



Owning Up The 14 Questions Every Board Member Needs to Ask

Notes by Frumi Rachel Barr, MBA, Ph.D.

Author: Ram Charan
Publisher: Jossey- Bass

Copyright year: 2009
ISBN: 928-0-420-39767-1

Author's Bio: Ram Charan is the go to advisor for directors and CEOs. Known for his insights and practical wisdom, Charan has counseled some of the world's most successful business leaders. He is the coauthor of the bestseller *Execution* and author or coauthor of 14 other books.

Author's big thought: The business landscape has changed. The game has changed. What boards do needs to change as well. The change is this: Boards need to own up to their accountability for the performance of the corporation. "Governance" now means leadership. Directors need to reinvent the content of their work and their modus operandi. Use the content of this book to help your board truly own up to the new role society is demanding of you.

Question 1: Is Our Board Composition Right for the Challenge?

- The role of the board has unmistakably transitioned from passive governance to active leadership with a delicate balance of avoiding micromanaging.
- Hardworking, conscientious boards can fail when their members lack crucial expertise. With the right composition, a board can create value; with the wrong or inappropriate composition, it can easily destroy value.
- The governance committee chair or Lead Director can ensure that the matrix accurately reflects each director's skills, expertise, and experience.
- The process is important because a board full of generalists is not good enough anymore. They also need domain expertise.
- Consider what new skills will be needed as times change.
- The governance committee needs to be observant and reflect upon the bent that emerges in board or committee meetings.

- Given the surprises that any corporation can face, a board might even consider ensuring it has directors who can quickly take an interim corporate leadership role if the executive team falters badly.
- Boards must do their own succession planning with lead time to ensure they have the right mix of skills, experience and expertise at all times. The board as a whole must be able to add value and provide proper oversight on the range of issues that are emerging.
- The governance committee must not only recruit new directors, but also design and execute a formal succession process that accommodates the transition of directors off the board.
- A transition process also prevents excellent directors from leaving in frustration.
- In order to keep board composition in tune with the speed and architecture of external change, the governance committee should ask at least once per year: How do we figure out what our board needs? How do we get the right people for the job? What does the board succession process look like? How can the Governance committee improve board succession?
- The governance committee owns the process of having the right composition of the board at all times. The committee must have a clear process on what skills and experiences will be needed when, and how changes will be made along the way.
- Personality is a hugely important criterion in selecting directors. Directors must be able to work well together for the board to be effective and yet be independent.
- Charan doesn't want to give the impression that the mix of directors alone determines the effectiveness of a board. Rather, it takes a lot of other factors, including group dynamics, effective leadership, and each individual's personal adoption of the ownership mindset for the directors to combine into an effective Board.

Question 2: Are We Addressing the Risks that Could Send Our Company over the Cliff?

- Had the boards of companies like Bear Stearns, Lehman Brothers and Washington Mutual, been more engaged with the risk management process, examining the information available to them and observing management's priorities, they could have saved the jobs and pensions of thousands of employees.
- Boards have to think broadly about risk and dig deep to understand its many sources. Consider how risks might combine in a perfect storm and link managerial decisions with risk to the balance sheet as well as the P&L.
- Boards have to make risk a more central part of the content of their reviews of operations and performance.
- They need better preparedness, including clear risk management processes for the board and management, contingency plans, and a set of advisors on call.
- Boards can better track the ever-expanding range of risks by defining the potential sources and viewing the business and the landscape through different lenses.
- *The Financial Vulnerability Lens*
 - More boards need to be attuned to their companies' financial vulnerability, because events in the capital markets and the global financial system can turn against the company,

- The board should watch cash flows as an early warning signal of distress. To do that, directors need to see very clearly where cash is coming from and where it is going.
- A company can lose its freedom if its finances leave it vulnerable.
- Unanticipated currency movements can also leave a company financially vulnerable.
- *The Strategy and Operations Lens*
 - When boards review strategy, they have to be forceful in asking the CEO what risks are inherent in the strategy.
 - Concentrations of customer bases are a particular strategic risk.
 - Risk pops up in operational reviews, as well. Monitoring is not just about making the numbers, but also about talking through the risks. Managing risk does not entail eliminating it; the competence required is how to assess it and how to manage it.
 - Boards also need to watch the CEO's appetite for risk: some are almost gamblers and some are too risk averse.
- *The Political and Geopolitical Lens*
 - Geopolitical risks can become real very suddenly, wiping out whole industries, and boards need to stay on top of them. New regulation can change the dynamics of entire industries.
 - Boards should utilize the political and geopolitical lens in two key ways.
 - First, they have to gain access to important figures.
 - Boards can also assemble advisory boards of such individuals to formalize the relationships. They might ask advisory board members to facilitate contact with policymakers.
- *The Reputation Lens*
 - In this age of transparency, an idea or rumor can spread instantly across the Internet like a virus.
 - A bad reputation can pressure a company's stock price, its business prospects, and its ability to recruit top talent.
 - Directors can be very valuable sounding boards for CEOs; they can help management assess whether a setback is temporary or whether it is the tip of an iceberg that needs to be addressed. And they can help determine whether the criticism has any substance.
- *The People and Culture Lens*
 - The board can't know everything that is happening inside the company, but it has to have ways to sense whether the company's culture or some of its leaders are putting the company at risk.
 - The CEO is the face of the company and boards must hold their chief executives to a high ethical standard.
 - Boards must also watch for a toxic culture that enables ethical lapses throughout the organization.
 - Boards should insist on getting regularly briefed on company training to prevent corruption and bribery, as well as how health and safety standards are being met in the company's plants and those of its supply chain partners.
- Consider creating a risk committee to dig deeper into potential sources of risk. Regardless of committee structure, the idea is to ensure the board sets aside the time to talk about risk explicitly.

