition of an organization's board must be built to meet the organization's strategic goals. The first element of board composition planning is evaluating every seat on the board and recognize that each represents an opportunity to increase the organization's expertise. The final element is evaluating the skills and expertise of every individual chosen to fill one of those seats and provide each with the information, resources, training and support needed to succeed as individual board members and as a collective board. In between these two steps is the strategic planning process of the organization. Planning and structuring the board's composition without a developed strategic plan is akin to planning and structuring your retirement on purchasing weekly lottery tickets—you may get lucky but do you really want to base a key component on the future success of your organization on luck?

As discussed in last month's article titled "Time to Involve the Board in the Strategic Process" the strategic plan involves three components: strategic thinking, strategic planning and strategic execution. The first two of these three components are critical to structuring the organization's board to have it best equipped to provide the appropriate direction and oversight to the organization in the coming years.

Collecting and analyzing the current status of the industry, competitors and the position of the corporation and taking those strategic thoughts to develop the priorities, actions and objectives for the core components of the strategic plan also will provide the core components of competencies needed on the board. Some of these strategic thoughts that form the strategic plan, and should ultimately from the structure of the Board, include:

- What are the organization's growth plans?
- Will it expand into new markets?
- Will the organization develop new products, programs and/or services?
- Will it be an acquirer? Or is it a target?
- Will pending/proposed changes in the law/regulatory environment affect the organization?
- Will the competitive landscape force the organization to act?

Always remember—Structure Follows Strategy---the strategic plan of the organization should drive the structure of the board. A well developed strategic plan will create job descriptions or qualifications of the requisite expertise or skills for future directors and provide for the board to be composed of those individuals with the expertise necessary for the organization to meet its future objectives.

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