

Not the usual suspects: How to use board process to make boards better

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Executive Overview

Research on corporate boards and board reform efforts alike have been dominated by a concern for board independence and its effect on the monitoring of the CEO. However, attention to what we call the "usual suspects"—the number of outsiders on boards, director shareholdings, board size, and whether the CEO also holds the Chair position (CEO duality)—does not yield either strong research results or more robust corporate governance in practice. In this article we argue that the "usual suspects," as measured by the classic indicators, do not ensure a truly independent board and that the key to making boards work better rests in an area largely ignored by researchers: board process. Based on structured interviews with members of corporate boards, we open a window to what is really going on inside boardrooms. Our analysis suggests five critical goals for which all boards should strive and presents a detailed checklist of recommendations for directors on how best to realize these goals.

Boards of directors play multiple, and critical, roles in organizations. Boards are primarily responsible for (1) providing oversight, advice, and counsel to CEOs, and (2) monitoring and if necessary disciplining CEOs. While the former role has not been the subject of as much research as the latter, the independence of the board of directors has been seen throughout as a centerpiece to effective corporate governance.¹ Remarkably, research on board independence, as well as efforts to improve board effectiveness in corporate governance circles, has coalesced around identifying what we call the "usual suspects"—few outside directors on the board, insufficient share ownership by directors, boards that are too big, and CEOs who also serve as board chairmen. Outsiders are expected to be more vigilant than insiders because they are purportedly less dependent on the CEO and are the formal representatives of shareholders.² Directors who own stock have "skin in the game," providing an incentive to pay close attention.³ Smaller boards can avoid the inefficiency that characterizes many bigger boards.⁴ And the separation of the CEO and Chair positions can limit the power of the CEO to control the board and its agenda.⁵

This fixation on the same dominant problems is

odd, however, when we consider that, with the exception of CEO duality (where the same person holds both the CEO and Chair positions), a dramatic shift has been taking place in corporate governance in the United States. According to our study of firms in the Standard & Poor's (S&P) 500, outsiders now account for 75 per cent of directors on the average board; only the CEO and perhaps one other top manager sit as insiders on the typical board. Directors are also highly compensated with stock; on average, 91 per cent of the directors on each S&P 500 board own stock, and 56 per cent of the S&P 500 boards are comprised entirely of directors with shareholdings. Average board size has dropped from about 16 directors in the 1980s to 11 today. Only CEO duality remains high (78 per cent of S&P 500 firms).

There is just one small problem with the logic of the usual suspects—it doesn't work! Support for this contention comes from two sources. First, each of these levers for independence does not work nearly as smoothly as often assumed. For example, many outsiders are beholden to the CEO because they or the firms they represent transact considerable business with the CEO's company.⁶ Further, Josh Weston,⁷ honorary chairman and former

chairman and CEO of ADP, actually told us that stock ownership does not affect behavior but "it's good to have because it looks good on the proxy statement."⁸ Similarly, ending CEO duality (where both CEO and Chair positions are held by the same person) risks sending mixed signals to the market regarding who is really in charge at the top. It is also not hard to imagine how boards may find it difficult to attract top quality talent to the CEO position when a sitting independent Chair is part of the package. Both Louis Gerstner at IBM and Larry Bossidy at Allied Signal insisted on the joint positions before accepting their offers.⁹ In sum, when one looks more closely at each of the classic indicators of board independence, it becomes apparent that their ability to clearly make corporate governance a success is misleading.

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Second, the S&P 500 data enabled us to examine more closely the relationship between the classic metrics of board independence and what they are ostensibly designed to support: shareholder returns. We conducted two tests. In the first, we computed the industry-adjusted fiscal year 2000 total return to shareholders for all S&P 500 firms using data from COMPUSTAT and then compared the upper and lower quartiles in terms of how they scored on board independence. Result: no significant differences in the number of outsiders, director shareholdings, board size, and CEO duality between high and low performers (see Figure 1).