- The board also needs to make sure management has a methodology to explore and manage risk. Management has to assign someone to be accountable for working with the board on risk and for defining processes to manage enterprise risk.
- Part of risk management is also preparedness, so the risk committee should work with management to ensure there are action plans in the event of a crisis. All those advisors need to be lined up in advance of the worst-case scenario coming to pass.

Question 3: Are We Prepared to Do Our Job Well When a Crisis Erupts?

- Crises can strike any corporation without notice, potentially destroying huge amounts of shareholder value.
- The lesson is that boards have to do their level best to prevent crises, but they can't prevent them all. So they must also be prepared to take charge and do damage control when a crisis erupts, even if it's something they have never experienced before.
- There are basically two types of crises: those that are *knowable*, meaning they happen from time to time but at unpredictable intervals and with varying ferocity, and those that are *unknowable*, meaning no one has even imagined such an event.
- Boards have to prepare for both the knowable unknowns and the unknowable ones in order to minimize disruption to the business, damage to the brand and company reputation, and loss of hard cash. The Knowable Unknowns are any kind of crisis that has previously taken place.
- Some crises are internally inflicted, including some situations created by management: loading the balance sheet with high debt that can cripple the company if external conditions deteriorate; relying heavily on very few customers; failing to enforce compliance on safety, health and environmental regulations; engaging in unethical practices; and providing lax oversight of operations.
- Boards can cause a crisis too, for instance, by leaking information to the press or taking their board business public.
- Boards can also create a crisis by not listening to shareholder complaints for too long.
- Crises from outside the company are increasingly common.
- Product recalls can be triggered by external sources.
- A more unusual crisis has emerged in the area of mergers and acquisitions when companies come under a protracted attack.
- Boards should watch for these crises while they are in the making. Every board needs to decide which categories are important enough to prepare for ahead of time. The role for boards is to ensure that management has considered them and has appropriate mechanisms and processes in place to deal with a range of threats.
- The plans should be reviewed by the appropriate committee of the board, such as the risk committee.
- The *unknowable unknowns* are impossible to detect before they erupt, even though they might be brewing for some time, because no one has ever seen them before.
- Boards and management must prepare for them nonetheless by using their usual crisis plan with two major differences.

- First, the people and teams assigned to confront such a crisis need to have the skills to seek and sift through the information from a variety of sources and construct multiple scenarios on the fly. They must have the confidence to act decisively and construct worse case scenarios even when many factors are unknown and ambiguous.
- And second, the board must be prepared to take the lead. During the crisis, the point person from the board must stay in close contact with management as they sort out what is happening.
- The board should also help management imagine what the domino effect might be, projecting what other problems might arise as one thing triggers something else.
- The board must be prepared to take charge if management is slow to grasp the situation and take the lead. The board should keep people informed, steady people's nerves, and help management sort through the ambiguity.
- Waiting for management to make a move is a mistake. Management, after all, has never been tested under the conditions of an unknowable unknown, and the board cannot assume that they know how to respond.

Question 4: Are We Well Prepared to Name Our Next CEO?

- Every director knows that nothing is more important than having the right CEO at all times. Yet it's clear that many boards do not fully own up to this responsibility. They wait too long to make a change and they don't get to know the organization's up-and-coming leaders well enough or soon enough.
- Boards must be on the offensive to ensure the company has the right CEO at all times. Even a highly successful CEO can become wrong for the company as conditions change.
- Boards should have clear, well thought out processes for dealing with succession and devote more time and energy to it. They should be prepared for the following:
 - Making a selection within the next two or three years.
 - Spotting high potential leaders early on.
 - Facing the worst case.
- Ensuring strong leadership and smooth transitions is the board's primary responsibility, and thus every director must work hard to get it right.
- The succession process culminates with the selection of a CEO, and let's be absolutely clear: the board, not the outgoing CEO, selects the CEO.
- Ideally, the CEO selection process would begin two to three years in advance of a planned succession.
- The succession process should start in earnest with a dispassionate view of the company's strategic direction and the business environment.
- The whole board also has to be on the same page regarding the company's strategy. If they haven't had in depth discussions and reached consensus on where the company is headed or what it needs, they have to do so before they begin to talk about CEO candidates.

