White Paper

Governance Issues and Best Practices in Professional Services Firms

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Introduction

This paper provides a detailed description of governance issues, options, and best practices in privately-held professional service firms (PSFs). The information here is drawn from a variety of sources, including more than twenty years of organization development consulting with professional services firms, experience working with, and serving on, boards of directors of professional services firms, as well as from books and articles written about professional services in general and governance issues in PSFs, in particular.

The paper is organized into three sections. The first section is an overview that includes how professional services differ from public firms, a definition of governance, and governance trends in PSFs, including the addition of independent directors. The second section addresses issues and practices related to structuring boards. The topics covered include board size, committees, identifying and selecting both internal and independent directors, tenure of directors, and selecting the board chair. The third section focuses on board functioning, including board meetings, self-evaluations, and training.

Although there are some common stages that PSFs seem to go through as they mature and grow in scale, there is no formula for structuring a board that fits all firms. PSFs need to determine what function they want a board to play for their organization and then structure their board accordingly, keeping in mind the firm’s underlying values and culture as well as the vision they are striving to achieve. A lot of what has been learned about company governance has been gleaned from practices in public corporations, because they have been required to have boards. Much of what has been learned from corporate boards is relevant to PSFs. However, because the shareholders are internal and because the culture of most PSFs is significantly different from most corporate cultures, it is essential for the PSF to make decisions about their own governance structure with these core differences in mind.

The purpose of this paper is to provide a broad view of the options so that a PSF can consider which choices would result in a board that can best contribute to the firm realizing its vision.
Overview

What is Governance?

Broadly speaking, governance refers to the rules, policies, and processes or laws by which businesses are operated and controlled. At the highest level, governance issues are ones that affect the financial viability of the firm and, therefore, the interests of the firm’s shareholders. This can be contrasted with management, which is concerned with oversight and coordination of the day to day operations of the firm. Management includes the organization of the delivery of services, the coordination of that delivery, and developing and facilitating the infrastructure and culture that supports service delivery.

Distinguishing Privately-Held Professional Services Firms from Public Companies

Most of what is written about boards and governance applies particularly to public companies, which primarily are owned by shareholders who have bought stock in the company, who are not employed by the company, and who have professional expertise neither in the substantive work of the firm nor in effective governance practices. As financial investors these shareholders typically are interested in seeing short term returns on their investments that are as high as possible. Boards of these companies, often by legal requirement, are dominated by external (independent) board members who represent shareholders’ interests. It is not unusual for the interests of external shareholders, particularly in terms of maximizing short-term share price, to diverge from the interests of employees who may be more interested in the company’s long-term stability, higher compensation and benefits, and job security.

In PSFs, all shareholders are internal, bound together both as employees and through their shared ownership of the firm. In general, they have a longer-term view than external shareholders, often with a common interest in sustainability and legacy, and a more balanced concern about short and long term growth and profitability. The board of a PSF, therefore, represents shareholders who are also employees, which adds an additional level of complexity to their discussions and decisions.

Because they are shareholders, principals of PSFs expect to have much greater input into governance issues than do external investors in public corporations. For example, they expect to have a voice in determining who will become a partner/ principal, who will represent them on the board, major policy changes, and changes in the strategic direction of the firm. At the very least, principals expect to fully understand issues and decisions and, under certain circumstances, that they may have the opportunity to vote their approval as shareholders once an issue is vetted by the board.

On the other hand, skilled professionals who have ascended to the principal level also think of themselves as independent and, therefore, may resist policies that they view as restricting their freedom. This creates challenges for both management and governance. The challenge for a board of a PSF, then, is to support the development of policies that ensure a high standard of performance while maintaining enough flexibility for the firm’s professionals to excel. This translates into building consensus about policies and strategies such that the firm’s
professionals will want to follow them rather than leave to go somewhere where they feel less restricted. Given this context, it is essential for a firm to clearly articulate the roles, responsibilities, and authority of the board (as well as of other entities such as the CEO/President, the executive team, and principals).

