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Common Obstacles to Effective Incentive Comp

By Gregory V. Milano

Gregory V. Milano is the founder and chief executive officer of Fortuna Advisors LLC, a New York City–based corporate strategy and consulting firm. The following article is adapted from his recent book Curing Corporate Short-Termism: Future Growth vs. Current Earnings.

In principle, the test of a good executive compensation program is the consistency with which pay rises when good things happen and declines when bad things happen. Seems straightforward, right? The executive compensation field is replete with thousands of experts, pundits, and advisers that are at the beck and call of compensation committees. Yet, somehow, despite all of this, and undoubtedly the best of intentions, executive compensation is a mess—full of highly questionable compensation strategies, structures, and execution. The following are common obstacles to effective incentive compensation that all board members should be aware of. [1]

Too Many (Incomplete) Measures

Someone once explained to me that they had identified over 400 key business performance indicators. This, of course, calls into question how "key" each of these indicators is. If, say, 223 measures rise and 177 decline, what does this tell you? The point is that when there are too many metrics, the picture becomes muddled.

We need a hierarchy that allows us to balance various inputs to optimize a decisive measure. When it comes to performance measurement, corporate finance executives tend to layer measures on top of measures to ensure that nothing escapes measurement. They appear to do this because none of the measures are really that good, or complete. Don't do it—the use of too many measures will obscure and distort the signals needed to make decisions, and many suboptimal decisions will end up increasing pay arbitrarily.

This is why proxy advisors are increasingly looking to comprehensive measures that can underpin their compensation design, investment frameworks, and overall approach to corporate governance. The well-known proxy advisory firm Institutional Shareholder Services signaled its support for these types of economic profit measures when it acquired EVA Dimensions in 2018. The benefit of economic profit-type measures is that they combine growth, margins, and investment in one measure. So up is good and down is bad. [2]

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ALSO IN THIS ISSUE

CALENDAR OF EVENTS

June 18–20

2020 Virtual Govern for Impact Conference

The Worthington Renaissance Fort Worth Hotel, 200 Main St., Fort Worth, TX 76102, USA

The annual conference for Govern for Impact—formerly known as the International Policy Governance Association—brings together boards, CEOs, and administrators using the Policy Governance System, as well as young governance professionals and others exploring good governance.

The theme of this year's conference -- which will be held online as a "virtual" conference due to COVID-19 -- is "Accountability Powered by Purpose."

Sessions will be organized around three tracks: "Policy Governance Fundamentals, Practices and Principles," which will look at topics such as "Governing Risk Under Policy Governance in a High Risk World" and "Duties of Directors: Servant Leaders Meeting Legal and Fiduciary Obligations in Policy Governance"; "Innovation in Advanced Policy Governance Practices," which will include sessions such as "Focus on Purpose: Applying the Power of Ends" and "Valuing the Impact You Are Achieving: A Critical Board Job"; and "Governance Excellence," which will explore topics such as "Applying Policy Governance in Different

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Obstacles

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Sandbagged Budgets

From an internal corporate perspective, the problem of "sandbagging" is, hands down, the worst managerial behavior problem. Each year, most businesses submit a multiyear plan in which performance during the first year is projected to go down, but in every year thereafter is strongly up. The appeal of this well-known "hockey-stick" forecast for managers is that it provides an easy budget to beat in the annual incentive plan and a strong outlook beyond that, which helps them gain top management's approval for their capital requests.

To achieve better managerial behavior, it's essential to decouple plans and budgets from performance targets. Instead, performance targets can be set equal to prior-year performance to instill a mentality of continuous improvement, though this approach requires a very complete measure, as described in my book *Curing Corporate Short-Termism*.

Weak Upside

The often relentless focus on how much CEOs are paid diverts public attention from the real problem—how CEOs are paid. In most publicly held companies, the compensation of top executives is poorly linked to value creation—instead, these leaders are often paid more like bureaucrats. Is it any wonder then that so many CEOs act like bureaucrats rather than long-term committed owners?