- With an understanding of where the company is headed and what it's likely to need in its future leader, the board can focus on a short list of candidates created in conjunction with the CEO and perhaps the head of human resources. Then the board can create opportunities to get to know the candidates really well, both personally and professionally.
- Some of the candidates may have gaps in their skills, or the board might have questions about their ability to handle certain situations. Directors can suggest that the CEO move the person into a job that expands her capabilities and tests her.
- The reality is that many companies, even those that invest heavily in leadership development, need to consider an outsider for their next leader. If there are a few years before the planned succession, outsiders can be brought in one or two levels below the CEO.
- When the succession decision is about a year away, the board should take another hard look at the external environment and the business challenges and translate them into specific criteria for the CEO job. The board should keep digging until it can define the three, four, or five things that are crucial to succeed in that company at that time.
- Clarity around the non-negotiables is crucial, but other criteria will also come into play. Some boards find it useful to create separate categories for them, such as non-negotiables, personality and cognitive traits and givens (such as integrity).
- The board's most critical task is to find the best fit between the job criteria and the candidate in the context of the present and the future.
- The best succession processes focus on each individual's strengths.
- Boards can round out their picture of the candidates by conducting 360 checks on internal candidates and doing rigorous reference checking on external candidates.
- Even if they use a search firm. Boards must hold the succession reins.
- No matter how strictly they adhere to the process, boards can never be assured that their choice of a CEO is correct. But their judgments do improve when they insist on getting the facts on the table and crosscheck each other. The test is not only whether the board can make the right decision, but also how quickly it can admit that it did not.
- Spotting High Potentials Early - Knowing the company and its leadership pipeline really well over an extended time is the best preparation a board can have before making a monumentally important succession decision.
- Management must not only have robust processes for leadership development, but also must take an honest look at its bench strength.
- Boards should periodically hear straight from the head of HR about the processes in place for leadership development, about the metrics that reveal how recruitment, development, and retention are progressing, and who the real up and comers are.
- Directors shouldn't stop with hearing about leaders second-hand. Every director should make a point to personally get to know future leaders over a period of several years.
- Boards must know who will take charge in an emergency.
- While boards have to get more involved with the company's leadership development, they also have to be careful to not overstep their role.

Question 5: Does Our Board Really Own the Company's Strategy?

- The financial crisis of 2008 laid bare a long buried truth: that many boards do not really own the strategy of their company.
- The ongoing transformation of the external landscape demands a fresh look at strategy.
- Directors want to—and must—get engaged in company strategy. The days of buttoned-down one-way presentations from management are over. Directors want to understand the strategy and contribute to it.
- The shelf-life of a strategy is shortening. The board’s objectivity and diverse viewpoints can help management detect a bend in the road and peak times to sell a business.
- Management should create a concise strategy document and use an iterative process to solicit feedback on it. One-on-one conversation with individual directors clarifies the strategy and sets the stage for richer group discussions.
- Boards should consider strategy on three levels—portfolio, business unit, and functional—and watch for opportunities to make occasional strategic bets.
- Boards and managements need to craft a new social process for engaging in the development and choice of strategy. The following process used at two companies is the best practice Charan has seen so far:
- *Step 1. Discuss External Trends*
 - The CEO sets the stage for getting the board fully engaged in understanding the changing external environment by presenting his interpretation of data and trends.
 - One of the best ways to continually increase the board’s education about the business and its context is to include a thirty to sixty minute discussion about various trends at each board meeting. It helps boards do a great deal of learning through questions and answers.
 - Any materials sent to the board ahead of time must be concise and relevant, and the learning should be designed to be cumulative over the six to eight sessions of the fiscal year.
- *Step 2. Capture the Essence of the Strategy in Writing*
 - The document should explain the content of the strategy "where to play, how to play, and how to win"—and describe what goals the proposed strategy will deliver.
 - It should also state the three to five strategy alternatives that are on the table, the three to five most important opportunities that need to be explored intensively, the most critical competitive threats that are anticipated, the most important risks in the proposed strategy, and how shareholders will view the choice.
 - This document also should articulate the three to five most critical assumptions about the external environment. The reader will know in less than twenty minutes whether the proposed strategy is clear.
 - The CEO should draft the document personally and not delegate it, although he or she will want to work closely with her direct reports. Indeed, a side benefit of this process is that it prods the management team to make sensible trade-offs. In the process, the team tends to gel.
 - This document is a catalyst for thinking and a basis of discussion. The idea is to send it to all the directors in advance of the strategy retreat and solicit their reaction.
- *Step 3. Iterate the Strategy with the Board*