Because a PSF’s principals are its only shareholders, it is often the case that the principals think of board membership as the highest level of professional achievement. This can be the source of two potential problems for PSFs. The first is that a high-level professional may not have the governance skills necessary to be an effective board member. He or she may find it challenging to hold a “whole firm” perspective as a result of being deeply involved in his or her own specialty and/or market segment. Board members without the appropriate skills to carry out their role successfully can hamper a board’s overall effectiveness.

A separate concern is the possibility of diverting the firm’s highest revenue generators from their substantive work in order to deal with governance issues. The firm may be better served by having skilled professionals focus their attention on business development and service delivery. The dilemma for PSFs is to balance self-governance with effective governance. This is achieved in large part by matching the skills of the firm’s professionals with the roles they play in the firm.

**Roles and Responsibilities of the Board**

In general, in PSFs, the principals, in forming a board, are agreeing to entrust responsibility for stewardship of their interests as shareholders to the board. Specific responsibilities include:

- Hire, fire, and monitor the performance of the firm’s executive leader
- Approve the firm’s strategic plan and monitor the firm’s performance against that plan
- Approve major changes in the organization or management structure
- Ensure the firm’s financial viability by approving the budget and monitoring the firm’s financial performance on a regular basis
- Approve any major expenditures outside of the approved budget and the assumption of any financial liabilities (debt)
- Monitor and approve the firm’s investments
- Approve the overall compensation philosophy of the firm in line with the firm’s values and strategy.

As firms mature and grow in size, the responsibilities of their boards typically change to ensure that the board provides as much value to the firm as possible. For example, a firm’s initial board may simply serve an advisory function for the founders. With the transition of leadership and ownership beyond the founders, boards may serve more of an oversight function. As firms mature further, particularly as more professional management is put in place, boards may serve functions including checks and balances, holding the firm’s values and culture in place, and contributing to the firm’s strategic direction.

Decisions about the structure and composition of the board begin with clarity about the specific role a firm wants their board to play. It is fully possible, for example, that even in a mature firm,
the role of the board is more one of monitoring than providing strategic direction. This should influence questions such as whether or not independent directors are included on the board and what kinds of independent directors are selected.

**Governance Trends in PSFs**

Historically in PSFs, partners have elected (or this leadership evolved with the support of founders), from among their members, a group of partners who are responsible for running the firm. Because there was no clear distinction between governance and management, this group did both. More recently, as a result of bringing in more professional managers, PSFs have defined an executive management function as well as a governing board that included the executive managers and some other principals. While potentially creating a distinction between management and governance, in reality, there still has been confusion because many of the members of the board were also members of executive management. PSFs typically report that instead of addressing broad policy and strategy issues at board meetings, the meetings get bogged down in detailed discussions of issues that should be addressed by management. In addition, this situation has resulted in power in the firm being concentrated in the hands of a few people. The counterbalance to this is that many board decisions go back to the principals for final approval which can result in a slow, cumbersome decision making process.

More recently, PSFs are moving more toward a corporate model of governance, which could best be thought of as a hybrid of the more typical PSF model and a corporate model. In this hybrid, boards are being better defined. Their roles and responsibilities are being clearly articulated. Thought is being given to what skills are needed by board members, how shareholders are represented, how to educate board members about their roles, how board members are selected and what length of tenure should be given to board members. Finally, PSFs are beginning to include some independent directors on their boards.