Just as we don't want to overpay for poor performance, we don't want to underpay for strong value creation either. Consider, for example, Transocean, the leading offshore driller, which delivered 480% total shareholder return (TSR) over the five years from the end of 2002 through the end of 2007, which was almost six times the S&P 500. In three of those five years, its annual incentive plan for executives paid nothing, and in the other two years it paid an average of below-target annual incentives. Clearly, management was underpaid, which presents challenges in recruiting and retaining executive talent.

Avoid jacking up performance targets when times are good, lest we take away the incentive to influence and create good times.

The Relative TSR Conundrum

Over 50% of S&P 500 companies use relative total shareholder return to determine some part of executive compensation. The logic goes that relative TSR rewards success while limiting the risk that large payouts might accumulate and attract media attention simply because of an upward-drifting stock market or industry. This sounds great, but to those of us who've studied it, relative TSR just weakens the alignment between shareholders and executives while amplifying compensation volatility and uncertainty.

Companies typically calculate the percentile ranking of a company's TSR, which includes dividends and capital gains, over a period against the constituents of a stock index, the members of an industry, or a customized set of peers. The grant of performance share units (PSUs) is scaled up for high-percentile rankings and vice versa, with a common range of 0–200%. The intent is to deliver more shares to an executive team that leads a tough industry, and fewer to an executive group that trails in a high-performing industry.

We published capital market research on relative TSR in 2016 in *CFO* and 2017 in *Workspan*. In this research, we found large gaps between the average rewards to management and the cumulative returns for shareholders. Consider the semiconductor company NVIDIA, with 12-year cumulative TSR of 1,712%.[3] This was 98th percentile and should have generated a fantastic reward. But due to the pattern of the cycle-by-cycle relative TSR, NVIDIA's average relative TSR ranking was only 44th percentile, and their executives would have vested in less than 100% of their PSUs.

Across the whole sample, management teams would have either overvested or undervested, on average, by 45% of their total original number of PSUs. This is such a large average deviation from the intended outcome that it completely dismisses any notion that relative TSR is useful for aligning management with owners over time.

Also, within each relative TSR cycle, earned awards can vary considerably, depending on which day the cycle ends. For example, at the start of 2017, Celgene would have vested in 148% of its PSUs. This vesting dropped to 122% for the cycle ending at the conclusion of one month. Then over the following weeks, the vesting percentage would have increased until it reached the cap of 200% by mid-April, where it stayed for two months. But as the middle of the year approached, a substantial deterioration occurred in relative TSR, and for December, its relative TSR was bottom-quartile, so no PSU vesting would have been triggered.[4]

With only a few months of movement in the vesting date, the value of this allegedly long-term incentive would have reached either the cap or the floor, so either the managers or the owners are likely to feel shortchanged. Although, in principle, relative TSR appears attractive, in reality it does not align managers and owners over long periods; and, within a given cycle, the executives will vest in vastly different numbers of shares, depending on the day the three-year cycle ends. Many executives already discount the value of stock awards. Using relative TSR only exacerbates this, which is not at all helpful for attracting or retaining talent.

Problems With Base Pay

When it comes to senior executive salaries, that's one of those peculiar situations in life when less is more. If we are trying to motivate owner-like behavior, why would we want the big, dead anchor of a high fixed salary in the mix? The reason many executives are given high salaries is not that they need some minimum income, at least not CEOs. It's that everything else in compensation is granted as a percentage or multiple of salary. So, let's stop that right away and separate the two.

For now, let's consider cash compensation only. Since salary requires solely that the executive keep the job, it is of lower risk than other variable elements of compensation. Annual incentives, for example, vary year to year and therefore carry more risk. Sure, they may be higher, but they could be lower, too.

In finance, we discount cash flows for risk, and we can do the same with compensation. If a dollar of salary is worth one dollar, then a dollar of target annual incentive plan payment, which can end up being worth more or less, must be worth less than one dollar. This follows the basic principle that stable cash flows are worth more than variable cash flows, so for variable cash flows to have the same value, they must be targeted at a higher level.

