For IPO Boards

Getting Off to a Great Start in the Boardroom…….

Board Advisor, LLC can serve as a unique resource for companies undertaking an Initial Public Offering to help get the board off to a great start in working effectively with corporate leadership. We're not a search firm –our focus is solely on board effectiveness and we've worked with nearly 200 boards in that capacity over the past 25 years. Areas of our practice that can be particularly useful in IPO scenarios include:

a) ***Developing Board Leadership:*** Building a strong foundation for your Chair in working with the Board starts with a clear understanding of the eight parameters of board-building, the responsibilities of any Board Chair, and workable protocols to optimize the board/management relationship from the very start. A 90 minute individual workshop with board leadership is a good place to start - see Appendix A for a program outline, which can be tailored to your board/company. The workshop is highly interactive and provides a confidential forum for questions and discussion. Thereafter, the Chair may find it useful to consider our Board Champions Advisory Program, which can be easily redesigned to facilitate an IPO scenario.

b) ***Optimizing Board Composition***: It's a lot harder to get an ineffective director to leave a board than it is to recruit a new board member. That's why it's essential to design your board's optimal composition from the outset – even if many VCs and initial investors will remain on the board through the IPO. Working through a Board 2.0 exercise with us can be eye-opening –and takes only 45 minutes with your Chair or CEO. Expanding the exercise to other directors and/or senior management will inject useful perspectives, solidify alignment and clarify director recruitment priorities both initially and post-IPO. See Appendix B for an article from the Jan-Feb/21 edition of ***The Corporate Board***, which provides more information on Board 2.0. Board composition benchmarking (described in Appendix C) is another innovative tool that boards can factor into their "due diligence" in board composition design.

c) Building a Board-Worthy Executive Team: How the management team works with the board has tremendous impact on the board's effectiveness – and can determine whether the board becomes an asset or a nuisance. An initial workshop with senior management based on Appendix A is a great start; it can be custom designed to best fit your needs. Understanding the key elements in creating workable board books avoids the "everything and the kitchen sink" approach that leads to frustration in board meetings. We'll also discuss pitfalls to avoid in management presentations – and approaches that can quickly turn a relatively inexperienced presenter into a boardroom star. We also offer ongoing support to get actionable developmental feedback for your team post-IPO. Better management presentations create better board dialogue and result in better board decision-making.

d) Designing an Effective Director Orientation Program: It's easy to overlook director orientation in your haste to assemble an IPO board. But the faster new directors come to understand your business, your company and your team, the sooner they'll be able to make meaningful contributions in the boardroom – and avoid "dumb questions". We'll offer guidance on best practices and innovations in director orientation, including phasing, "board buddies" and the New Director 360, a Fortune 100 innovation that can help make the most of your director talent. It's not complicated to put a worthwhile director orientation program in place – that can serve you well for years to come.

What Does It Cost? An individual 90 minute workshop with your Chair or CEO starts at $2500 US; workshops for the entire executive team start at $3000 US. A 45 minute individual Board 2.0 exercise starts at $1500 US. Our Board Champions Advisory Program can be readily adapted to an IPO scenario by simply front-loading the program for the first 2-4 months with regular "check in's" thereafter. **Interested in learning more?** Videoconferencing enables us to have an informal chat from across the country or around the world. Just email: Beverly.behan@boardadvisor.net and we'll set it up – no fees, no expectations; we love to chat about board-related issues.

Discussion Draft ONLY

Appendix A: DRAFT IPO Program Agenda

Overview

- Key Board Responsibilities
- An Asset or a Nuisance: The Choice is Yours
- Levels of Board Engagement: Passive to Hands-On; Watchdog vs Sounding Board
- Typical Operating Mode of IPO Boards – The good, the bad and the ugly
- 8 Key Components of Board-Building

Role of the Board Chair

- Typical role/responsibilities of the Board Chair
    - Meeting facilitation
    - Relationship with the CEO (or Lead Director)
    - Relationship with Other Board Members/Director Performance Management
    - Executive Sessions

Optimizing Board Composition

- Determining optimal board composition – reflecting business model and corporate strategy
    - Using a Board 2.0 Exercise
    - Board Composition Benchmarking
- Defining Expectations of your Board and Individual Board Members
- Board Size, Meetings, Time Commitment
    - Director performance management