**Why Have Independent Board Members?**

Despite some the disadvantages noted above, having independent members on a board also has advantages. They can bring a broader perspective to the company’s strategic challenges due to their experiences in other companies. Because independent members are not involved in the internal politics of the company, they may present a more objective viewpoint. This objectivity can help to mitigate conflicts of interest, which can be a challenge among internal directors. Independent board members, assuming they understand the role of the board, can be helpful in preventing board discussions about, and involvement with, issues that are management issues rather than governance issues. Another benefit of having independent directors is that they serve as a check and balance with management. This can strengthen shareholders’ confidence that management is not making policy or financial decisions that are motivated by self interest. Finally, because they aren’t company employees, independent directors can make decisions that are not affected by personal relationships with employee shareholders. In some respects it is easier for these directors to keep the overall good of the firm in mind. This is particularly true when independent directors are truly independent – not affiliated as family members and/or personal advisors to the executive managers.
When boards don’t have any external members, other problems can arise. One is that the firm’s CEO, who generally is a board member as well as being the most senior executive manager, will be providing performance reviews of other principals who are employees and also board members. When there are performance issues, this means the CEO can be in the awkward position of needing to take disciplinary action against someone who may be his or her supervisor and, thereby, in control of the executive manager’s position in the firm. This kind of conflict drains a lot of energy from a firm’s leadership and can result in either the avoidance of addressing difficult personnel situations or in bad outcomes for the firm.

PSFs may wonder how many independent directors would be an ideal number or proportion. Some PSFs have tried to reap the advantages provided by independent directors by putting one external member on their board. With only one independent director, his or her experience may be weighted too heavily as the outside “expert” perspective. More often, it is a major challenge for a single independent director to have a role on the board where they are adding strategic value. All too often, the single independent director finds he or she is being “reported to” by the firm’s executives, all of whom already know the information that is being presented. In addition, that person is only a single voice raising challenging questions to others who already are moving in a particular direction. If a firm really wants to benefit from the value that independent directors can provide, then having two independents if the board is as small as five total members or at least three if the board is larger, will ensure both a variety of external perspectives and that those external directors’ perspectives will be more likely to be heard.

**Why Don’t More PSFs Include Independent Directors on Their Boards?**

Most professional services firms have been slow to add independent board members for fear of losing control of the company. Concerns about losing control can be easily handled by designating only a minority number of board seats for independent directors. Even more important, however, is that when adding independent directors, PSFs screen for a full set of competencies that include commitment to the values and culture of the firm. For example, if a firm places someone with sophisticated financial experience on the board whose orientation is first and foremost to focus on profit maximization, and the firm is committed to balancing profit maximization with other values, this can be a challenge. Such a director might bring a healthy tension to the board, however if the differences in core values and objectives are profound, they run the risk of being destructive.

**Constructing a Board**

**Defining a Governance Structure**

As with public company governance, there is no formula for how to create an ideal governance structure for PSFs. Instead, there are some “best practices” to consider in light of the underlying values, culture and structure of the firm. Each firm’s governance structure ought to be designed to reflect the firm’s values at the same time that it reinforces the firm’s strategy in order to be able to drive the firm to achieve its vision. Some general principles that ought to be considered are:
• Separating policy and executive functions
• Governance by the consent of the governed
• Broadening the firm’s perspective at the policy level by adding independent directors, but maintaining control by designating the majority of the board seats to be held by internal directors
• Having people with the right skills and experience on the board to enable the board to do its work

Regardless of the specifics of the firm’s governance structure, its effectiveness will depend on clearly defining roles and responsibilities of the board and executive management, communicating clearly the board’s work where roles and responsibilities intersect, and the overall level of confidence people have in the firm’s leadership.

Board Size

Board size varies across companies, depending on what kind of representation each company feels is needed on the board. In general terms, effective groups range in size from eight to twelve members in order to have enough diversity of perspective and yet still be able to make decisions efficiently. Most boards decide on an odd number of voting members in order to avoid potential ties in decision making, although in practice, most boards try to reach decisions with few closely split votes.

It is common for boards to ask non-voting members to attend board meetings for purposes of adding information to specific discussions. For example, CFOs often are not voting board members, but are asked to attend board meetings since a financial review is covered at each meeting and financial information is often needed when making strategic decisions. However, boards also routinely reserve portions of meetings for an executive session with only the voting members in attendance when issues like personnel and compensation are being discussed.