One of the great things consulting firms do well regarding executive compensation is to gather, sort, and apply data. Let's say, in a given industry, the median CEO salary is $500,000 and the median target bonus is 100% of this, or another $500,000. Let's further assume that the bonus can rise to 200% or drop to zero, based on performance. So, in a great year the bonus will be two times $500,000, or $1,000,000, and total cash compensation will be $1,500,000. Sounds great, but of course the pendulum can swing both ways and the bonus can be zero.

If instead, we offer $400,000 in base pay—a reduction of $100,000—we would need to increase the target incentive compensation by more than $100,000 to compensate for risk. But we may find this greater exposure better aligns managers with shareholders. It is always worth considering alternative combinations of fixed and variable pay rather than assuming everything has to be set as a percentage of salary.

Recommendations

Having spent three decades designing incentive compensation for many different types of companies across the globe, I believe there are a few key learnings to share. First, boards should carefully consider the performance measure (or measures) that is most likely to encourage the desired behaviors in managers. This right metric for one company may be a poor fit for another, but there are some that will be reliable across nearly all industries. At Fortuna, we recommend Residual Cash Earnings, or RCE, which is a cash-based version of economic profit that was developed to improve on Economic Value Added (EVA). Our research has also demonstrated that RCE relates better to total shareholder return (as a proxy for value creation) than EVA in a comprehensive study of all major industries.[5]

Second, companies should decouple budgets and plans from incentive compensation by setting targets equal to prior-year performance, as indicated by a complete measure like RCE. (This is a process detailed in full in *Curing Corporate Short-Termism*.)[6] To demonstrate how well this "RCE versus last year" incentive paradigm works, we recently studied a client and about 15 peers. Using 120 data points of the group of companies over a span of years, we sorted the companies based on bonus multiples actually paid, and compared this to a simulation of incentives paid based on RCE versus the prior year.

In both cases, managers earning above-target bonuses delivered higher median TSR than those earning below-target bonuses. But this TSR advantage was more than twice as high when we sorted companies based on RCE bonus multiples than when we used the actual bonus multiples reported. So, in effect, RCE-based incentives showed a far stronger relationship to value creation than the various methodologies being used across different companies. This demonstrates that the combination of a complete measure like RCE and measurement against prior-year performance can provide a far better alignment of management's and shareholders' interests than the various measures and target-setting negotiations that are commonly used.

A final recommendation is that boards should be willing to break from the trend when it comes to incentive compensation. In my decades implementing and studying incentive designs, I have observed a strong pressure for compensation committees to conform to often dysfunctional industry norms. Many boards feel compelled to fall back on these standards, as it's the safe choice. After all, board members don't stand to benefit from the potential upside of compensation decisions to anywhere near the degree they are exposed to the downside in the form of criticism, potential job loss, and reputational risk—if the design does not work out as planned. But, as we have seen, this has led many companies to embrace and maintain questionable compensation practices. Boards that seek to align managers' behavior with the interest of long-term owners, and fuel a mindset of continuous improvement, should consider innovative approaches to compensation design. ❑

Gregory V. Milano is the author of Curing Corporate Short-Termism: Future Growth vs. Current Earnings. *He is an expert in incentive compensation design, with nearly 30 years' experience in management consulting. He has specialized in promoting an "ownership culture" in large corporations through innovative performance measurement and managerial incentives, and is currently the founder and chief executive officer of Fortuna Advisors LLC. Before founding Fortuna Advisors, he was a partner at Stern Stewart and a managing director at Credit Suisse. He has appeared on Bloomberg TV, CNBC, and Sky Business News, and his research has been featured in* Fortune, *the* Wall Street Journal, Financial Times, *and the* Journal of Applied Corporate Finance, *among other publications.*

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Alternatives to In-Person Directors' Meetings

Edmund Polubinski, Jr.

Edmund Polubinski, Jr. is a corporate lawyer at Lyne, Woodworth & Evarts LLP, a Boston-based law firm. In this article, he notes the rise in virtual directors' meetings due to the COVID-19 crisis and discusses how virtual meetings and several other alternatives to in-person meetings can be a useful tool for many boards.

The COVID-19 crisis has significantly increased the use of virtual directors' meetings. Even before the pandemic, however, boards frequently utilized virtual meetings and several other alternatives to in-person meetings. These alternatives were used for convenience or because of difficulties in convening a board.

