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## A Challenge to Improving Board Performance

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I believe that much of our country's current economic miseries can be attributed to ineffective and irresponsible boards. Board members who withhold critical input for fear of marginalization, board members who understand little about the companies they govern, and board members who fail to balance the short and long term goals of their companies are in my opinion the bane of corporate America today.

Many of us are familiar with the phenomenon of board members keeping to themselves and failing to facilitate truly constructive debate. Certainly, an outspoken board member can all too easily be marginalized. In the face of genuine challenges by board members to a company's strategic initiatives or operational goals, management often takes a defensive stand instead of exercising an open mind. Often management reacts this way because, too often, board members are insufficiently acquainted with their companies. Moreover, insufficient time is provided for open debate in the typical board meeting's agenda.

Henry Kaufman, a prominent Wall Street economist, recently published a book on the roots of today's financial crisis. Kaufman was one of the first economists to voice concerns about the perils posed by asset bubbles and loose credit markets. Interestingly, he was a member of the Lehman board before and during the company's collapse. No doubt there are complicating factors involved in this example, but one must wonder all the same how an individual with such expertise in the area of market risk could have failed to persuade Lehman's board to curtail some of its bets. How effective and influential can a board member be in today's environment?

According to McKinsey's worldwide survey of boards of directors, one of the leading contributors to inadequate board performance is insufficient motivation and time commitment on the part of the directors. Still, how often do you receive all of the relevant materials for a board meeting well in advance of the meeting date? The time provided for us to digest a company's strategic and operational information is often insufficient for facilitating meaningful debate.

A larger problem is that board members rarely have any involvement in the setting of the board's agenda. Typically, management dictates the information fed to the board. Given the time constraints just discussed and these constraints on the information provided and topics considered, boards can grow increasingly less confident, over time, with respect to their grasp of a company's strategy. Often board members find themselves frantically combing the numbers given them by management so as to generate some self-assurance, only to discover too late that they were mired in process instead of content. The same McKinsey survey cited above reports that 70% of respondents feel they don't know what's really going on within the companies they're ostensibly overseeing.

As a CEO and member of boards of numerous companies, I can offer some personal experiences of possible relevance. With respect to the issue of CEO succession, the boards I have served on have tended to have little or no formal processes for identifying the professional skills and personal characteristics required of a CEO so as to match a company's strategy, culture and industry dynamics. Often they have scrambled to find a successor too late in the cycle. Or they can react in unfortunate fashion to constructive input from outgoing CEOs when that testimony reflects negatively on the qualities exhibited by candidates produced by the boards' expensive searches. Such tendencies can be particularly damaging to companies in healthcare or to any industry dealing with extensive regulatory intricacies. If, in this harried CEO succession planning process, the board decides to choose an outsider with little understanding of the regulatory intricacies and industry dynamics specific to the company,

shareholder values can be exposed to significant risk. There have been numerous examples in the healthcare sector of boards scrambling to find successor CEOs who turn out to have had little skill or interest in focusing on reimbursement, with results that are often disastrous.

Certainly, the above characterizations of today's boards may be too broadly critical. Many of us have come across brave souls who have attempted to make a difference. There are things that can be done, and to that end I offer the following few suggestions as starting points:

1. We need to challenge boards to commit substantially more time beyond the quarterly board meetings.

2. We need to form committees which are structured around three or four strategic initiatives, and ensure that the committees devote time outside of the meetings to tracking progress toward satisfying those initiatives.

3. Board members need to spend more time with management outside of board meetings.

It is well established that investors around the world would pay a premium for strong, effective boards. How effectively are we responding to that demand? I believe that significant changes are needed in our perceptions and time allotments in order to move corporate governance to a more effective and responsible level.