In the second test we honed in on a "rogue's gallery" of select firms—Enron, WorldCom, Global Crossing, Quest Communications, and Tyco—to see whether they too adhered to the "usual suspects" approach to corporate governance. Using data collected from proxy statements filed in the year before scandal publicly hit each company, we found that the boards in all five firms had almost uniformly "stellar" credentials (see Table 1). Hence, whether one considers the entire S&P 500 or just a select group of troubled firms, the result is the same—the benefits of board independence seem to be rather illusory. Most boards are "independent," yet independence assessed in the traditional fashion is unrelated to firm performance.¹⁰ Unfortunately, many of the recent reforms spearheaded by Congress and the SEC include exactly

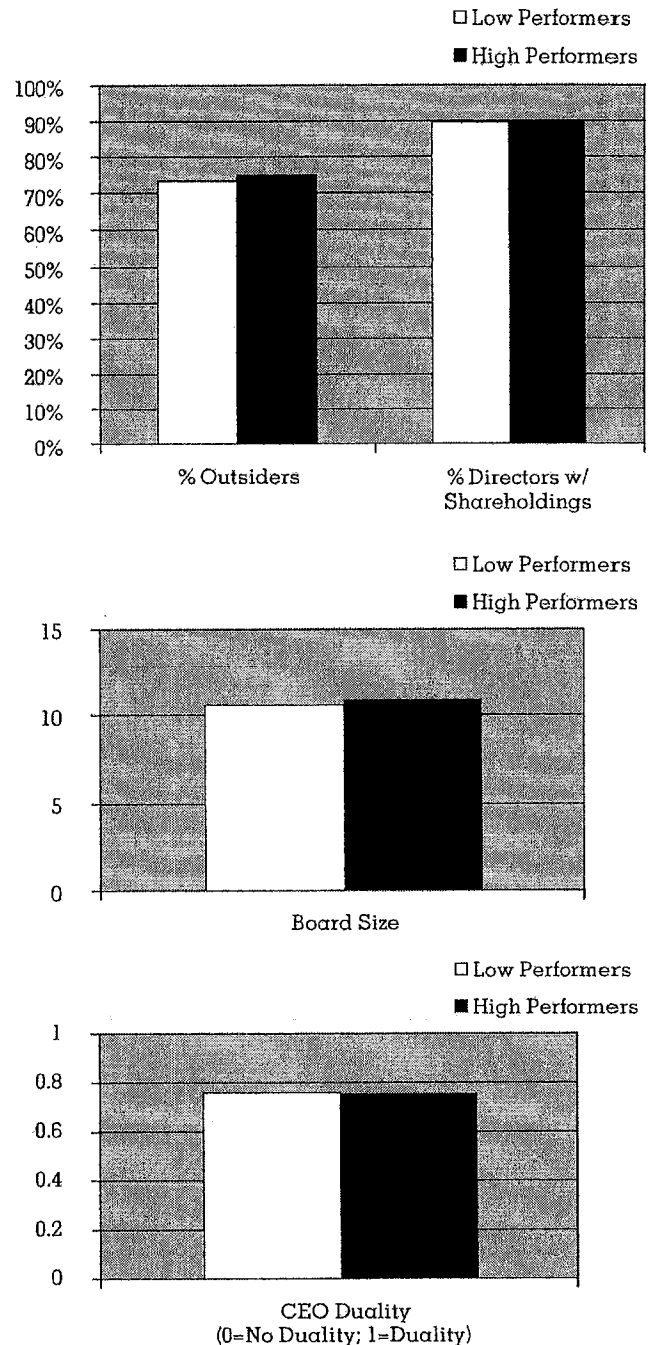


FIGURE 1
Comparison of the "Usual Suspects" in Low and High Performing S&P 500 Firms

these recommendations; yet an even more fundamental approach to improving corporate governance remains buried while academics, consultants, and reformers pursue the holy grail of independence.