- After soliciting directors' feedback in person or by phone, the CEO should synthesize all the inputs and redraft the document, then send it out again and follow up with one-on-one conversation.
- The process is time consuming for management, especially the first few times, but it has a high return on the time spent.
- There is nothing more important for a CEO than having the right strategy and right choice of goals, and for the board, the right strategy is second only to having the right CEO.
- *Step 4. Conduct a Strategy Immersion Session.*
 - Now it's time to pull the whole group together to get totally immersed in the details and issues around strategy for a solid two days. This is where the board goes beyond individual contributions to tap the power of the group's collective wisdom.
 - The simultaneous participation generates more creativity than one-on-one dialogue, as people listen to each other and ideas get triggered.
 - Small groups of four should sit at separate tables in the same room and discuss among themselves for about an hour the same three questions:
 1. What three things do you like about this strategy?
 2. What three things do you not like about this strategy?
 3. What three ideas do you propose that the strategy would seriously consider?
 - It's better to gather all the answers to the first question before moving on to the second and the third.
 - The common ground among the answers begins to emerge. Points of contention and issues that the strategy has not addressed become the agenda items for the following twelve months.
 - There are times when the board still is not comfortable about the assumptions underlying the strategy.
 - A new practice is emerging to deal with such cases, which until very recently was taboo. The practice is to seek validation of the assumptions and the strategy by outside experts.
- The strategy cannot be too rigid. Management must have the flexibility to make adjustments to operating decisions and resource allocation.
- Strategy can never be put to rest. Market dynamics won't wait for the timing of your next strategy session.
- Some boards are conducting second immersions during the year to keep strategy high on the agenda.
- Strategy should always be in the back of directors' minds. It helps to have the strategy brief or a two-page sheet of bullet points in the binder for every meeting.

Question 6: How Can We Get the Information We Need to Govern Well?

- The quality of the board's output depends heavily on the information the board receives. Boards need to take hold of their information and work with management to design its content,

presentation, and frequency so the bulk of directors' time and attention goes toward using it, not wading through it.

- It helps them sort through, for example, the four usual causes for performance deviations: shifts in the macro environment, change in the consumer space, shifts in the competitive pattern, and the commission or omission of management actions.
- The purpose is not to run the company or micromanage but to make linkages between causal factors and measures of performance in order to help the CEO anticipate, not just look back.
- What directors aren't getting they must demand, and soon.
- Directors' time of course is scarce, so information must be clear and concise. That will lay the foundation for discussions that probe the underlying issues and spark ideas about what should be done.
- Boards should not be totally dependent on information internal to the corporation. It is imperative for boards in this fast-changing landscape to continue to see the external context through several independent outside lenses. They need to actively and regularly seek outside sources of information to supplement the internal information management presents.
- Every board should routinely get the following kinds of information:
 - *Financials*: Boards should get management's analysis of what is driving the numbers and, more important, how management is addressing the root cause of any shortfalls or downward trends. The audit committee should work with the CEO to design reports geared around the indicators that are important to that company.
 - *Non-financials*: Any internal process that is critical to doing business should be communicated, along with its connection to the strategy and to financials. The idea is to spot performance problems before they become earnings or cash shortfalls. Boards should work closely with their management teams to identify the critical nonfinancial performance drivers.
 - *External Information*: The Company does not exist in a vacuum, so externals need to be incorporated in the board's information architecture in three ways. Boards need a clear and concise view of these areas to ensure the next crisis does not sneak up on them.
 - First, everything is relative, so almost all financial and non-financial information should be benchmarked.
 - Second, the board has to be up-to-date on how competition is evolving. Boards need to see how new entrants and new technologies could threaten the fundamentals of how money is made in the industry.
 - Third, despite the unprecedented level of uncertainty, boards should have a view on how macro trends are affecting the company and the industry. Whatever the trend, the board should not only hear what's happening in the world, but also gain insights on how the company's strategy might play out under different scenarios.
 - Providing information in all three areas could require significant investments of time and resources from management. Still, for those items that are truly important to the company's success, the board should insist that management periodically commit resources to them.

