Enlightened Boards: Action Beyond Obligation

By Curtis J. Crawford, Ph.D

A company's corporate governance—whether good or bad—is established by its board of directors. Ideally, these directors will be energetic, experienced people deeply concerned about the company's welfare. When independent directors work effectively with the company's senior management team, they are likely to produce a corporate climate that accelerates the growth of long-term shareholder value.

In my book, *Compliance and Conviction: The Evolution of Enlightened Corporate Governance,* I suggest that enlightenment is the touchstone for delivering sustainable long-term shareholder value and its cornerstone is extreme personal leadership.

Leveraging good corporate governance is the key to building long-term shareholder value and earning broad-based stakeholder appreciation. Enlightened corporate governance is about the pursuit of what is possible versus what is required. Good corporate governance should mean more than simply meeting the requirements of the job. Corporate boards and individual directors who merely maintain regulatory compliance are likely to satisfy the interests of short-term stakeholders and minimize their risks of corporate failure, but they also lessen the possibility of substantial long-term shareholder gain.

When corporate governance is enlightened, regulatory compliance becomes part of a pursuit of increasing value for long-term shareholders. Enlightened corporate boards and directors have strong convictions about their responsibilities and want to do more than what is required; they want to do what is possible. They maintain the highest moral, ethical, and legal standards and exude confidence in their company. They strive to be, and expect to be, the benchmark for other companies.

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Director Summary: The author posits that what makes a board enlightened, as opposed to traditional, or standard, is a devotion to the highest ethical standards, identification with the shareholders as company owners, and an inclination to go beyond compliance to strategize and increase shareholder value and long-term company performance.

Traditional, Standard, and Enlightened Boards

Corporate boards have many distinguishing characteristics. Researchers over the decades have examined many of these attributes to discover how they affect corporate performance. They have analyzed details of board composition, including diversity, size, and tenure. However, I believe the most revealing features of corporate boards are attitudes and behaviors. In my view, corporate directors' attitudes and behaviors lend themselves to classification into three distinct categories: traditional, standard, and enlightened.

Traditional directors guide their boards by ways of the past; standard directors toe the line through compliance with laws and regulations; and enlightened directors propel themselves and their boards beyond expected performance.

Because boards are reflections of the directors who comprise them, they can be classified similarly. Traditional boards function conservatively; standard boards confine their activities to enforcing laws and regulations; and enlightened boards seek to excel. All directors, each in their different way, are working to carry out their responsibilities to shareholders.

The Traditional Board

The traditional board provides support for the CEO and acts as a resource for the senior management team. This type of board is highly concerned about the care and feeding of the CEO, largely because the CEO, who generally handpicks the members of the board, expects it. Members of the traditional board provide valuable linkages to customers and community leaders as well as access to product and service

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partners, personal mentors, and potential funding sources. The traditional board is equally concerned about fiduciary oversight and duty of care. Meetings are held regularly, well organized, and executed according to plan. For many decades, most boards operated in the traditional mode, and traditional directors often regard the Sarbanes-Oxley Act of 2002 as a constraining or inhibiting influence on building shareholder value. Traditional boards are likely to be large, serve larger corporations, and have more directors with more tenure in their respective industries, whether or not their experience is relevant to current company needs.

The Standard Board

The standard board is centered on doing what shareholders, regulators, and other stakeholders expect of them. This board has a heightened awareness of directors' obligations to comply with laws and regulations. Because the standard board stays sharply focused on regulatory compliance, senior management is likely to view the board as a monitoring agency. Standard directors are likely to feel mandated to engage more deeply than traditional directors in overseeing corporate operations. They regard the Sarbanes-Oxley Act as a liberating influence that frees them to delve more deeply into company activities.

The Enlightened Board

The enlightened board focuses its energy on the company's shareholders to do what is necessary and appropriate to maximize shareholder value. Like traditional and standard directors, enlightened directors feel duty-bound to support and help the CEO. Like standard directors, they maintain a firm commitment to all board obligations, including ensuring full compliance with laws and regulations. However, enlightened boards differ from the other two in possessing a strong sense of company ownership that is appropriately aligned with the shareholders' ownership of the company and other stakeholders' connectedness with the company. Enlightened boards live neither on tradition nor standards, but on strategy!

Enlightened boards regard their mission as helping management lead the company. They are more likely to be supportive of the senior management team. Because enlightened directors strongly believe that it is their duty to involve themselves in an intellectual analysis of how the company should move forward into the future, most of the time, the enlightened board is aligned on the critically important issues facing the company.

Unlike traditional boards, enlightened boards do not feel hampered by the rules and regulations of the Sarbanes-Oxley Act. Unlike standard boards that aim to comply with regulations, enlightened boards regard compliance with regulations as merely a baseline for board performance. Enlightened directors go far beyond merely meeting the requirements on a checklist. They do not need Sarbanes-Oxley to mandate that they protect values and ethics or monitor CEO performance.

At the same time, enlightened directors recognize that it is not their role to be involved in the day-to-day operations of the corporation. They lead by example. Overall, what most distinguishes enlightened directors from traditional and standard directors is the passionate obligation they feel to engage in the day-to-day challenges and strategizing of the company. Enlightened boards can be found in very large, complex companies, as well as smaller companies.

Board Attitudes and Behaviors

Although directors from all three types of boards are almost certainly talented people, they are most likely not equal in any capacity, including their willingness to view intricate corporate governance issues from a wide perspective. That being the case, I believe directors and boards, by changing their attitudes and behaviors, can propel their companies toward substantially enhanced long-term shareholder value.

In some ways traditional, standard, and enlightened boards function much alike; however, on many critical issues their attitudes diverge. In *Compliance and Conviction,* I hypothesize the attitudes and resulting behaviors of these three different board types as they approach important board activities. These activities are: planning management succession; developing strategy; configuring the board; choosing the board chair; coaching and mentoring the CEO; managing stakeholders; supporting customers and managing suppliers; prioritizing activities; coping with risk; and rewarding directors.

As an example, when it comes to succession planning, all three types of boards expect the CEO to develop his or her successor. However, the traditional board is likely to relegate the responsibility of the succession planning

process and identifying future CEO candidates to the current CEO. It will approve his or her selection provided that it can be credibly justified and that the CEO has not lost the board's confidence. In contrast, the standard board recognizes that directors are responsible for engaging in the process of selecting his or her successor. Thus, standard directors will feel obligated to question the CEO more deeply about the candidates he or she proposes and are likely to suggest alternate candidates for the board to consider.

The enlightened board readily accepts full responsibility for CEO succession planning and selecting the next CEO. The board seeks the CEO's advice and counsel in their selection of candidates and expects the incumbent CEO to submit the names of nominee candidates and to make other significant contributions to the selection process as both a board member and a management participant in the selection process. However, the enlightened board does not permit the CEO to choose his or her successor or to take an independent lead in making that selection.

Clearly, when dealing with a very strong CEO, the selection-process approaches of the three different categories of boards are quite different. The traditional board follows the strong CEO's lead. The standard board does the same, but its members first engage with the CEO as he or she contemplates the selection.

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CEO succession is just one example where enlightenment in the boardroom will influence the success of a company. Boardroom leadership, in support of management leadership, is the foundation for competing effectively by inspiring creativity and leveraging intellectual capacity. For enlightened directors and boards, engaging the principles of extreme personal leadership is the touchstone for maximizing results. And principled leadership requires action beyond obligation to earn increasing shareowner value. ■

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