In this article, we offer an alternative perspective on boards of directors that starts with the simplest of premises: the ability of a board of directors to do all the things scholars and corporate gover-

Table 1
The "Usual Suspects" in Selected Poor Performing Boards

Company	% Outsiders	% Directors w/ Shareholdings	Board Size	CEO Duality
Enron	86%	100%	14	No
WorldCom	75%	100%	12	No
Global Crossing	73%	91%	11	No
Qwest Communications	64%	92%	14	No
Tyco International	73%	100%	11	Yes

nance experts advocate depends on the quality of the individuals who become directors and their ability to get the work of the board done as a group. The insight that boards are groups, and hence that such group processes as conflict, teamwork, and comprehensiveness are critical determinants of board effectiveness, opens up a new tack on how to improve board effectiveness. Rather than simple counts of insiders and outsiders, a focus on board process suggests that the nature of the interactions among board members influences their effectiveness in fulfilling the key roles of advice and counsel for, and monitoring of, CEOs.¹¹

Our aim in this article is to develop these ideas in the context of corporate governance today, where boards have evolved to embrace many of the basic attributes of effective governance advocated by scholars and other experts. The next section identifies five critical process goals for boards. The central challenge after that is how to achieve these goals, which we address in detail by offering a checklist of recommendations to improve board effectiveness.

What Is Board Process and Why Is It Important?

If you want to understand board process and effectiveness, you have to talk to the people who sit on boards. We conducted thirty-two structured interviews with directors who, despite concerns for confidentiality, spoke candidly with us about their board experiences, yielding insights on what really makes boards work or not work. Consistent with our premise, these directors did not talk of "board independence" in a sterile fashion but emphasized the multitude of ways in which directors interact and behave as they fulfill their duties. Out of these discussions came a clear picture of board processes and how to execute on them. Board effectiveness requires that five interrelated process goals be realized: (1) Engage in constructive conflict; (2) Avoid destructive conflict; (3) Work together as a team; (4) Know the appropriate level of stra-

tegic involvement; (5) Address decisions comprehensively.

Goal #1: Engage in Constructive Conflict (Especially with the CEO)

Every one of the directors we interviewed mentioned the importance of constructive conflict, which occurs when directors hold and debate diverse views among themselves and with the CEO. Such exchanges help the board better understand issues surrounding the decision context and synthesize multiple points of view into a decision that is often superior to any individual perspective. In other words, as is true with other groups,¹² constructive conflict improves decision-making in a board and is an important determinant of effectiveness.

Although all of our directors underscored the importance of constructive conflict, several process issues made this a difficult goal to achieve. Dave Wathen, a director with years of experience on boards, said that in one case managers were slow to adapt to changes in the industry, and "we, the board, did not force them to act sooner. The lesson learned—and we learn this all the time—be faster and more aggressive in dealing with management missteps. We didn't act quicker because we don't like conflict."

Board members' willingness to challenge management has much to do with the CEO. Paul Fulchino, CEO of Avial, asserted that at one extreme you have CEOs that want a "bunch of lap dogs—guys that basically just say 'yes sir, yes sir'" and at the other extreme, CEOs aren't allowed to make a decision on their own, so "every little thing that comes up, the CEO has to check with the board." Indeed, our directors offered many examples of the first extreme: dominant CEOs who discourage constructive conflict. One person we interviewed noted that at his company the former CEO "wasn't really looking for input as much as he was looking for approval" from the board. Josh Weston,

former CEO of ADP, said, "CEOs in certain companies like to manage the news, don't want anything rocking their boat, and will try to unilaterally determine the agenda and everything that comes up."

Unfortunately, many interviewees noted that not all directors stand up to dominant CEOs. When there are insiders on such a board, few will openly challenge their boss. Referring to an internal board member (the CFO), one director told us, "I think because his boss is sitting there... he wouldn't say anything that would be in direct conflict with an opinion held by his boss. So I take them somewhat as a unit." Outsiders can also buckle under the pressure of a dominant CEO. In one director's opinion, "The most annoying thing to me in boards that I have served on has been what I call the applauding director... someone who can't find enough ways to tell the CEO how well they are doing... it's called brown-nosing."