Under all states' corporation laws, management of a corporation is vested in the board of directors. Under these laws, the authority of officers to act, without director authorization, is limited. Thus, for officers to bind the corporation to significant agreements and courses of action, the officers' acts must be authorized or approved by the directors.

Directors generally act by majority vote if a quorum is present at a meeting, and an effective meeting requires a quorum. Often, in an emergency, a quorum of in-person directors may not be readily convened. Likewise, for non-routine authorizations—the entry into a significant agreement or major lease in a smaller business—it is difficult to interest the remote outside director to travel to attend a directors' meeting.

The following discusses alternatives to the in-person meeting and some of the issues connected with those alternatives.

1. **Meetings by telecommunications.** For the last 10 years, a director who lives 1,500 miles away from the corporate office participated in monthly directors' meetings by Skype on a board on which I serve. In March 2020, because of the COVID-19 pandemic, we all met virtually. These days, more and more meetings are being held on Zoom, Skype, Google Hangouts, or even by conference and speaker telephone.

   Most states' corporate statutes permit participation in meetings either virtually or by telephone, if all directors can simultaneously hear one another. Note that "simultaneously hear" is critical, and I would add "simultaneously speak" (though, I would hope, not at the same time). Most state corporate statutes provide that "[a] director participating in a meeting [by telecommunications] is considered to be present in person, at the meeting ."1 In the past, this simultaneous presence was accomplished by directors huddled over speakerphones, but today it is by virtual means, using personal or laptop computers.

   A recurring issue with remote meetings is whether nonparticipants in the virtual meeting have received proper notice of a non-regularly scheduled meeting. Unless a director is present at a meeting (and does not object to the lack of notice), state corporate laws require that a director be given notice of the time and place of such a meeting. In the alternative, a director may, in writing, waive notice (as described in the following paragraph). Although most videoconferencing apps provide for some sort of notice, that notice sometimes falls short of requirements of state law or the corporation's bylaws. The person convening the meeting should, therefore, make sure the notice complies with the date, time, and agenda, if any, requirements of state law and the corporation's bylaws. Many states' laws and corporate bylaws provide for oral notice of directors' meetings, but because of proof issues, I use this only as a last resort. State law and the bylaws should be looked at to determine whether they permit electronic notice. If electronic notice is not permitted, or if the company is unsure, waivers of notice (see below) should be sent by mail to the nonparticipating directors.

   If notice is not given or is defective, most corporate laws permit a nonattending director to sign a waiver of notice before or after the meeting. The waiver is signed and dated by the nonparticipating director and contains a statement that the director "waives notice of the date, time, and purposes of the meeting." This waiver can be sent to the nonparticipating director and returned by the director by mail to the corporation. A waiver of notice is equivalent to a notice for purposes of the validity of the meeting.
2. **Ratification.** If the notice of the meeting was defective or a meeting itself was defective (i.e., lack of quorum) and for some reason (death, departure, hostility, etc.) the director cannot sign a waiver, the directors can ratify the unauthorized (by the directors) corporate action taken by the officers. This is simply a proper directors' vote taken after the unauthorized action "ratifying and confirming" the unauthorized action. This generally has the effect of a proper authorization.
3. **Consents.** Rather than conducting a meeting, directors may take action or authorize officers to act by consenting to a writing that sets forth the action or authorization. Most states' corpo-

rate statutes and most corporate bylaws require that the consent be unanimous. The consent may consist of a single writing signed by all directors or several identical writings each signed by a separate director or directors (as long as, collectively, all directors sign the writings). The rationale for unanimity is that it precludes the stifling of any dissent among the directors. Were it otherwise, a dissenting director could merely be excluded from the signing of the consent and the action approved without the board having received his or her input. With a requirement of unanimity, a director who opposes an action may refrain from signing the consent and force a meeting to discuss the action. The actions and authorizations given in a written consent have the same effect as if the action or authorizations were adopted at a directors' meeting.