Working with Your Board

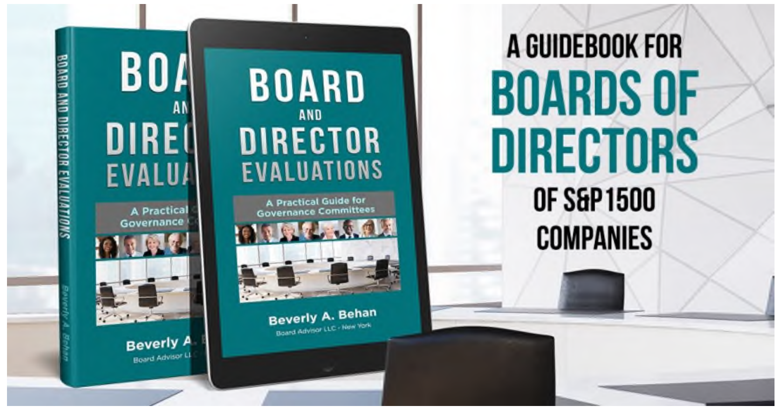
- Expectations of the Board and Management
- Designing Board agendas
- Board pre-reading materials – things to avoid/things to try
    - What drives boards crazy about pre-reading materials – and how to avoid this
- Management presentations to the board: Using your board as an audience or a thought partner?
- Board Protocols to consider:
    - Interaction between board members and company executives
    - Committee Chairs and executives who support the key board committees
    - Management attendance at board meetings
    - Run-throughs prior to board meetings
    - Collaborative model of board/management interaction
- Engaging your board in Corporate Strategy
- Director orientation program
    - Executive Debriefs, Site Visits, "Board Buddies", the New Director 360

<u>Note:</u> This is a discussion draft of a possible Program Agenda that can be used for either:
(i) a one-on-one workshop for the Board Chair or CEO of a company about to undertake an IPO; or
(ii) a workshop for the executive team of an IPO company preparing to work with their "new" public company board.

The final Program Agenda program would be tailored to the workshop audience, their areas of greatest interest and the company/board's unique features. The Program Agenda can be expanded by adding modules on legal/compliance, executive compensation and financial reporting - featuring presentations from the company's expert advisors in these specific areas.

Our Board Champions Advisory Program:

A Unique Resource for Board Leaders who Value Innovation and Excellence



Our forthcoming book on ***Board and Director Evaluations*** highlights in the importance of a Board Champion in successful board-building. A Board Champion is a board leader who wants to create and maintain a truly outstanding board: A board they're genuinely proud to lead; one that leverages the talent of their fellow directors and inspires management. Board Champions embrace fresh perspectives and practical ideas that can take their board "from good to great" - and keep a great board vibrant. They're typically in a board leadership role that enables them to accomplish these objectives and set a tone of excellence at the top of the organization they govern -whether as Board Chair, Lead Director, Chair of the Nominating /Governance Committee or as Chair/Chief Executive Officer.

Board Champions are our favorite clients. In fact, they're the only kind of board leaders we work with – because we're all about excellence and innovation in creating outstanding Boards of Directors. Any milquetoast board leader who's focused on status isn't our cup of tea. We only want to work with Champions – to help them create boards they're genuinely proud to lead and successfully navigate the challenges inherent in effective board leadership.

That's why we created our **Board Champions Advisory Program.** It provides a Board Champion with ongoing access to the author, herself, for 2 hours/month of confidential, individual one-on-one consulting on a range of board-related issues - tapping into her experience working with nearly 200 Boards of Directors over the past 25 years. The Program may be either 12 months ($25,000 US) or 6 months ($15,000 US) in duration; time can be "banked" or "accelerated" for up to 3 months - a total of 6 hours per quarter. Or, we can work with you on a specific board project, such as:

- ***Board Evaluations*** –Our board evaluation methodology is the best tool we've found in 25 years of working in the boardroom to help make "good boards great" and keep great boards vibrant. We conduct board evaluations and provide advice to Board Champions on board evaluation design and how best to address emerging issues. (***Note****:* We do not design surveys as we do not recommend this methodology; however, we are happy to design/support a robust interview-based board evaluation process led by a director- using Zoom or otherwise.)