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A lack of constructive conflict, however, might not always have to do with the CEO. For example, one director told us, "I often get the board packet the night before I leave for the meeting, so I don't have enough time to fully understand the issues. As a result, I am less likely to challenge what's going on and more likely to defer to the CEO." Furthermore, even if directors are able to prepare for meetings, too many told us that board meetings are "jam packed" and "overscheduled," providing little opportunity for debate.

In summary, although most directors agreed that challenging each other and the CEO is important, boards don't always do it. As one director of a major retailer told us, "Most boards are not as inquiring as they should be. Either they don't know that much about the subject even though they should have done more homework, or they feel shy challenging the CEO."

Goal #2: Avoid Destructive Conflict

Constructive conflict can pit one director's views against another's, and while open discussion has clear value, sometimes such task-oriented, constructive debates are taken more personally. For example, board members who are not used to being confronted as an ordinary course of business

might feel threatened when other directors challenge their ideas. When personal and emotional considerations gain prominence, constructive conflict spirals into destructive conflict, degrading group decision-making and interfering with the board's ability to perform its key roles.¹³

Although twenty-five (78 per cent) of the directors we interviewed stressed the importance of keeping conflict constructive, personal friction and tension in the boardroom—destructive conflict—does occur. Paul Foster, the former CEO of Tandy Industries, related that the "dynamics of our board changed dramatically after the proxy fight when two dissident board members joined. Prior to that there was a lot of open and free dialogue. When they came on board, it was clear they were working not with us but against us."

Destructive conflict can emerge not only when there are issues of corporate control but in the everyday activities of boards. Directors can have strong views, and when they are not balanced with a degree of tolerance and open-mindedness, they can disrupt how the board works together. For example, a computer company CEO we interviewed recalled how personal tensions among directors escalated when one director's concern for employee morale was seen as "irrelevant" by the rest of the board. Another CEO told us how the board reacted against his desire to bring in a new, relatively young board member, in part because of a justified concern that the person was too inexperienced but also as a reaction to the person who was leaving the board. The new director was to replace a prestigious outside board member, and the board wanted a director of equal stature or, as the CEO put it, "Jesus Christ himself."

Finally, there is an inherent tension between reducing destructive conflict on a board at the same time that constructive conflict is being promoted. Destructive conflict personalizes a dispute by making it less about solving an overarching group problem and more about the individuals involved. Despite their lofty positions, board members are people, and they are subject to the same biases and behaviors that all of us are. In the end, however, the combination of constructive conflict without destructive conflict is a priority for successful board process, and boards that cannot master these dual goals simultaneously will suffer.

Goal #3: Work Together as a Team

A central component of board process is teamwork, which came up in twenty-seven (84 per cent) of our interviews. Since board members, like top man-

agement teams, are confronted with complex and ambiguous strategic decisions, they too are required to work together by sharing information, resources, and decisions.¹⁴ Boards that are unable to work in partnership not only end up less able to rein in powerful CEOs; they are also less effective at providing the advice and counsel at which more collaborative boards excel.

Unfortunately, boards often do not act like teams. Developing strong team norms is difficult because boards spend little time together and, hence, have few opportunities to coalesce as a group. Most directors we spoke to said they attend about four to six meetings a year, with directors flying in the night before and meeting the following day. Although spending more time together might seem like a good solution, it's not—many of our directors stressed that their boards already require too much time from them. The challenge, rather, is making the most of the time boards have to develop team norms naturally.

Another factor that might hinder a board's ability to be a strong team, according to our interviews, is the relative distribution of influence among board members. As Paul Fulchino put it, "If you threw five dogs in a room, they would be very clear about who the senior dog was and who the junior dogs were." John Cook, chairman and CEO of Profit Recovery Group, agreed and said that a director's power has to do with professional background and personality. He explained that "anytime you have a group, you have certain personalities that are more or less leaders and, thus, have more influence over other members."

Power that is based on expertise is considerably more legitimate, and few boards should disregard relevant expertise when it is there. At the same time, though, boards need to learn how to avoid doing so at the expense of other board members' valuable contributions. This is particularly true with new directors. When new directors step in "cold," the odds are, as one interviewee told us, that they will "stay quiet for a few board meetings. Some regrettably stay quiet for a long, long time."