- *Milestones:* Boards should establish milestones to track the effectiveness of the strategy.
- *People:* Lastly, boards should get information on the human resources of the company. Are the right people in place to meet the current challenges? Is the company attracting and retaining talent and keeping people motivated? What are the retention levels and how are people progressing through the leadership pipeline?
- Some boards are nominating one or two directors to work with management to re-architect the information flows, usually using dashboards. The dashboards should be consistent in design from month-to-month.
- It's vital that there is room and flexibility for management to provide commentary where it is needed. Deviations from plan should be highlighted, as should patterns of change that represent trends and not month-to-month noise in the data. The management team should provide a precise and insightful narrative to discuss the root causes of the outliers, as well as action items.
- Pay attention to the ambience, too, when management presents information to the board. Using flip charts instead of PowerPoint slides, for instance, creates an informal atmosphere conducive to brainstorming and discussion.
- Boards need to be continually updated in their view of the changes happening externally, and from multiple angles. They need to regularly seek information and viewpoints from outside sources.
- Investment bankers and strategy consultants are common voices in boardrooms. But information from external sources should also come from sources the board may not have considered in the past, like policymakers and think-tank fellows. The idea is for the board and the management team to hear insights and judgment directly from experts.
- The board would also be well served to have their own internal information sources when assessing leadership and the culture of the organization.
- By breaking down the barriers between the board and employees, boards also keep their ears open to those rare reports from whistleblowers.

Question 7: How Can Our Board Get CEO Compensation Right?

- When it comes to CEO compensation, the game has changed permanently. Compensation plans must stay relevant and keep management focused on building and protecting shareholder value. To do that, boards need to start with a blank slate and fresh thinking.
- Compensation committees will have to take the lead. They have to dig into the details and help the full board understand the new drivers of the business and what the leader can actually control that will affect the company's short- and long-term success.
- They also have to wrestle with the mix of fixed and variable pay, given that the market value of equity grants is not only very volatile but also less subject to management control than company's intrinsic performance.
- Boards should set guidelines for how the board will exercise judgment in a way that is transparent to both management and investors. CEO compensation must stand up to societal scrutiny.

- Compensation committees cannot turn the work over to compensation consultants, any more than audit committees can delegate their responsibility to outside auditors as they did in the past.
- The right way to approach the compensation plan is for the board to scrap the static absolutes, figure out what's really driving the business, and use its collective judgments over the course of the year to evaluate what the CEO and his team accomplished.
- The compensation committee should be thoughtful and specific about the performance measures that will make a difference, and the whole board should discuss them with an internal team consisting of the CEO, the CFO, and the head of human resources.
- A mix of short- and long-term objectives is necessary, and they shouldn't be P&L accounting measures, like ROI, revenue growth, EBITDA, and the like.
- Measures should reference the risks that are captured on the balance sheet, possibly including operational items like inventories and accounts receivable, or financial items like liquidity risk.
- Some of the objectives might also be nonfinancial in nature. Objectives that capture whether the company's strategy will later lead to good financial results have to be part of the equation.
- Annual recruitment and retention performance can assure the effectiveness of longer term leadership development programs aimed at building superior bench strength for key jobs.
- The board should also stress-test the goals against volatile external factors, including commodities prices, the economy, and the stock market.
- Boards should match cash incentives to shorter term objectives and equity awards to longer term objectives. This is an important linkage that will connect the operating performance with bonuses and also relate long-term building blocks with equity or options grants that vest over a long period.
- The tricky part is figuring out the right balance between fixed and variable elements of the package.
- The board needs the latitude to exercise judgment when evaluating CEOs to make allowances for events beyond management's control.
- One way to keep the compensation plan flexible is to assign new targets quarterly. The board should examine changes in external conditions, and the management team's response to them.
- To be consistent in exercising its judgment, the board should develop and articulate a clear philosophy and framework for top management compensation.
- The philosophy should be flexible enough to adapt to changes in the external environment and yet meet the test of consistency over time. Compensation should be fair and equitable, competitive, motivational, balanced between the short and long term, and aligned with shareholders' interests. But the philosophy should state the areas in which the board will exercise discretion instead of being bound by formulaic or absolute numerical targets.
- A compensation philosophy is where the board also can articulate the distinction between shareholder value and shareholder interests.
- A compensation framework translates the philosophy into specifics year by year as external conditions change. The framework should address the following items at a minimum:
 - Management performance relative to direct competition.
 - Management performance in the context of uncontrollable macro factors.
 - Point targets versus a range.

- Compensation consultants are a valuable part of the compensation process, but they are an input to, not a substitute for, the board's deliberations
- Where consultants shine is providing external data to help the board's deliberations along the way. Boards need to have hard and detailed conversations on their own and be prepared to push back at consultants if necessary.
- Of all the topics in the boardroom, CEO compensation has the most potential to create tension in the board-management relationship.

Question 8: Why Do We Need a Lead Director Anyway?