Board Committees

Most boards have committees that are chaired by one of the board members. Typically, at least some of these committees include principals who are not board members but who have important knowledge, experience and/or perspectives that would contribute to the work of the committee. The one exception to this is the compensation/ remuneration committee that is charged with monitoring the performance of the firm’s senior executive and setting his or her compensation. This committee also may have responsibility for defining the firm’s compensation philosophy and approving the revenue distribution to principals consistent with that philosophy.

Other typical board committees include an audit committee (responsible for reviewing audited financial statements); a nominations committee (responsible for working with the board to determine what kinds of skills/experience are needed on the board and seeking out and reviewing possible candidates to recommend for board membership); an admissions committee (responsible for setting criteria and making recommendations about promotion of new partners or changes in partnership level); and a governance committee (responsible for conducting a
self-evaluation of the board’s performance each year as well as the performance of individual members in their board roles, and for reviewing the governance process and recommending changes as needed). Committees may also be combined so that there are fewer to manage.

The particular committees of a board will depend in large part on the responsibility and authority that is given to the board. For example, some firms reserve the promotion of principals to executive management plus a vote of the current principals. In this case there would not be a need for a board committee to address this issue.

In general, board committees make recommendations to the board for final approval because the board as a whole remains responsible for the overall coordination and consistency of governance decisions. It rarely happens, if a committee is carefully charged with a task, that the full board does not approve a committee recommendation. To manage efficiency, approval of uncontroversial committee decisions can be made via conference calls or email approval in between official board meetings.

**Board Membership: Internal Members**

The knowledge, skills and experience needed by board members is different from those that make a principal a successful professional. Some examples of the kinds of criteria that would apply to selecting internal directors include things like:

- Broad experience in the firm and the profession
- Ability to speak from the perspective of his or her professional focus/ market experience and/or regional position and to think strategically about what is best for the firm as a whole
- Demonstrated interest in making decisions that are good for the firm as whole (beyond his or her potential self-interest)
- Proven contributor to building the value of the firm
- Behaves in ways that are consistent with the firm’s values and culture
- Trusted and respected by a broad range of principals

An important issue related to internal director seats is who among the firm’s executive management will be on the board. If all internal board seats are filled by the firm’s executives, this will increase the likelihood of confusing management and governance issues. In addition, it adds to concerns about the concentration of power and makes checks and balances more of a challenge. On the other hand, it is often the members of the firm’s executive management who are best prepared to understand and make decisions with the overall benefit for the firm in mind. Perhaps the best way to manage all concerns is to ensure that the CEO is an internal director, to consider no more than one other member of executive management as an internal director and to define other internal board seats according to other criteria. Executive managers who are not on the board may still be invited to attend meetings as non-voting members so their input can be heard. They could attend either regularly or on an as-needed basis.

Specific criteria for new internal directors will shift from time to time depending on the firm’s strategy, structure and needs, and on the current make up of the board. One of the issues that should be addressed is which shareholder groups should be represented and why. Some
boards only consider senior principals as prospective board members, which runs the risk of only senior principals’ perspectives and interests being represented. In order to avoid this problem, it might make sense to consider at least one internal director from a different principal level. This would also be good in terms of developing future leadership for the firm and dispelling the idea that board membership is the penultimate role for principals.

Criteria for filling internal board seats not filled by members of the executive team should be carefully considered in light of the firm’s values and strategy. For example, in addition to considering principal level candidates, it might make sense to consider geographic representation, market segment representation and/or representation of different core professional specialties.

**Board Membership: Independent Directors**

Independent directors should bring specific skills and experience that will complement those of other board members and that can add strategic value to the board’s decision making. In addition, independent members should bring skills and experience different from one another.