- ***Director Performance Management/Director Evaluations***– We provide advice to Board Champions on a range of director performance management issues, including the use of director evaluations, where our expertise dates to 1996, when we were involved in one of the first director evaluations conducted by a major N. American board.
- ***Optimizing Board Composition*** – We don't headhunt. We work with Board Champions to engage the full board around optimal board composition using Board 2.0 and/or Board Benchmarking –unique Board Succession planning tools created from our own client work. We also help to redesign director orientation programs.
- ***Building a Board-Worthy Executive Team*** – We offer practical advice on enhancing board books and management presentations, tapping into your board's unique circumstances and tailored to your team.

Sound interesting? Videoconferencing enables us to have an informal chat from across the country or around the world. Just email: Beverly.behan@boardadvisor.net and we'll set it up. No fees, no expectations – we love talking about board-related issues. We'll even sign a Confidentiality Agreement beforehand, to facilitate an open discussion.

Board Evaluation: Building Board 2.0

by Beverly A. Behan

So much of the board evaluation done today is backward looking. What are our current skills and experiences, and how do we add replacement directors to fill these roles? Beverly Behan, in an excerpt from her new book, suggests a "Board 2.0" approach that turns this old model upside down—what talents will our board need in the *future?*

"Board refreshment"—the euphemistic term that conjures up images of someone circling the boardroom with a tray of ginger ale and cookies—is back in the spotlight again. Latest research by PwC found board succession planning as an area where many boards could improve: 10 percent of the 700 directors included in the PwC study said their board had no succession plan, 33 percent said it was 'ad hoc' and 49 percent of those who had a plan indicated that it was not shared with the full board. Board composition is probably the single most important factor in board effectiveness—and a deeply personal issue for most directors. It is important for every board member to weigh in on this critical question and create a plan that the board can reach consensus on. A "black box" approach to board succession is a prescription for director disharmony.

Roughly 75 percent of the board evaluations I've been involved in over the past 25 years resulted in changes to board composition. It was easy to get traction around this issue once you stopped having directors circle one to five in response to closed-ended questions like "Our board composition is appropriate" on a form—and instead asked: "If the board were going to add one new director right now, what skills, expertise or background would you prioritize in a new board colleague?"

Three times out of four, there was clear consensus that a particular background was missing—and good reasons to prioritize it. This, of course, begged the question: "Should we wait until one of the board members hits the retirement age before we fill that gap? Or, should we find a new director right away with the expertise we need—even if the board expands temporarily? Not all boards chose to address a composition "gap" immediately, but the vast majority did, particularly when there was consensus on what was missing and why it was important.

The "Board 2.0" concept originated during a client project where three boards were being merged into one. Politics was running rampant around the thorny issue of who would stay and who would go in the creation of the new board to oversee the merged entity. We wanted to cut through the politics by having some objective and practical criteria for director selection. We wanted to create a truly outstanding board, with the right mix of skills and expertise to make a big difference and add real value in overseeing this merged company.

Focus on the best possible board composition in terms of skills/expertise, given the company's business model and strategic direction.

Many boards at that time were using a Board Skills Matrix but, for various reasons, I did not think this approach would achieve our aims. So, I decided to take a different tact, one that engaged all board members and executives personally, forced prioritization and focused on optimizing the mix of expertise on the new board. I sat down individually with every director serving on each of the three boards, the CEO who would lead the merged company and several members of his executive team. I told each interviewee to assume:

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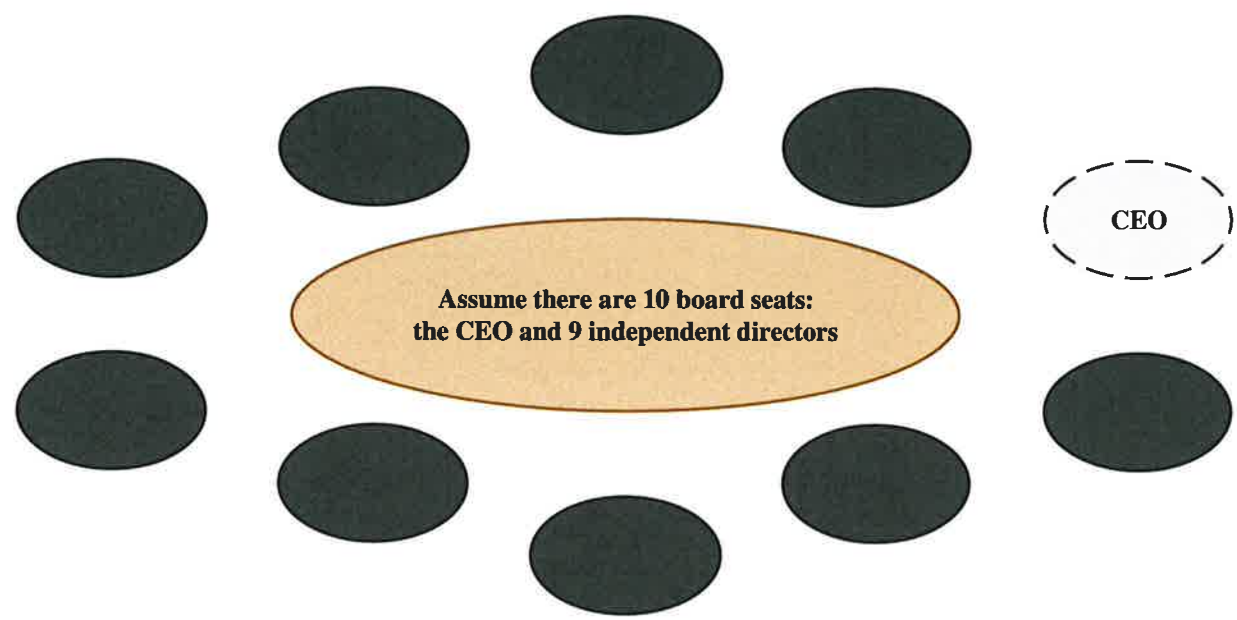
Start With A Template
Make Every Board Seat Count



□ That the new board (Board 2.0) would consist of a total of 10 directors.

□ That one of the board seats would be allocated to the CEO, leaving nine for independent directors, one of whom would serve as board chair, consistent with their current practice.

Then, I asked each respondent what skills, experience and/or background they sought in each of these nine board seats to create the best possible board. This was not a vote on who should remain at the board table and who should leave. It was an effort to define the optimal skills and experience to effectively govern the new company.

In working through the Board 2.0 exercise with each interviewee, I found that I needed to do two things. First, keep the respondent from giving too much consideration to the people already sitting on the three predecessor boards. I wanted them focused only on the best possible board composition design in terms of skills/expertise, given the company's business model and strategic direction. Sometimes, this resulted in recommendations of backgrounds not found among any of the directors serving on the three predecessor boards.

Second, avoid generalities. I wanted to understand the reasoning behind the background each interviewee was recommending: How did it relate to issues that Board 2.0 would be grappling with?

For example, if the respondent said "I'd certainly want two or three people with experience in our industry," I would ask how he/she was defining the "industry." Some respondents had a narrow definition (medical insurance); others saw this question more broadly ("anything in healthcare"). I would ask what sort of job within the industry the individual should have held: Should they have been a CEO or COO? Or in the role of chief medical officer? What were the reasons for their recommendations?

It was also important to use a finite number of board seats. This forced interviewees to prioritize how best to "spend" each of the nine available seats. Occasionally, I'd allow them to expand the board size by one or two, if they were bubbling up some really good ideas. Still, I was always firm about specificity.

Out of more than 35 interviews, no two were the same. However, an optimal board makeup began to emerge. Of the nine independent director seats, there was strong alignment with respect to the background/expertise that should be in six of them. As for the others, there were several pockets of agreement. In the end, it was not difficult for all three boards to reach consensus on the final design for Board 2.0.

The Board 2.0 exercise worked so well that I began adapting it to other client scenarios where boards were undergoing major transitions:

☐ ***Significant change in business/strategy.*** The company had sold its largest division and used the proceeds to make an acquisition in a new line of business, somewhat adjacent to but dramatically different from its core business for 20+ years. The acquisition was already generating nearly half the company's revenues and expected to grow significantly over the next five years. This company was dramatically transitioning its business, but had yet to transition its board to reflect these changes.