- No group of people ever becomes high-performing without a clear leader, and boards are no exception.
- Many boards become factionalized, unfocused, and indecisive because no one kept the dialogue on track, surfaced underlying conflicts, or pushed the group to reach consensus. The best boards have leaders who do all those things, shaping the social dynamics of the board both inside and outside the boardroom, facilitating convergence of individual directors' viewpoints, and facilitating communication and understanding between management and the board.
- The choice of leader has a tremendous impact on the board's ability to function as a group and govern well.
- Boards should therefore develop a clear view of what they expect their Lead Director to do and a clear process for assigning the role.
- They should select a Lead Director from among their ranks who has the temperament, personality, and skills to build positive board dynamics in and outside the boardroom.
- That person should have no greater influence on board decisions than any other director. He or she should, however, enhance the board's ability to make those decisions as a group in a way that is timely and intellectually honest and taps the wisdom and experience of every board member.
- Board dynamics are a huge determinant of whether a board adds or destroys value. A board is a social group, much like any other. Its social dynamic can be unconsciously shaped by the behaviors of one or a few influential individuals.
- Without collegiality, a board can become paralyzed, but collegiality can go too far if it prevents directors from challenging a peer with a strong personality.
- Boards need leaders who understand and can shape social dynamics, so the board can exercise its collective judgment and its job to the best of its collective ability.
- The most effective Lead Directors take their role very seriously, investing a lot of time and energy to build cohesiveness among board members and keep the group moving forward.
- They stay in close contact with directors and management and their tone and response create an open line for directors and the CEO to voice concerns and make suggestions. Their receptiveness to diverse viewpoints and ability to convey information without the distortion of their own opinions builds trust.
- An effective Lead Director is one who can zero in on key issues, make meetings more productive by keeping dialogue on track, and strengthen the relationship between the CEO and the board.

- The Lead Director is a sounding board for the CEO and may be in the best position to see when the chief executive could benefit from some coaching in a particular area. With the backing of the full board, the Lead Director himself might provide that coaching or help identify another director or an outsider to play that role.
- Choosing a Lead Director must be based on who has the right social skills, incisiveness, and personality traits. He or she must also have the temperament and time for the job, and take the assignment very seriously.
- The person must have keen business judgment and incisiveness.
- A good Lead Director has exceptional instincts to sense when an important question is emerging and bring it forward.
- A Lead Director needs the right personality traits: composure, an even temperament, courage, and containment of his ego. When others get impassioned or downright stubborn, the Lead Director must be a calming influence and at times the voice of reason.
- A great Lead Director explores and invites diverse viewpoints yet has the courage to do what is needed to make the board function better. He has the confidence to subtly intervene to redirect the discussion or to shut down a line of nitpicky questioning with no formal authority to do so.
- The most critical personality trait, though, is to not let ego get out of hand. A contained ego can also make peer review more effective. It sometimes falls to the Lead Director to deliver the feedback to the individual directors.
- Boards should outline what their Lead Director will do, and have a clear process for assigning the role based on the requirements of the job.

Question 9: Is Our Governance Committee Best of Breed?

- Governance committees have a newfound importance: it's their job to ensure that the board is an effective boss to the CEO.
- That means ensuring that the board has the people, processes, and leadership it needs to leverage its intellectual clout on behalf of the business. It also means correcting whatever stands in the way of good governance.
- Whether the obstacle is dysfunctional board dynamics, a toxic relationship between the board and management, or lack of necessary expertise on the board, the governance committee must be prepared to take it on.
- There are several different dimensions to the committee's role. These include defining the board's leadership roles and setting the policies for selecting board leaders and transitioning directors off the board, assessing the committee structure and taking committee assignments, and carrying out processes to continuously improve the board and keep it evergreen.
- In doing all that, the committee must be attuned to the human factors as well as the mechanics of board processes, because poor individual behavior and lousy board dynamics can bring good Governance to a screeching halt.
- The governance committee has a pivotal role in ensuring the board functions well enough to own up to its responsibilities. It should define its role broadly and be assertive in holding the board to a high standard.

- The governance committee must think through the criteria for various board leadership roles, balancing expertise with sensitivity to human behavior, and rotate committee assignments and chairs to avoid pockets of power.
- The governance committee is responsible for turning around faltering board dynamics.
- The governance committee must be sensitive to the CEO- board relationship, and pay attention to how well the board is respected by management.
- The governance committee must take charge of board succession, including identifying and vetting director candidates, and making sure transitions off the board are handled in a timely and appropriate manner.

Question 10: How Do We Get the Most Value Out of Our Limited Time?