When new independent directors are being considered, it is important for the current board to do an assessment of the board’s needs relative to current board members and to the firm’s strategy. If, for example, the firm is driving a major growth strategy, then a retired senior executive from a firm that successfully led a growth strategy including acquisitions, moving into the global market or whatever moves the firm is considering, might add valuable experience and perspective to the board. On the other hand, the board should be careful not to bring in an independent director who has skills that could as easily be hired and who may not have a broad enough perspective. For example, it might be unwise to bring an M&A expert on to the board if acquisitions are only one of the strategies the firm is considering. Similarly, firms may think of having an attorney as an independent director. This can be helpful if the attorney has knowledge and experience across a broad number of PSFs. If, however, consideration of an attorney is primarily for legal counsel, that advice may be better obtained by hiring an attorney.

As mentioned above, one of the most important criteria that should be considered when selecting independent directors is the consistency of candidate’s values with the core values of the firm. This criterion often is not attended to directly and then causes unnecessary frictions on the board. It can also threaten the underlying values of the firm if it is not addressed.

**Selecting Board Members**

In the early stage of a PSF’s life cycle, when one or a small group of founders is running the company, it is typical for board members to be identified and appointed by those founders. As these firms grow and mature, many PSFs move to a board member selection model in which board members may instead be nominated by senior principals and then elected by a vote of those principals. Other methods for selecting board members are also used. Candidates might be nominated by a board nominating committee, by a leadership team or committee, or by current board members. Who may be on the board and how members are nominated and selected is often one of a PSF’s most contentious governance issues.
Emerging best practice appears to be for the board to appoint a nominating committee which, with the rest of the board, develops criteria for any new members. That committee then communicates the criteria to the principals and asks for nominations. This is followed by the nominating committee interviewing interested people and recommending a candidate to the board. The board then recommends the person or slate to either the principals or the board for an up or down vote.

If recommended board members are elected by principals and the majority of the principals are not happy with the recommended nominee(s), they will not vote to approve the person. In that case, the board’s nominating committee would select another candidate. The more transparent the process of seeking and recommending candidates, the better it will be for the firm. The major goals are to find the most qualified people to become board members and to avoid any internal politics that could distract the firm from its work. It is important that the candidates who are ultimately selected have the support of the shareholders whose interests they are tasked with protecting.

There are other means of selecting board members such as, after developing criteria for board membership, to allow anyone to nominate a candidate and then for principals to vote on all interested candidates. This process obviously can result in internal conflicts.

If board seats are designated by region or by principal level, it is possible to have people within the region and/or the principal levels elect their own candidate. One problem with this method is that the selected board member may find they have more allegiance to the group that elected them than to the company as a whole.

Finally an individual PSF will have to determine who votes and how many votes they get. For example, some firms use a one person/one vote method while others, in which the principals have different amounts of shares, allow each principal to vote the number of shares they hold, more like a corporate board election. Who votes and on what basis is an important issue for a PSF to resolve in the context of the firm’s values, culture, and beliefs about the involvement and authority of principals whose interests are being served by the board.

**Tenure of Board Members; Replacing Board Members**

In most cases, board members are appointed for three year terms that are renewable. Terms generally are staggered so that no more than 1/3 of the board members could turn over in one year to ensure board consistency. One of the main reasons to have terms is that the end of a director’s term provides the board and the director with the opportunity to assess the contributions of the board member and to raise the question of whether the board would be better served going forward by someone with skills and experience that are different from those of the director who is being considered for renewal. Terminating a director, whether internal or independent, can be awkward. Tenure creates a natural time to potentially replace a board member.

The need to replace a board member can be the result of either changing needs of the firm and the board or for non-performance. Non-performance can mean a board member is not completing his or her duties (for example, not coming the board meetings having read material
sent out ahead, not attending board meetings, or not participating in committee meetings) or is just not adding value to board discussions. These problems can arise with either internal or independent directors. It is important to make expectations and responsibilities clear to a director at the time that he or she is elected so that non-performance cannot be the result of not knowing what was expected.

