



Corporate Board Member

What Directors Think: Special Issue 2004

Friendly Fire: Measuring the Competence of Your Colleagues
by Susan Littwin

Should individual directors be evaluated regularly?

Survey Says

Yes - 79%

“We look around the table,” NetIQ Corp. board member Maureen McNichols says. “We notice the insights, the preparation of the other board members.” What prompts that look? “It’s the notion of a weak link in the chain,” says McNichols, a professor at the Stanford Graduate School of Business and the director of the school’s corporate governance program. “What if there is no one in position to recognize a problem and bring it to the board’s attention?”

Directors have been looking nervously around the table since the perp parades of Enron. “Every board member thinks, ‘There but for the grace of God,’” says the Corporate Library’s Nell Minow. “Your colleague on the board isn’t your golf buddy. He can land you in a lawsuit. It’s time to thin the herd and leave the incompetent behind.”

Probably worse than a lawsuit is the damage to a reputation built up over a long career. “No one wants to be remembered the way poor Bob Jaedicke is,” says Robert “Steve” Miller, who currently serves on six public boards, among them those of Federal-Mogul Corp. and Pope & Talbot. Jaedicke, the onetime dean of the Stanford Graduate School of Business, ended his illustrious career as chair of the audit committee at Enron. “He was an example to us all,” Miller says.

“Boards are more open now, more willing to be honest about gaps,” says Beverly Behan, a partner for corporate governance practice at the management consulting firm Mercer Delta. “There still is a patina of gentility in the boardroom,” she points out, but that may change soon. “The two most sensitive areas in corporate governance are CEO compensation and director evaluations,” says Charles Thayer, a director of BB&T Bank (Florida). Indeed, the New York Stock Exchange now requires boards to evaluate themselves, and many companies on other exchanges have followed suit.

Behan, who has conducted more than 40 board evaluations, identifies four types of unsatisfactory board members: the unengaged, who don’t attend or prepare well; the domineering self-promoters, who “like to hear themselves talk and hijack the meeting”; the directors with their own axes to grind, such as a member who wants—or even was a candidate for—the CEO’s job; and the management lapdogs.

“The problem type that must be addressed,” says Behan, “is the domineering board member. The lead director has to step up to the plate on that issue, because it creates dysfunction.” But isn’t the braggart the one most likely to point out matters that the more mannerly won’t mention? “People stop listening to them,” Behan replies. “People say nine out of 10 points they raise have no value.”

Given the squeamishness board members feel about criticizing one another, evaluations may spawn a cottage industry of outside facilitators. Edward Lawler, a professor at the University of Southern California's Marshall School of Business and co-author of *Corporate Boards: New Strategies for Adding Value at the Top* (Jossey-Bass, 2001), often oversees evaluations and presents directors with feedback. "CEOs say it would be insulting if board members had to evaluate each other, but I've done it for them and the information is generally taken as useful," says Lawler. When a problem director is spotted, he notes, that person is given a chance to improve or resign.

"It's still socially sensitive to say a board member isn't carrying his weight," says Miller. "But we don't want laggards."

Not everyone worries about the social awkwardness of evaluations. Thomas Simone, who serves on the boards of Spectrum Organic Products and United Natural Foods, says, "Most board members are former or current executives. They have been evaluated and they have evaluated others throughout their careers. They're pros."

"Directors are tougher on each other today," says Wesley E. Cantrell, a director of Ann Taylor Stores. "With boards doing self-evaluations, we are bringing to light any member who isn't participating fully in the work of the board. There is no place to hide."

When it comes to action, most boards have tended to wait out a bad member until his term expires or he reaches the age limit. Warren Batts, an adjunct professor of strategic management at the University of Chicago Graduate School of Business, has served on 14 public boards and is currently a director of Methode Electronics. "If you have, say, eight outside directors, and one is bad," he says, "the other seven will carry his load. 'Old Joe is just not cutting it, so let's work around him.' It's human nature. The window of opportunity to make a change is when his term expires."

But Lawler points out that boards turn over slowly. "What do you do now?" he asks. "You must correct for past mistakes. And evaluation gives a board a chance to do that."

Minow recalls an argument she once had with a veteran board member over the issue of term limits—which he favored. "His trump card," she recalls, "was a big-name member of a board of a major financial institution, who was a roaring alcoholic. 'We couldn't have gotten him off the board without term limits,' he told me."

"You're a sissy if you can't get an alcoholic off a board," Minow retorted.

A solution to less flagrant failings is board-member education. Preventive medicine is becoming much more common too: Potential new members are being examined scrupulously. "The nominating process has changed," says Miller. "It used to be the CEO had a friend. Today I see independent nominating and corporate governance committees looking for someone to round out the skill set. Every seat has to be filled by someone who brings something to the party."

And they must be careful not to become party poopers once they're on board.