The bottom line on board teamwork is to avoid having a small number of dominant directors take over deliberations. Not only does this deprive the CEO of feedback and advice from less central directors, but such boards can also degenerate into fiefdoms that are unwilling to share expertise and information across boundaries. As Stanley Gault, the retired CEO of Rubbermaid, said, "If you have chemistry problems within the board, you can expect to have functional problems as well." The net result can be board decisions made without the

full participation of members, which is nobody's idea of good governance.

Goal #4: Know the Appropriate Level of Strategic Involvement

All boards vote on major strategic decisions. However, what one board deems as "major" may be very different from another board. Further, some boards may get involved with more issues and decisions than just major strategic decisions. In short, the strategic issues with which the board is involved will vary, often in ways that affect not only how boards work as a group but to how boards perform.

Every one of the directors we interviewed brought up this point, noting the increasing importance of strategic involvement as the expectations of boards change. The CEO of a financial services company told us that "today's directors have to go further than just monitoring the CEO—they have to become deeply involved in understanding what the company is doing. There is just too much liability for directors that don't pay any attention to what's actually going on." This presents a dilemma, as described by D. R. Grimes, chairman and CEO of NetBank: "There is a little bit of a philosophical change here. The outside world is beginning to hold directors more accountable, and directors do have day jobs. Where do you cross that line between oversight and micro-management of the company?"

Indeed, many of the board members we interviewed stressed that boards should not be overly involved in the firm. As Josh Weston of ADP said, "I don't think it should be for every board member to be an internal busybody." A consumer products CEO we interviewed put it this way: "Some boards take some liberties and encroach upon management's role [by saying things like] 'here's who you should hire, here's who you should use, here's a decision you should make.'" Directors noted that this tendency is a particular concern when the CEO is newly appointed. CEOs need time to establish their vision and priorities, and excessive board pressure could lead to a revolving door at the top.

The proverbial leash, on the other hand, must be tightened when the corporate outlook turns downward. This is especially true because CEOs under attack tend to circle the wagons and cut back on new or varied sources of information.¹⁵ The biggest challenge for boards is to identify those early warning signs that something might be amiss and then act on them. The experience of boards in companies such as Enron, K-Mart, and WorldCom sug-

gests that the burden of proof may well have shifted toward ever-closer board involvement.

Goal #5: Address Decisions Comprehensively

Finally, all of the interviewed directors emphasized that if a board deems a matter important and strategic enough to require their involvement, they must make the effort to address that decision comprehensively. The problem is, however, that boards often tackle problems in a less than comprehensive manner—they often address decisions with little depth, avoid seeking help from experts, and limit their exploration of decision alternatives.¹⁶

How comprehensive boards are in delving into a decision depends on numerous considerations but especially the financial condition of the company and the potential risks that might emerge. When the margin for error is small because of financial difficulties, greater scrutiny is called for. This is one of the reasons that the Mattel board was so criticized after they allowed then CEO Jill Barad to continue missing earnings targets quarter after quarter. And this is also one of the primary reasons that the Enron board is going down as a textbook example of what not to do—board approval for a myriad of off-balance-sheet partnerships and other arrangements was apparently given with only the most cursory of investigations.

As such incidents have received notoriety, board members appear to be moving toward a deeper appreciation for the value of decision comprehensiveness—so much so that some executives shy away from directorships because they feel it's too difficult to add value. For example, even Robert Galvin, former chairman and CEO of Motorola, who would be seen by many as an ideal director based on his experience, expressed his reluctance to join boards: "The reason I have not gone on other boards was that I never felt, knowing what I knew about Motorola—and I was very hands on—that I could ever know enough about the other company to be relevant in my advice to the chief executive officer. If you want to talk generalizations, fine, call me and we'll have a drink together, and I'll do that every couple of years."