4. **Executive or other committees.** A close corporation will frequently have a group of management directors working at the corporation's headquarters and an outside director or two. Sometimes the outside director or directors are geographically distant or are otherwise difficult to contact. Many public companies have large boards composed of directors geographically apart. If any of the foregoing is the case, the board of directors can name a committee composed of one or more directors to undertake routine business between directors' meetings. Most corporate statutes permit the directors to appoint committees. Many states require that there be at least two members, others, including Delaware and Massachusetts, permit committees having one or more members. While committees have specialized functions, such as audit and compensation committees, executive committees have traditionally provided guidance and routine adoptions and authorizations between regular board meetings.

   This executive committee can be given authority to take almost any action that the directors are required or permitted to take. State corporate law generally limits a committee's authority, and the limitations vary from state to state. For example, the current Massachusetts law prohibits the executive committee from:
   - authorizing distributions (dividends);
   - approving or proposing certain shareholder votes;
   - changing the number, removing, or filling vacancies of directors;
   - amending the charter or adopting, amending, or repealing bylaws; and
   - authorizing or approving certain reacquisitions of shares.

   But the executive committee is the ideal mechanism for approving routine matters in the close corporation where one or two directors are not readily available and for direction and adoption of routine corporate matters between regular meetings. It is also ideal in situations where it is difficult or impossible to readily convene the entire board of directors, such as in a large corporation having geographically disparate directors.

   Action by executive committee reduces the necessity for notice, as the committee will be small and will, in the case of most corporations, be composed of management. Furthermore, if the committee is thoughtfully composed, all members will generally be able to attend the meeting, obviating the notice issues referred to earlier.

Conclusion

In difficult times, there are many ways for directors to act without an in-person meeting. As we move to normal times, the foregoing alternatives to in-person meetings of directors are useful. The corporation implementing

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WHEN WE SAY…

Board Leadership's mission is "to discover, explain and discuss innovative approaches to board governance with the goal of helping organizations achieve effective, meaningful and successful leadership to fulfill their missions."

Board Leadership aims to fulfill this mission by engaging its readers in a lively and illuminating inquiry into how board governance can be made more effective. This inquiry is based on three key assumptions:

- Boards exist to lead organizations, not merely monitor them.
- Effective board governance is not about either systems, structures, processes, theories, practices, culture, or behaviors—it is about all of them.
- Significant improvements are likely to come only through challenging the status quo and trying out new ideas in theory and in practice.

Uniquely among regular publications on board governance, *Board Leadership* primarily focuses on the job of board leadership as a whole, rather than on individual elements of practice within the overall job.

Over time, *Board Leadership* will provide a repository of different approaches to governance created through its regular "One Way to Govern" feature.

Here's what a few of the key terms we use mean to us:

- **Innovative:** Creating significant positive change
- **Approaches:** Principles, theories, ideas, methodologies and practices.
- **Board governance:** The job of governing whole organizations. ❑

How to Start Your Strategic Planning Session Off on the Right Foot

By Cynthia Jarboe

Cynthia Jarboe is chief financial officer at the Emergency Assistance Foundation, a nonprofit organization that helps corporations make emergency hardship grants for their employees when they face unexpected and unavoidable financial hardships or disasters. In this article, Jarboe details how board members can start their strategic planning sessions off on the right foot.

There is no precise methodology or "right way" to conduct strategic planning. What is important is that strategic discussions occur among strategic thinkers. While it's likely that you'll have staff or board members with their favorite programs that they want to prioritize, you must work together to truly see the big picture and think strategically.

So how do you get everyone excited and focused as strategic thinkers for a strategic planning session?

Hopefully your board is annually taking a fresh perspective on planning for the future or at least updating the plan developed in the last couple of years. Change is happening quickly in today's world, and organizations need to adjust as quickly.

Not everyone is a strategic thinker. A few years ago, at the Governmental Affairs Conference of the Credit Union National Association, former President George W. Bush talked about Russian President Vladimir Putin. Specifically, he indicated that Putin was not a strategic thinker. President Bush defined a strategic thinker as one who focuses discussions on how we can win together. He said Putin focuses on how he can make you lose. While you may not have Putin in the room, you may have staff or board members with their favorite programs that they want to prioritize.