☐ ***High level of board turnover.*** Four directors (one-third of the board) would all reach the board's mandatory retirement age within two years' time. The company also had a new CEO who wanted to derive more value from the board. He was concerned that the governance committee seemed overly focused on replacing the skills that would be lost through the upcoming retirements. Before any recruitment began, he wanted to reconsider the board's entire composition.

☐ ***Initial public offerings.*** One IPO involved the spin-off of a major division of a Fortune 500 company. Another was a company that had their IPO 18 months earlier; the private equity investors were now selling down their positions and time had come to replace their seats at the board table with other directors. Both involved wholesale board composition design.

Is there an optimal board composition? No, there is not, just like there is no "perfect board size." I have seen boards of seven directors operate extremely effectively, and I have seen a board of 13 (which most would describe as "far too big") hit it out of the park. The latter had an outstanding chair who facilitated great meetings, and a mix of skills and expertise that brought insightful and varied perspectives into the board discussions. Frankly, any board size within that range can probably work. Far too often, the mantra of maintaining the current board size is used as an excuse to defer adding much-needed expertise.

Optimal board composition is different for every board and always a work in progress. What distinguishes a well-comprised board is the nexus between the backgrounds of board members and the company's business and strategic direction. Directors need to have the kind of experience which allows them to credibly "throw down the gauntlet" to management if something proposed seems ill-considered, and call the question on corporate performance issues. At the same time, directors' backgrounds should enable them to inject perspectives that expand management's thinking and raise "red flags" that may be a risk to the company, its shareholders and/or other stakeholders.

When you look at directors' backgrounds on a company's website or proxy circular, you should be nodding your head as you read those bios thinking "Yes, it makes a lot of sense to have someone with that background on this board." You should not be scratching your head, puzzled as to how this person's experience seems relevant and wondering how he/she could possibly make worthwhile contributions.

The real job of a nominating committee is not simply to recruit, nominate and re-nominate directors, the wording of most committee charters. Rather, it is to put the best possible team of directors on the field to govern this company effectively. It is readily apparent from looking at a board's composition whether the committee has been largely fulfilling that duty—or falling woefully short.

Begin your Board 2.0 exercise with two assumptions. The board is not to be a "shadow management" team, nor is it a focus group.

In working through a Board 2.0 exercise, two assumptions about board composition design sometimes arise, which need to be debunked.

First, a board is not a "shadow management" team. Some respondents want every board seat to match

Board 2.0 And Diversity

First, Define Your Needs

A NYSE-listed financial services company had recruited an African American director in the late 1990s when he retired from a Wall Street firm. Eventually, he hit the board's mandatory retirement age. The nominating committee sought to replace him, but the ex-Wall Streeter that rose to the top of the candidate list this round was a white woman.

Having another female director was considered an asset, but the board now lacked a director of color. They asked their search firm for a list of African American board candidates, with little else to go on in terms of background or expertise. The headhunter dutifully produced a lengthy list of highly accomplished black lawyers, ex-politicians, academics and CEOs. Interviews commenced, but none of these candidates seemed to get any traction.

Around this time, the board undertook a board evaluation incorporating a Board 2.0 exercise. This enabled the board to reach consensus on skills and expertise they really needed—a SOX financial expert who could back up and eventually replace the audit committee chair when he retired, preferably a chief financial officer with a banking background.

They returned to the search firm and asked for a list of candidates who met these criteria, specifying that they wanted to see several candidates of color included. When the new candidate list was compiled, the chairman circulated it to all board members and corporate executives, asking if they knew anyone on the list.

One of the corporate senior vice presidents immediately called the chairman. He was excited by one of the names, a female African American chief financial officer with a banking background who he had worked with in the past. He offered a ringing endorsement: "Donna is one of the most intelligent, insightful, and genuinely nice people I've ever had the pleasuring of working with. She's very well-respected in the financial community. If we could bring her onto our board, she'd be outstanding!"

This endorsement caused the chairman to put Donna at the top of the interview list. After they met her, directors quickly reached consensus: "She was night and day compared to the lawyers and professors we'd been talking to before. Donna really knows our business. You could tell right away that she would be a terrific director who'd add a lot of value to our board."