In sum, addressing decisions comprehensively, like the other four key goals we identified, is really at the heart of what it takes to make successful corporate governance happen. The dilemma is that, as described above, there are numerous challenges to achieving these five goals. This is because the goals that define effective board process are really all about the people who sit on boards, making them considerably more messy and com-

plex to achieve than, for example, just adding more outsiders. Despite this challenge, however, there are many steps directors can take to get process right.

An Action Plan for Improving Board Process

Given that the five process goals presented in the previous section are so critical to board effectiveness, we spent the lion's share of our interviews probing our directors on these points. In addition, we looked at related research on groups, top management teams, and decision-making to fine-tune our thinking. Most of the recommendations that emerged from this analysis were helpful in advancing more than one process goal and, in some cases, addressed all five goals. For example, as we discuss below, formal evaluations of the board can help directors achieve all five process goals. As a result, we put together all of our recommendations in a checklist that spans multiple goals (Table 2).

Formal evaluations of the board can help directors achieve all five process goals.

Selection: Get the Right People

Boards are only as good as the people who sit on them, and several directors pointed out that the selection process should not be dominated by the CEO.¹⁷ Rather, the incumbent board members should be *actively involved in selecting new board members*. This involvement has the salutary effect of enhancing their support for the new people, creating an incentive for sitting board members to integrate newcomers into the larger group. Involving all directors also avoids exclusionary feelings that can create tension.

When working together to select new directors, our directors repeatedly stressed the importance of opting for directors with *strategically relevant experience*. As Charles Elson, director of Sunbeam, put it, "The key to creating a monitoring mechanism [is to have] folks on the board with expertise in different areas, whether it be finance, marketing, general management, retailing, international, [or] accounting." For example, one experienced director said that "if you want to understand housewives, then you'd better have somebody who understands housewives sitting on the board; if you're going to depend on innovation, then you'd better have some free-thinking and imaginative people in there." And Russell Lewis, president and CEO of the New York Times Company, told us that

Table 2
Checklist for Effective Board Process

- Goal #1: Engage in Constructive Conflict
 Goal #2: Avoid Destructive Conflict
 Goal #3: Work Together As a Team
 Goal #4: Know the Appropriate Level of Strategic Involvement
 Goal #5: Address Decisions Comprehensively

Board Action Items	Goals				
	#1	#2	#3	#4	#5
Selection: Get the Right People					
Be actively involved in the selection of new directors		✓	✓		
Look for directors with strategically relevant experience	✓			✓	✓
Select directors with strong communication skills	✓	✓	✓		
Consider the personality of potential directors		✓	✓		
Ensure that new directors will have the time to serve	✓	✓	✓		✓
Structure: Put Meaningful Structure in Place					
Avoid unnecessary divisions among directors		✓	✓		
Communicate between board meetings, especially with CEO			✓		✓
Appoint a lead outside director	✓				✓
Regularly evaluate the board and CEO using performance metrics	✓	✓	✓	✓	✓
Set term limits to keep the board fresh	✓			✓	✓
Staging: Set the Stage for Effective Board Meetings					
Establish criteria for the strategic decisions that the board will address		✓		✓	
Clarify rules of behavior	✓	✓	✓		
Help new directors get assimilated on board		✓	✓		
Demand adequate time to prepare for meetings	✓	✓			✓
Ensure that materials received for board meetings are meaningful	✓			✓	✓
Ensure that meetings are not overscheduled	✓	✓	✓		✓
Periodically hold meetings "in the field"				✓	✓
Steering: Steer Board Meetings to Improve Board Process					
Keep a close eye on management and have the "guts" to disagree	✓				✓
Talk to people who are directly involved in decisions				✓	✓
Solicit help from outside experts	✓			✓	✓
Meet without the CEO	✓			✓	
Promote devil's advocacy to explore alternatives	✓				✓
Solicit feedback from more junior, and less vocal, directors			✓		✓
Encourage facilitation techniques to maximize contributions	✓	✓	✓		✓
Regularly ask CEOs big-picture questions				✓	
Perform scenario planning					✓

✓ = Although each action item might arguably address all five board process goals, a checkmark indicates that the action item is likely to be especially helpful in assisting boards to achieve that board process goal.

he and his board try to get directors with "a diversity of professional backgrounds that pertain to our business, and we also try to get a diversity of folks from a gender and ethnic point of view because we think that is important and mirrors what we are doing at the business level."