**Selecting Officers of the Board**

It is typical that the board itself determines the chair and any other officer roles as well as who will chair committees of the board. This process ensures that the people running the board have the support of those with whom they will be working directly.

**Separating the Role of the Board Chair and CEO**

The one officer role that has received a great deal of attention is that of board chair. Historically, the board chair and CEO roles were held by the same person. This phenomenon has been the subject of much debate, with growing concerns about potential conflicts of interest when the roles are combined. Following the Cadbury Report in 1992 and subsequently the Higgs Report in 2003, Britain instituted a series of changes in corporate boards. Splitting the role of chairman and CEO was a change that was identified as needing to be phased in over time. Consequently there has been a trend to separate the two roles such that now the roles are almost always split. The rationale has been to maintain a balance of power and a system of checks and balances that is good for the firm. This prevents a situation where a CEO could unduly influence the board regarding his or her own agenda and also keeps the interests of shareholders paramount. In order to avoid internal issues that would be created if the board chair were an internal director who reports to the CEO, the role of board chair is usually reserved for an independent director. Separation of the two roles creates a peer for the CEO. The chair is another leader that the CEO can use as a sounding board and mentor. In addition, when a separate board chair manages the board, the board can then vest full authority in the CEO to focus on executing strategy and managing firm performance without worrying about board management.

Separating the roles and making an independent director the board chair also allows the board chair to more objectively evaluate the performance of the CEO. In the case that the CEO is dismissed for poor performance, the chair can either temporarily assume the duties of the CEO or the board can appoint someone to step in so that any transition is as smooth as possible.

In the U.S. the two roles often are still combined. However, with increasing concerns about the potential misuse of power and a lack of adequate checks and balances, it is likely that the U.S. will follow Britain’s lead in separating the two roles.

Of course, when the roles are split, it is necessary that the chair and the CEO remain in close contact and keep each other informed of issues and concerns. If there is not a good working relationship between the two, problems will result for the firm. Although not the board chair, the CEO will still play an active role in board meetings including reporting on the firm’s performance, progress related to the firm’s strategic plan, and bringing policy and strategy issues to the board for discussion and/or decision.
Role of the Board Chair

The role of board chair should not be as a figurehead running meetings that they CEO has organized. In fact, the chair should play an active and engaged role including the following:

- Maintaining contact with board member between meetings
- Organization of meetings and agendas
- Guiding board discussions so that the board is prevented from becoming involved in management discussions or management issues
- Ensuring the board listens and responds to shareholder concerns
- Conducting performance assessments of the CEO
- Organizing the board’s self-evaluation
- Ensuring that committees are clearly charged and complete their work on time
- Ensuring that the board is fully engaged with the strategy and focused on how effectively the strategy is being implemented

Board Member Responsibilities

It is useful to articulate the specific responsibilities and expectations for board members so that a candidate is able to consider whether he or she is willing and able to carry out those responsibilities before agreeing to be nominated for a directorship. Although some elements of the role may seem obvious, it is still important to have them written out and to be sure that board members are aware of them. Some examples of responsibilities typically include the following:

- Attend at least three of four board meetings a year either in person or virtually
- Come to meetings having read pre-meeting materials
- Review and respond to board minutes and board and committee reports
- Respond to email requests by the board chair in a timely manner
- Chair and/or participate in at least one board committee each year
- Make decisions with the benefit of the firm’s shareholders in mind
- Participate in director training (see below)
- Keep board discussions confidential

Board Operations and Functioning

Board Meetings

Effective boards typically meet four times a year for approximately half a day at a time, unless there are important strategic discussions and decisions that require more time to fully discuss. Boards that meet more often have a tendency to become over-involved in management issues rather than staying focused on a governance agenda. Since many significant issues are
managed by committees, the full board has a relatively small number of items to address. Most board meetings have a standard agenda and then two or three strategic issues to discuss. Standard agenda items might include review and approval of the minutes of the previous meeting (sent out ahead), review of the company’s year-to-date financial performance against the budget, a review of the firm’s performance relative to its strategic plan, a report from the CEO to update the directors on company issues, approval of any board resolutions, approval of committee reports, and other recommendations. It is the role of the board chair to ensure that the meeting stays on track, that agenda items are covered in a reasonable time frame, that discussions do not wander off topic from the item under consideration, and that board members behave in accordance with agreements established at the beginning of each year.