"Our problem," the chair reflected, "Was that we initially went about our recruitment process the wrong way: We knew we wanted a person of color so we asked for diverse board candidates. But we never specified what we were after in terms of background or expertise. Consequently, our headhunter gave us a range of accomplished people—but none of them seemed like a good fit. Once we defined the type of experience we were really looking for, and then asked for diversity candidates who met these criteria, we found a great candidate very quickly."

up with one of the CEO's direct reports in terms of expertise—a finance person, a lawyer, a marketing expert, a human resources specialist, etc. This reflects a misunderstanding of the board's oversight role. The board is required to oversee the company, not each senior executive individually. That is the CEO's job. Moreover, there may be expertise appropriate at the board table that would not typically reside on an executive team (an economist, a strategy consultant, etc.).

Also, a board is not a focus group. Some people populate their Board 2.0 template based on consumer segments. This is a focus group, not a board of directors. It is a great idea for a children's apparel company to have some parents on the board, but those parents need to be able to challenge the integration plans of an M&A transaction, identify risks in a capital financing proposal and determine the key performance metrics that should be included in the CEO's compensation plan.

Diversity is an extremely important consideration in board composition. Some boards may therefore be inclined to allocate a "diversity seat" in comprising Board 2.0. A far better approach is to agree on the backgrounds and expertise needed to govern the board most effectively and *then* seek out diversity candidates who fit these needs. Creating a "diversity seat" implies that not a single seat in the optimally designed Board 2.0 could be filled by a diversity candidate. Not only is this largely untrue in the 21st century, it is an approach that smacks of tokenism.

In fairness, there will not be a rich pool of diversity candidates to meet the requirements of *every* board seat defined through a Board 2.0 exercise. Talent pools are deeper for diverse candidates in some areas of expertise than others. For example, a director search focused on finance or technology backgrounds will typically yield any number of well-qualified candidates encompassing gender, racial and/or age diversity. For any board consisting of at least seven directors, it is tough to imagine a scenario where diversity candidates could not be found for at least three of the board seats developed through a Board 2.0 exercise—if not more.

Personal qualities/characteristics are omitted from a Board 2.0 exercise. These are qualities that *all* board members should have.

Just because a director has a great background and highly desirable expertise does not mean that he/she will actually be effective as a board member. No matter how stellar his/her experience, any director who routinely shows up unprepared, constantly delves into minutiae and adopts an antagonistic tone is not the kind of person any company wants or needs at the board table.

Notwithstanding their importance, personal qualities/characteristics are omitted from a Board 2.0 exercise. This is because these are qualities that *all* board members should have. No one would allocate one board seat for a director with "sound judgment" and another for a director who is a "good team player." These traits should be expected of each and every member of the board.

While personal qualities/characteristics are important considerations in director selection, ongoing director performance management is every bit as important. This is something most boards do poorly, if they attempt to do it at all.

The PwC board survey, referenced earlier, found 49 percent of over 700 directors surveyed believe at least one of their fellow directors needs to be replaced (and 21 percent think that two or more need to go). The PwC results suggest that half of all U.S. boards are currently wrestling with a director problem that entails either an expertise issue, a performance issue, or both.

What happens if an incumbent director's expertise is excluded from Board 2.0? This outcome is almost inevitable, because Board 2.0 is focused on the future. Of course there will be some different skills in Board 2.0 than may be resident at the board today. Companies grow and morph over time. What may have been the perfect board background seven or eight years ago is now overshadowed by other business priorities.

Some momentary drama can emerge when one or more of the current directors' backgrounds are excluded from Board 2.0. There are two things to bear in mind when this occurs. First, Board 2.0 is the optimal board designed to govern the company in three years' time—not next week. Second, any director who is not a "match" for Board 2.0 is essentially put "on notice." This does not mean he/she has to pack up and leave the boardroom tomorrow; but it implies that director might not be staying to the mandatory board retirement age. The nominating committee can either accelerate or defer board turnover, as they deem appropriate, with Board 2.0 creating a useful lever that the committee can use in this process.

How quickly a director who does not fit Board 2.0 departs from the board can depend on a number of factors, because this decision is largely at the nominating committee's discretion. In practical terms, it is nearly always his/her performance and contributions as a board member that determines the timing.