Directors valued strategically relevant experience not only because such members are more likely to engage in constructive conflict by offering informed but differing points of view but also because they are more likely to improve decision comprehensiveness by adding richness to discussions. As John Cook, CEO and chairman of Profit

Recovery Group, said, outside board members' knowledge and skills should complement those of the CEO and top management, providing a richer consideration and resolution of strategic issues.

Board members also stressed the importance of evaluating the *communication style of potential directors*. Can they explain themselves well? Are they good listeners? As one director suggested, it is important that a new director be "somebody who is a good listener and has the patience to hear somebody else out." Although one would expect communication skills to go along with valuable work experience, it isn't always the case. As one

experienced director explained, "You can be the smartest person, but if you don't speak out frankly, it's worthless. You've got to be effective in communicating, in a way that people will listen to and not just turn off."

The *personality of new directors* is an additional important consideration. Sitting directors should evaluate whether the new director "clicks" with the board and has the right attitude, the integrity to represent shareholders effectively, and the courage to speak up to the CEO and management. Indeed, one of our directors commented that boards should choose directors that are "very optimistic and positive but not afraid to ask serious questions" and "forceful and outspoken, and not at all hesitant to voice their point of view on any subject." As one experienced director summarized, "There is nothing worse than a board member who comes in and sits there and doesn't say anything." Stanley Gault of Rubbermaid told us what he says when invited on a board: "I will do my homework, and I will learn as much about the business as possible, but I do speak my mind. If you're looking for someone who will always agree with management and be a 'rubber stamp' director, I'm not your boy."

Finally, board members noted that potential directors must have the *time to serve*. With the average executive now sitting on four boards, almost a quarter of the companies in the Korn/Ferry International survey (2001) actually place limits on the number of other board seats their directors can take on. Without adequate time, directors will be unlikely to attend all board meetings or be as involved in decision-making as they might otherwise be, limiting their ability to contribute to constructive debate, decision comprehensiveness, and team dynamics on the board.

Structure: Put a Meaningful Structure in Place

A board's structure is also an important element in promoting effective process. It is becoming fairly common today for boards to appoint an executive committee that meets more often than the full board and has responsibility for certain decisions. While this practice has potential advantages (speed of decision-making, for example), it can also create a two-tier system that elevates the executive committee to a higher authority. Over time, the other directors might start to see themselves as less central. Such tension can lead to destructive conflict and make it harder for the board as a whole to work together. So, boards should *assess their committee structure to ensure that it does not result in unnecessary divisions among directors*.

The directors we interviewed also suggested that *a structure be put in place to help directors communicate between board meetings*. Whether the entire board meets via conference call between formal board meetings, or individual directors initiate their own calls to the CEO, ongoing communication is critical. For example, one director said, "If I see something in the paper or I'm curious about a competitor, I'll often call him [the CEO] and chat with him about it, what's going on with this guy—and how about this (some strategic, M&A thing that is going on with one of the competitors), have they moved into another business or discontinued a business, things like that." By leaving the door open for communication beyond the small number of board meetings held each year, directors can do a better job of monitoring management, and managers will have more timely feedback from outsiders.

Appointing an outside lead director can help improve board functioning. An outside lead director who is truly independent of the CEO could help mitigate a CEO's control by being more involved in planning the board agenda and facilitating board meetings so that the right strategic issues are considered and critically evaluated. As Josh Weston of ADP explained, this might not mean appointing one lead director; boards can have multiple lead directors that lead based on their areas of expertise. He says:

I am on the JCREW board. Stuff with JCREW, I'll get very involved in at the board meeting. But then when they get into style discussions, I know enough to know that there are a lot of people there that know more. In other words, I'm not the lead director in that dialogue. They have the guy who is the CEO of Federated Stores; he knows more about it than I do. It isn't the same person all the time; I don't think it should be.