Planning for Planning

The preparation for the session is critical. Sufficient time must be set aside, and not just a few hours in the middle of a board meeting. It may not be possible to accomplish everything in one session. These sessions can be emotionally charged and, therefore, exhausting. Sometimes it may be important to hit the pause button and get back together later. You may need to gather more data.

The book Moments of Impact: How to Design Strategic Conversations That Accelerate Change, by Chris Ertel and Lisa Kay Solomon (Simon & Schuster, 2014), is a good resource for conducting strategic planning sessions. In the book, they state, "A great strategic conversation is not just an intellectual exercise—it's an exhilarating and memorable experience." You want the session to be an experience the participants will remember. For one thing, participants must feel the need for change. Consider incorporating role-playing or simulation exercises to work through alternatives. Sometimes a little thing can etch the experience in the minds of the participants. At the conclusion of one session, I handed out an electric candle to each participant with the final advice to go forth and shine light on their vision for others.

When

When selecting the date, survey the participants to identify the date when the most can attend. You want everyone face to face and not dialing in via phone or computer. That means scheduling it at least six months in advance. One board always plans a two-day strategic planning and educational retreat the last week of September. That way, the board members know not to schedule anything that competes. It has become the highlight of the board calendar, with a combination of fun, team-building activities, and strategic thinking. It is always at an interesting destination that rotates around the state. Speakers are brought in who educate on topics relevant to the organization and its future. For example, one year the speaker was an expert on the future of transportation, including driverless cars, and the next year another spoke on attracting future generations to the organization. To get quality speakers and facilitators, you need to provide plenty of advance notice.

Where

The environment should be conducive to strategic thinking. Consider a new location that provides plenty of space for subgroup breakout sessions. To get participants to think "out of the box," they need to be outside their normal meeting space. For example, The College of William & Mary Mason School of Business has a Design Center with lots of natural light, open flexible space, comfortable seating, and several whiteboards for affixing/jotting notes, making it a perfect space for strategic thinking.

Ensure the facility has sufficient meeting room(s) space so there can be small group discussions. Not everyone is comfortable sharing their thoughts with a larger group, so consider planning for small group breakouts. Table groups also prevent any one person from dominating the discussion and encourage the new board members to speak up and ask questions.

If the organization and its board members can afford a resort-type destination, that is a great way to get the maximum participation and provide a relaxed atmosphere for strategic thinking. Resorts provide activities for getting to know one another better prior to sitting down for planning.

Team-building activities can include everything from golf to scavenger hunts to cooking lessons. Think out of the box, with the objective being for the board to spend time outside the boardroom with one another so they get to understand different perspectives better.

Who

Think about who should be attending the session. While the board is ultimately responsible for the strategic plan, the session may need to involve other people with different perspectives. In Moments of Impact, the authors suggest assembling a "Dream Team," including those with differing areas of expertise, differing roles within the organization, and representatives from all the demographics of your stakeholders. Hopefully, your board is diverse and represents a dream team already. They also recommend having a core group of those familiar with one another and supplemented by a few who are new. Including external participants as observers and listeners may be helpful. Multiple perspectives are key. In particular, staff should participate (not conduct), as they will be critical to execution. It is harder to be committed if you are not part of the conversation.

The Society of International Business Fellows works hard to ensure its board reflects its membership. It also ensures fresh perspectives by adding new board members each year. The strategic planning session is the first event of the year, and therefore is the first opportunity for new board members to meet the more experienced board members. The new board members come in early for an orientation to learn more about the organization and how it is governed but are also encouraged to ask questions and speak up during the sessions. The staff is dispersed among the group so they interact with the entire board. In this case, the strategic planning session is only board and staff because it represents the membership well. However, if your board does not represent your stakeholders or if you want to increase the diversity of your members, volunteers, or donors, add representatives from outside your board to your strategic planning team.

How

The leader of the session can be a member of the board or a hired facilitator, depending on who can most effectively run the session given the personalities in the room.

The leader should open by explaining the objective of the session and where the group is expected to be at the end of the session. Data to prepare participants for the session may have been distributed for advance reading to save time and set a framework. A few ground rules should be established in the beginning to encourage strategic thinking and discussion.