A director who is not carrying his/her weight, whose contributions are fairly marginal, and whose skills are nowhere to be seen in Board 2.0 will generally be leaving sooner rather than later. Most nominating committees begin working toward Board 2.0 with some director recruitment efforts. No one is asked to leave immediately, the board size temporarily expands. However, the expansion *is* temporary, a first step in the ultimate transition. In these circumstances, about a year down the road, the underperforming director who is not a fit for Board 2.0 frequently offers to resign. If that does not happen, Board 2.0 sets up a relatively straightforward re-nomination conversation for the committee, if they choose to have it.

On the other hand, a high-performing director who makes extremely valuable board contributions will likely continue to be re-nominated for some time to come, regardless of the fact that this director's expertise is not included in Board 2.0's design. Does anyone care if the board size expands by one seat during the Board 2.0 transition so as to ensure that one of the board's most outstanding directors at still the table?

To prevent a peremptory resignation in these circumstances, make it clear that in the board's view, this director adds tremendous value. Even though he/she may not fit Board 2.0, there is no desire for this person to leave.

What is the difference between a skills matrix and Board 2.0?

As many directors are familiar with the use of a "Board Skills Matrix," I am often asked about the differences between a skills matrix and Board 2.0.

☐ ***Board 2.0 is forward looking.*** The board skills matrix, by contrast, focuses on current board composition. Many companies include their skills matrix in their proxy circular or corporate website and list their current directors' names beside it. They tick off each category in the matrix for which the director's background is a "fit."

Board 2.0, on the other hand, focuses on the optimal board to govern the company in three to five years' time. These are two entirely different questions, and consequently, they produce different results. This is the reason why some boards actually use both.

☐ ***Board 2.0 is specific.*** A board skills matrix typically uses general categories (such as finance or technology). Personal characteristics are also sometimes included, along with other general capabilities most boards would expect nearly all of their directors to have, such as "leadership" and "strategy." Board 2.0, on the other hand, involves some drilling down for greater spcificity, and to understand why a particular background is essential.

☐ ***Board 2.0 forces prioritization.*** There are a finite number of seats around the board table of Board 2.0, which forces decisions about what is really important: How is each board seat most wisely filled? A skills matrix, on the other hand, is typically comprised of a long list of categories with no evident limit.

Because a Board 2.0 exercise is inclusive, engaging, focused and specific, it is generally fairly easy to achieve board alignment on its final design. Moreover, the board clearly understands the director recruitment and other transitions that will be required to achieve Board 2.0. However, the pace of the transition, itself, remains entirely at the nominating committee's discretion. ■

Appendix C: Board Composition Benchmarking

This is an interesting tool that may provide some very useful insights in designing the composition of a board for an Initial Public Offering (IPO). Some boards use it in conjunction with Board 2.0; others as a stand-alone exercise. Here's how it works: Create a peer group of companies in your industry – perhaps comparable to yours in size/scope – similar to the peer group you might use for executive compensation purposes. Then analyze the backgrounds of each peer company's outside directors. Table 1 provides a summary chart derived from this type of analysis.

Table 1 - Sample Board Composition Benchmarking Analysis: Primary Expertise/Skills/Background

	Corporate CEO/COO	Finance	Industry Expertise	Info. Technology	Political	Academic	Human Resources	Legal	Other	TOTAL Outside Directors
Company A	5 (36%)	4 (29%)	3 (21%)			1 (7%)		1 (7%)		14 (100%)
Company B		1 (14%)	3 (43%)			1 (14%)	1 (14%)	1 (14%)		7 (100%)
Company C	1 (8%)	4 (31%)	4 (31%)	1 (8%)				1 (8%)	2 (15%)	13 (100%)
Company D	1 (8%)	2 (17%)	6 (50%)	3 (25%)						12 (100%)
Company E	4 (36%)	2 (18%)	2 (18%)	2 (18%)			1 (9%)			11 (100%)
Company F	4 (50%)	1 (12%)	2 (25%)	1 (12%)						8 (100%)
Company G	4 (40%)	2 (20%)	1 (10%)	1 (10%)	1 (10%)			1 (10%)		10 (100%)
Company H	3 (33%)	1 (11%)	1 (11%)	2 (22%)			1 (11%)		1 (11%)	9 (100%)
Company I		3 (38%)	2 (25%)		2 (25%)			1 (12%)		8 (100%)
Company J		4 (44%)	2 (22%)	2 (22%)				1 (11%)		9 (100%)
Company K	5 (42%)	1 (8%)		2 (17%)	2 (17%)		1 (8%)		1 (8%)	12 (100%)

Board Composition Benchmarking analysis typically examines *only* outside directors and excludes the CEO, Executive Chair (if there is one) and any other inside directors. The reason for this is simple: the analysis is focused on the governance team overseeing management – and they need to have the type of expertise necessary to both add value to management and effectively challenge management in board discussions. Including the CEO's expertise or that of an Executive Chair can serve to artificially bolster the appearance of the board's oversight capabilities in certain areas.