Some boards choose to call an executive session at the end of the meeting which is attended only by voting board members. In the situation where the compensation committee is making a report about their review of the CEO’s performance and recommendations for compensation, the CEO does not attend. The CEO, however, should be informed by the committee chair, ahead of the meeting, about the committee’s report and recommendations.

Meetings need not all be held face-to-face, although it generally is a good idea to hold one or two meetings each year face-to-face (including the first meeting with new directors) so that directors can get to know one another. It is also useful to schedule board meetings for the year at the beginning of the year. This will make it easier for independent directors to hold the dates on their calendars so that they can avoid scheduling conflicts.

**Board Self-Evaluations**

An annual self evaluation of the board is a trend that is becoming an increasingly widespread practice. Several standard self-evaluation formats exist that can be easily modified to fit a particular board’s needs. Alternatively, the board itself, at the start of the year, can generate the criteria that they believe would reflect board and board member effectiveness. At the end of the year, they can use those criteria to individually make an assessment of the board’s performance and then discuss their ratings together. Knowing there will be an evaluation each year heightens directors’ awareness of appropriate board behavior.

**Board Training**

Training for directors is one of the components of effective board functioning that is often overlooked. There are three levels of training to consider. The first occurs prior to any candidate actually being proposed by the nominating committee. The board chair should meet with each prospective candidate prior to any recommendation being made. At that meeting the chair, and possibly the CEO, should discuss the role of the board, the responsibilities of directors and any other expectations of board members (for example, some boards require directors to visit two of the firm’s offices, other than the offices where meetings are held, at some time during the year). Once selected, new directors typically receive a notebook or electronic file that includes the firm’s history, the current strategic plan, performance trends of the firm, logistical information, contact information, last year’s audited financial statement,
minutes from at least the past year’s board meetings and any other information deemed relevant.

The second level of training can take place at each year’s first board meeting with new directors. This may be an extended meeting with the first few hours spent with some process for directors getting to know one another and learning what each director has to contribute to the board in terms of knowledge and experience. Then, a discussion of the role of the board, review of board member responsibilities, appropriate items for board discussion, norms of behavior, and the board’s decision making process would all be useful to review.

The third level of training would be for internal directors (with invitations extended to independent directors to attend if they’d like or if they have not been on another board) that occurs separate from and before their first board meeting. This could be particularly effective when there are several new internal directors and should be a requirement for them in their director role. This training might cover in depth the difference between management and governance issues, education about understanding firm’s financial reports, and detailed discussions of the role and responsibilities of the board and the directors.

Conclusions

Any of the specific choices a PSF makes about its governance structure and operations will be a function of where the firm is in its organizational life cycle, the firm’s size and reach, and its vision and strategy. There is neither a “correct” structure nor a static end point. As PSF’s mature over time, grow in scale and move into new generations of leadership, they often find it useful to add independent directors to their boards. This creates an opportunity to get leadership and guidance that can help them imagine and achieve future potential in ways they might not otherwise with strictly internal board members. This kind of shift necessitates that a firm establish clarity about the reason for, and the role of, their board, as well as maintaining consciousness about the underlying values and principles of their firm as choices are made about board structure and function.

In order for boards to deliver on their responsibilities, they need to operate efficiently and effectively. In specific, boards need to stay focused on governance issues and to avoid being diverted into discussions of issues that are in the purview of management. The evolution of governance in a PSF is both natural and essential. Making changes that are well-conceptualized and anchored in the values and needs of the firm, as well as executing those changes effectively can make all of the difference.