- You will be conjuring up the future so there are no crazy thoughts or comments.
- To allow everyone to share their thoughts, the leader should recognize the person who will speak.
- Everyone is encouraged to question the status quo or current position and explore alternatives.
- Empathize with current and future stakeholders such as potential members, donors, beneficiaries, and service users. Put yourself in their place.
- Avoid groupthink or deferring to leaders.
- Listen, listen, listen—think of yourself as an observer in the balcony watching without bias from the outside, considering all viewpoints and perspectives.

As you plan for your strategic planning session, consider what you want to accomplish during the session. If the chair and the officers have already decided on the priorities based on their passions for the coming year, then do not set expectations that the assembled strategic planning team is going to reinvent what has already been decided on.

If this is a start from scratch and everything is open for discussion, then decide in advance on the process steps.

Process

A well-planned, thorough, strategic planning process should be flexible and can be modified as you go for your group, but the order of review can be important. The following steps are meant to prevent putting "the cart before the horse." Often, the participants want to go straight to tactical steps before having a clear vision or to make decisions without understanding the environment or having sufficient data points.

You may see different terminology, and not every group will define the steps the same way. To clarify, SWOT stands for strengths, weaknesses, opportunities, and threats. In advance of the session, gather data with the assistance of staff so you can have an informed discussion of the SWOT. Maybe your mission is clear and concise and you do not need to reevaluate it. Maybe your values have been defined in a prior year and everyone is in agreement and aware of the organization's values. It is still a good idea to put both the mission and values statements in front of everyone in advance as a refresher. Ensure your value proposition is crisp and clear, even if the values have not changed.

Provide the process to the team in advance, explaining what is meant by each step and the timeline for addressing each step. Emphasize that the process is flexible and may be revised as needed.

The leader should be well prepared for the session kickoff and provide an agenda and advance reading materials. Preparing open-ended questions to get the group or subgroups thinking creatively is also suggested. Sample questions include:

- Where are we going?
- What key issues should we tackle?
- How can we use our strengths to

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Alternatives

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the alternatives should carefully craft its strategy going forward, paying particular attention to the laws of its state of incorporation and the corporation's bylaws. Some states and bylaws limit further the techniques described above, and some states allow for even more flexibility. No board should be without carefully thought-out alternatives to in-person meetings of the entire board. ❑

REFERENCE

1 Mass. Gen. Laws. C. 156D, § 8.20 (b). This statute is adapted from the Revised Model Business Act, a version of which is adopted in many, if not most, states.

Calendar

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Settings," "Translating Lofty Ends to Real-World Impact: Effective CEO Ends Interpretation," and "The Continuous Journey Toward Board Effectiveness."

For more information, visit https://governforimpact.org.

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Governance 2020 brings together governance professionals and students from around the world. According to organizers, as we head into a new decade, a new governance landscape is emerging, one with challenges and opportunities. From emerging technologies to the challenges of environmental and social governance and the realigning of global and national interests, some very significant forces are reshaping regulatory and boardroom agendas.

For more information, visit https://icsa.org.uk. ❑

Obstacles

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Planning

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build on what has worked in the past?

- Using the analogy of a house plan, what do you want your house to look like from the street (your vision at completion)?

The questions should be broad enough to keep everyone out of tactical discussions and financial need discussions. To start, ask them not to worry about resource needs.

If you are thoughtful about planning your strategy session, you should gain everyone's commitment to use the plan as a framework for decisions and priorities that will guide your organization toward its vision. Developing a strong strategic plan may be the most important task you perform as a board member. ❑

Cynthia Jarboe is the author of A Guide to Nonprofit Board Success: Answering the Call of Leadership, from which this article was excerpted. She is currently the chief financial officer for the Emergency Assistance Foundation, a nonprofit organization that administers employee relief funds awarding grants worldwide to those in need as a result of disaster, medical hardship, and trauma. She has over 40 years of experience serving as audit partner, consultant, executive, and volunteer board officer for all types of nonprofits, including universities, credit unions, cultural institutions, and religious institutions.

BOARD LEADERSHIP

INNOVATIVE APPROACHES TO GOVERNANCE

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