Another important practice that should be built into the structure of the board is to *regularly evaluate the board and CEO using clear performance metrics*. Stanley Gault provides this blueprint:

This evaluation process should be managed by an outside independent organization, and every committee of the board should undergo an annual evaluation of its performance. . . . If the performance or conduct of any board member(s) is deemed to be . . . of concern to the other members, the chairman and at least one other board member should arrange to meet with the involved individual(s) to dis-

cuss the issues or concerns that have been identified and how the individual(s) proposes to address them. If the issues are not resolved satisfactorily in a reasonable time, the individual(s) should resign from the board or the board should not recommend the individual(s) to stand for re-election as a board member.

Finally, boards should *set term limits to keep the board fresh*. Directors that serve together for years on end may be less inclined to question management critically. As one director put it, directors can get "pretty tight with management" over time. Directors who serve for a long period of time might also not have the right expertise to comprehensively address the firm's current strategic issues. As D.R. Grimes explained, "If you are a director of a company and the biggest company you ever worked for is X and then all of a sudden the company you are a director for grows from X to 10X—that may be a challenge."

Staging: Set the Stage for Effective Board Meetings

Once the right directors have been selected and a meaningful structure is put in place, directors need to set the stage for effective board meetings. In particular, the directors we interviewed repeatedly noted how important it was that boards *establish criteria for the strategic decisions which the board will address*.

How can directors assess what is appropriate? Russell Lewis, CEO of the New York Times, put it bluntly: "The board's primary responsibility is to make sure the management team knows what the hell it's doing." The CEO of a major fashion company said, "I think the board should approve the strategies of the company—I don't mean that in any passive reactive way—it should be engaged in the process, and I think it ought to hold the CEO and the management accountable for results."

"The board's primary responsibility is to make sure the management team knows what the hell it's doing."

In addition to overseeing strategy, the other areas directors agreed were non-negotiable were performance shortfalls and CEO succession. As one experienced director put it, "The most important role a board has is naming the chief executive officer, and that is wholly and solely the board's

function, prerogative, and responsibility to shareholders." Several directors emphasized that the extent of board involvement on an issue depends on its potential downside. The director of a global media services company said, "Boards really come into their own in fearful situations. Number one, when there is a change in chief executive and somebody has got to make that call is when the board really has to be tested, and second, when you want to merge, buy, or be bought, and third, when you decide to expand either in a big way into a new geography, a new category, or a completely new business."¹⁸

The upshot is this: boards must decide what triggers will force a closer look at the CEO and his or her activities. Whether it involves the board agreeing on a particular investment threshold that automatically triggers the board's attention, as one director told us, or some other method, the right time to have this debate is before something goes wrong. Setting decision criteria helps boards be more comprehensive when they need to be, while reducing the likelihood that any director will be an "internal busybody."

Agreeing to the triggers for comprehensive action is not the only prep work for boards. Directors need to *clarify expectations and rules of behavior* for such matters as attendance at board meetings, confidentiality of discussions, and involvement in discussions. These rules will help directors understand and, in turn, meet the expectations of their fellow directors, promote collective action,¹⁹ and aid new directors in getting up to speed more quickly.

Directors should also consider what other steps can be taken to *help new directors get assimilated on board*. How many companies spend the time to ease the passage of a new director into an already established group? How often are specialized orientation programs created to help a new director gain not only a deeper understanding of the company's direction but also insight into board functioning and dynamics? For example, one director noted that the CEO of the company flew to see her and spent half a day discussing the firm's financials. In another case, a director mentioned that a couple of senior directors sat down with him separately for a few hours before the first board meeting to give him a sense of what to expect. But overall there were few such testimonials; many of our directors agreed that when they were starting out on their boards, they could have benefited from more help from standing directors.

Adequately preparing for board meetings also sets the stage for stronger interactions. As Bob Galvin of Motorola said, "My advice would be to