- The demands on directors' time are rising. Boards need to commit the time that's really needed to do the job - full-day board meetings, committee calls and meetings as frequently as needed, and lots of preparation time outside the boardroom.
- By the same token, boards need to get more value out of the time directors spend together.
- Boards and management teams can take simple steps to make more efficient use of their time. A valuable use of time is to discuss in executive session how the board can set its priorities, run board meetings, and improve communications to ensure that it not only monitors the company's financials but also preserves time to make even higher-level contributions.
- Boards and CEOs need to work together to improve the return on their time. The CEO and the board's leadership should identify those four or five, at most six, items that should constitute the bulk of the board's time and energy in the coming year. They should state them in a twelve-month priorities list and clarify when they should be revisited in the boardroom, for how long, and what interim steps are needed.
- A list of clear, explicit priorities not only helps the board focus on the big picture but also aligns management and the board and provides continuity from meeting to meeting.
- A typical board meeting begins with a review of financials and housekeeping resolutions. Charan suggests that the most important issues on the agenda come first.
- Distilling at the end of the meeting the issues that came up is a good way to refocus the board on its priorities going forward.
- Management can raise the "altitude" of boardroom discussion by telling the board upfront what issues to focus on and what the salient questions are, in order of importance.
- When presenting the data, don't merely repeat it. Help the directors understand the cause. Then invite the directors to discuss the drivers and risks of growth.
- CEOs have a tendency to delegate to the presenter; instead they should more actively coach their subordinates to structure information and lead discussion in a way that makes the most of the boardroom time.
- Directors want to be told clearly what the issue is, the context, the alternatives that have been thought through, their view of which way to go, and what management would like from the board.

- Six board meetings a year seems to be enough if the meetings are almost a full day with another half day reserved for committee meetings—and of course assuming a focused agenda and dialogue.
- All companies send briefings out to directors before meetings. It's a director's responsibility to review them thoroughly and come to board meetings prepared to discuss them.
- Likewise, directors have to be prepared to spend quality time in committees, where the smaller size of the group can more efficiently process in-depth discussions, either in person or by conference call.

Question 11. How Can Executive Sessions Help the Board Own Up?

- The executive session is the single most important innovation in corporate governance to date. It balances the power between the CEO and the board. It also eliminates the need for clandestine talk among directors. And it can help the group of independent directors gel.
- Under normal circumstances, executive sessions should enhance the CEO-board relationship by allowing the board's faintest concerns to surface sooner, when there is still time for the CEO to address them.
- The whole point of executive sessions is informality. It takes skill to conduct the sessions in a way that makes directors comfortable speaking their mind candidly.
- Executive sessions are a great forum to get outside directors talking in a different way about critical issues from strategy, execution, and performance to the company's leaders, general macroeconomic conditions, and the functioning of the board itself. In fact, the board's self-evaluation should be discussed in the executive session every year.
- Directors should have freedom to raise hunches and ask questions about almost any topic under the board's purview.
- Getting directors to open up sometimes requires skill. The person leading the executive session (usually the Lead Director or the nonexecutive chair) can ask some very broad questions to break the ice, such as: How do we feel about how things are going? The purpose of informality is to make sure the psychological barriers are low so all voices will be heard.
- Any and every director should be able to ask questions, respond to peers, and raise issues he or she is not sure about. The Lead Director should draw out directors who seem reticent, zero in on key points, and not let the conversation wander too far.
- Sometimes controversial issues are brewing beneath the surface. The executive session is the place to discuss them.
- Directors should focus on substance and be careful about their wording. The Lead Director should be particularly sensitive to directors who are not thoughtful in their criticism of the CEO or members of the team.
- Directors should find ways to push back on the issue rather than at the CEO as a person.
- At the end of the executive session, the Lead Director should crystallize the one or two issues that seem to have importance.
- CEOs should be present for part of the executive session, for several reasons. For one thing, when directors discuss their ideas in the executive session, they often make assumptions without having all the information they need. Chances are the CEO can add to it.

- Secondly, the executive session is a good venue to hear from the CEO what she needs from the board to help her perform better.
- A third reason for the CEO to be present for part of the executive session is for the CEO and the board to brainstorm together. An emerging best practice is to use the informal setting of the executive session for the CEO to test out ideas with the board with no other managers present.
- It's a good idea to have the CEO present at the start of the meeting and available to answer questions periodically as the meeting progresses. When the CEO is in the room, he of course gets the benefit of whatever insights emerge.
- The Lead Director's feedback has to be communicated honestly and with the right nuance. Otherwise, the CEO senses the lack of transparency and is left to wonder what the real feedback is. Such things affect the relationship between the CEO and the board. It's a delicate task to maintain anonymity without arousing a sense of ambiguity in the CEO.
- Not everything discussed in the executive session should be expressed to the CEO. Many topics are talked through and dropped because the directors decide they don't hold any weight.
- Feedback has to be given in a constructive way. When a board decides to make a change, it should not be a surprise to the CEO. The board must be very careful deciding not only what they convey to the CEO, but also when and how.
- One option is to have the Lead Director update the CEO one-on-one. In doing so, the Lead Director can answer questions and clarify the board's thinking, but he must listen well to the CEO's reaction, including the tone and nuances, so he can convey it accurately when he reports back to the board. Having a second director present can reduce the risk of inadvertently distorting the message or tone.
- Another option is for the CEO to digest the feedback from the Lead Director, then talk to the independent directors as a group,
- Executive sessions before meetings seem to help the board focus on the bigger picture. When the executive session is held before the board meeting, directors come in with things they've reflected on. The Lead Director can build continuity by summarizing what they discussed at the last meeting. Under those circumstances, directors rarely nit-pick, and the executive session better serves its purpose of allowing higher-level, value-adding ideas and insights to emerge.