A Board Composition Benchmarking exercise is not premised on the notion that your board ought to mirror those of other companies in your industry or sector. But where notable gaps emerge – for example, all of your competitors have a technology expert on their boards and you don't – this can raise some useful issues for discussion by the Nominating and Governance Committee.

Board Composition Benchmarking is a data-driven exercise, unlike the opinion-based feedback that emerges in a Redesigned Board Evaluation or a Board 2.0 exercise. It may not result in the level of alignment or bias for action that these other tools can achieve, but it can nonetheless stimulate robust discussions based on factual information rather than individual perspectives. For this reason, it can be a good complement to Board 2.0. You can also expand the analysis to examine other composition issues beyond skills/expertise. For example, a board diversity analysis may be useful, as illustrated in Table 2.

Table 2 - Sample Board Diversity Benchmarking Analysis

	Gender		Ethnicity		
	% Female	# of Female Directors	% Ethnic Minorities	# of Ethnic Minority Directors	TOTAL Board Size
Company A	20%	3	0.7%	1- African American	15
Company B	38%	3	25%	1- African American 1- Hispanic	8
Company C	29%	4	43%	3- African American 1- Asian American 2- Hispanic	14
Company D	46%	6	46%	3- African American 3- Asian American	13
Company E	33%	4	0.8%	1- Hispanic	12
Company F	22%	2	22%	1- African American 1- Hispanic	9
Company G	10%	1	20%	1- African American 1- Asian American	10
Company H	10%	1	0%		10
Company I	29%	4	43%	3- African American 2- Asian/Asian American 1- Hispanic	14

Two things become immediately evident in studying Table 2: (i) some boards in this peer group have done a poor job incorporating racial diversity into their board composition; and (ii) many of the more diverse boards in Table 2 are larger in size, begging the question as to whether these boards simply expanded to add a "diversity seat" or if diversity was truly woven into the board's core expertise – a preferable approach discussed earlier, but one which requires more effort. This illustrates the sort of insights that Board Composition Benchmarking can yield – and the dialogue it can stimulate at the Nominating and Governance Committee.

A review of board composition policies can also be worthwhile – such as retirement policies, mandatory resignation on change of primary employment and the like. Table 3 provides an illustration of this type of analysis, in this instance, focusing on director retirement policies.

Table 3 - Sample Board Policy Analysis: Director Retirement Policies

	Retirement Age	*Retirement Policy*
Company A	72	No director can stand for election after reaching age 72
Company B	70	Board Members must step down at the first Annual Meeting after they reach age 70
Company C	72	No director can stand for election after reaching age 72. However, the full board has discretion to grain a waiver of this policy. (Note: In 2018, two directors age 73 were re-nominated to the board)
Company D	70	A Board Member must resign at the first Annual Meeting that is held after they reach age 70. The Governance Committee has discretion on this issue and may extend a Board Member's tenure beyond the age of 70 in appropriate circumstances
Company E	72	No explicit retirement policy was found in Company E's governance materials. However, one of their directors who will turn 72 in 2019 is noted to be retiring mid-year, suggesting that Company E does in fact, have a retirement policy at age 72.
Company F	72	No director can serve a new term after reaching the age of 72. (This board has 3-year terms)
Company G	70	No director can stand for election after reaching age 70, unless the board determines otherwise
Company H	72	Directors must retire at age 72 at the Annual Meeting which coincides with the expiration of their annual term
Company I	73	Directors are required to retire from the board at the Annual Meeting next following their 73rd birthday. The board may waive this requirement if it deems such waiver in the best interests of the company
Company K	70	Absent exceptional circumstances agreed to by the majority of the board (excluding the affected member) each Board Member will resign upon reaching the age of 70 immediately at the next board meeting.