Question 12: How Can Our Board Self Evaluation Improve Our Functioning and Our Output?

- The board's output—the quality of the decisions it makes and actions it takes—is the acid test of effective corporate governance. When boards fail to consider their output, they can easily convince themselves and others that they're doing well when in fact the essence of their governance is weak. Directors should not confuse hard work, with meaningful results.
- Boards are missing the point if they let their self-evaluations stop and start with the mechanics of how often they meet, for how long, and whether the chairman and CEO are separate. These things are all inputs. Even if such assessments meet external requirements, they're not very useful as a self-improvement tool. They don't distinguish between a board that delivers and one that is merely going through the motions.

- Boards that really want to improve their governance should use the evaluation process as a consistent practice to reflect on the nature and quality of their output, and with that in mind, determine what action will make it better on a continuous basis.
- Focus on the board's output, and seek the CEO's opinion. Is the board really making a contribution to the business?
- Interviews by the Lead Director, chair of the governance committee, or a trusted third-party allow more nuance on the board's functioning to surface. It's up to the governance committee to ensure the board identifies action items and follows through to continuously improve.
- Peer evaluation is a chance to reinforce positive behavior and get at issues that are difficult to raise.

Question 13: How Do We Stop from Micromanaging?

- CEOs for the most part accept the board as their boss and as a valuable sounding board and source of input. But they don't always get what they're looking for from their boards. A common complaint among chief executives is that directors get into the weeds, digging into operational details that have little strategic value.
- Micromanaging simply cannot be tolerated. Boards have to understand what it is and what it does to their effectiveness and each and every director must take part in controlling it.
- Directors must take responsibility for managing the board's time. As much as management complains about the problem of micromanaging, they may be contributing to it by providing too many slides and unnecessary details. The CEO and the senior team have a role to play in shaping the nature of the board's output and the altitude of the discussion.
- What really defines micromanaging is not whether a director is digging into details. It's really a question of which details and for what purpose.
- Asking questions of an operating nature is not in itself micromanaging, as long as the questions lead to insights about issues like strategy, performance, major investment decisions, key personnel, the choice of goals, or risk assessment.
- The Lead Director plays a pivotal role in shaping dialogue when micromanaging begins to creep in. But other directors should help keep their peers from micromanaging.
- Use evaluations to pinpoint whether micromanaging is becoming a problem, and to align the board on how to minimize it.
- Management reduces micromanaging when presentations are well structured and at the right level.

Question 14: How Prepared Are We to Work with Activist Shareholders and Their Proxies?

- Shareholders are the real boss—the sooner boards realize this fact and live up to their obligation to represent them, the better. And just as directors in general became more active and engaged in their companies after Sarbanes-Oxley was passed, so have shareholders.
- Performance as a board will increasingly be scrutinized, as much as the company's performance.

- Shareholder activism is here to stay. Boards need to change their psychology to see it as a constructive influence, not a nuisance.
- Boards must be prepared to communicate directly with shareholders when the situation warrants.
- Shareholders want the board to hear their concerns, but boards must be independent and sometimes push back.
- When investor-nominated directors are on the board, the group needs to work constructively to take advantage of their thinking.
- Boards must accept outside rating agencies, correct their errors, and not limit their self-improvement efforts to the agencies' narrow definitions of good governance.

Recommendation: According to Ralph Whitworth, principal of Relational Investors LLC, “If corporate America’s board members had answered these questions, the crisis of 2008 would have been avoided. The book is that powerful. It should be required reading in every boardroom, executive suite, and business school on the planet. This book with its singular wisdom could change the face of corporate governance—with huge dividends to shareholders and society.”

Get 100 business book summaries just like this one at 100mustreads.com



Contact Frumi at 949-729-1577

ceoconfidante@frumi.com

www.frumi.com

www.100mustreads.com

About the reviewer: Frumi Rachel Barr, MBA, PhD

Many CEO's find themselves asking “What now?” to sensitive situations that only an experienced former CEO can understand. Frumi is brought in to solve problems and often remains to work with you, as your confidante and secret weapon. She has an uncanny knack of getting to the heart of your corporate climate and maximizing your team’s performance, profitability and sustainability.

To schedule a free *Break From the Pack to Success* consultation email

ceocondfidante@frumi.com or call 949-729-1577