



## Article Highlights

- In general, the public has become distrustful of corporate America, thus, undoubtedly, discouraging some bright individuals from serving in top corporate positions where the risk of failure may be too great.
- A recent study shows that the majority of directors (99% of those surveyed) believe they are exposed to greater personal risk by serving on a board than they were 12 months ago.
- If the corporate environment is such that talented CEOs and directors no longer wish to serve in their positions, then we all lose.

## Corporate Board Service: Is it Worth the Risk?

Written by Michelle Ronco

Walking through town the other day there was a television in a store window with President Obama on the screen. A group of us waiting to cross the street could not hear what the President was saying, but it didn't matter, we watched anyway. As the light changed and we began to cross the street, I heard one man say, "Boy, he already looks terrible." Another woman, a stranger, said, "I wonder who would ever want that job?" A few of us chuckled and a third woman shouted, "Not me!"

This interesting interaction with my neighbors struck a chord with me. I personally do not aspire to be President of the United States, but I'm sure glad others do. I'm sure many of you would agree. The rest of us watch, criticize and cheer, but the bottom line is that we are best served by smart, experienced and conscientious politicians. After a bit of reflection, I realized that the same concept applies in business. The CEOs, directors and executives that make up our corporations are the stewards of our livelihoods, and we want the best and brightest to lead.

So, why don't some people want the job? Many of us are involved in our communities, volunteer, are what XCEO defines as X-leaders and have the resources to dedicate to political service. However, how many of us are, in fact, elected officials? Most of us do not get involved for various reasons. One of them, I'm sure, is risk. Simply put, we have too much to lose. Why perform a job in which it is too difficult to be successful?

For many reasons including corporate failures, criminal behavior and the like, society, in general, has turned distrustful of corporate America. The headlines of theft and oversight run daily, and not surprisingly,

many people are angry. Those who broke the law and did not live-up to their responsibilities to shareholders should be caught and punished accordingly. There is no excuse for theft, withholding of information and other underhanded actions by executives and directors. Although few, some boards have not honored their promises, thus, putting shareholders, employees and other directors in a precarious situation. It is wrong for people to assume all boards are corrupt. Actions of the minority have tainted the majority of honest and successful boards. However, the bottom line is that risk has been introduced into the system.

Consider this: some citizens are upset that Mr. Fritz Henderson, the new President & CEO of GM, along with Mr. Benmosche at AIG, are paid so much to run companies that some view as responsible for this economic crisis. The government takes control and as a result, salaries are capped and previously undisclosed access to information is increased, all in the name of oversight. Rationally, you wonder, with a distrusting public and the challenge of bringing your company back from the void, how much would they have to pay you to do that job? In the case of Messrs. Henderson and Benmosche, perhaps these two gentlemen are the best for the position. However, how many other exceptionally qualified candidates *didn't* take the job? This also holds true for corporate boards. How many seasoned directors, vital to substantial turn-arounds of major companies, opt out of service?

At XCEO, we are in the business of board and director personal leadership development. Working with boards and directors on a daily basis, I can tell you that

risk is a hot topic. In 2008, 99% of directors said their personal risk as a director is either the same or higher now than it has been in the past 12 months. Perhaps that is why fewer directors are willing to sit on boards.<sup>1</sup> In fact, a 2007 study by PricewaterhouseCoopers stated that 29% of directors surveyed have resigned, thought seriously about resigning, or refrained from taking an additional seat.<sup>2</sup> What these statistics imply is that these directors do not believe the job is worth the risk.

Perhaps you are thinking to yourself, what risk do directors really have? Well, not only are directors and executives at risk via their companies for non due diligence, violation of SEC and other laws, insider trading, etc., directors themselves face personal risk. Personal financial, reputational and future potential career opportunities are at risk every time a director joins a board. There are protective measures put in place such as Director & Officer (D&O) insurance, but it varies from company to company, and it does not cover everything. It is not the presidency, but with much to lose, it seems rational to me for directors to weigh service very carefully, and in some cases, opt out.

Twenty-nine percent of directors resigning or choosing not to serve two years ago may not seem like a large number compared to the number of directors joining boards, but I believe there is a more important trend emerging that will become an even larger problem.

It is likely that young professionals and executives may be discouraged from serving because the reward is minimal. Walking executives out in handcuffs, public scrutiny and the assumption that all business people are crooks, has the unintentional consequence of discouraging a future generation of leaders. The next wave of leaders may challenge the idea of service, unwilling to make the sacrifices and take the risk of joining boards. The honest, hardworking and bright future X-leaders may see board service as unprincipled and risky. They may choose to serve in other ways, leaving boardroom seats to be filled by other less qualified candidates. So, while many seasoned directors are reducing the

number of boards they serve on, or, discontinuing service altogether, it is my experience, that the next generation of X-Leaders are joining boards with less frequency.

The number of qualified women and men who are willing to be directors is far less than the bright, prepared and enthusiastic people our companies need. In my opinion, no matter the age, race or background of directors, fewer younger executives will want to be on boards in the future. In this game, no one wins.

The real solution is enlightened corporate governance in our boardrooms. Enlightened boards attract enlightened directors because the risk to both is reduced. Seasoned directors will more likely serve on an enlightened board than a traditional board because they can positively contribute, learn and be effective with other directors of a similar caliber. In fact, *What Directors Think* survey published in 2008 reported that 81% of directors say that "companies with good corporate governance enjoy a greater level of ease in recruiting new board members."<sup>3</sup> Younger directors, who exude the highest of personal leadership and duty of care, will too surround themselves with enlightened directors. Thus, the board attracts, retains and grooms the top corporate leaders to be enlightened. In this case, risk is minimized.

The important concept to take away is this: If directors do not serve because there is too much risk, and up and coming professionals are not encouraged to serve because of the risk, their non-service puts you and I at risk. Whether directly or indirectly, we are dependent on talented persons leading our organizations, especially in the current economic environment. We work for, invest in, and are stakeholders of the products and services of corporations. The problem we are trying to solve is, what to do when our best decide it isn't worth doing?

Poor decision making, lack of focus, etc. should not go unpunished. However, there needs to be a delicate balance between regulations and an environment where talented executives, CEOs and directors do



*"... We need to be cautious that we create an environment where the best are willing and prepared to serve, and our experienced leaders continue to welcome the challenges of personal leadership in our corporations"*

not even want to get in the game. The lawbreakers discourage the honest, and that becomes a problem for all of us. We have far more to lose as a whole than our personal financial wealth. We risk personal leadership. XCEO and others out there like us, are committed to supporting boards and directors in their commitment to continuously seek ways to improve their performance. We aid directors in their individual quests to be thoughtful, well prepared and in the best position for serving shareholders. Maximizing performance with the highest standards for duty of care minimizes the risk to us all.

Besides minimizing risk and subsequently encouraging director service, I do not purport to have the answer on how to fix the problem of directors declining board service. However, I do suggest that the most important factor is ensuring that our directors have access to the tools which inspire them to perform to the best of their abilities. As taxpayers, as employees and citizens, we should continue to keep a watchful eye and clamor for enlightened corporate governance. However, we need to be cautious that we create an environment where the best are willing and prepared to serve, and our experienced leaders continue to welcome the challenges of personal leadership in our corporations.

The minimization of risk, enlightened performance and subsequent encouragement to serve of the next wave of future leaders will benefit us all. Let us hope that the next time someone asks corporate boards and directors, "Who would want that job?", at least a few of the right hands go up.

References:

<sup>1</sup> "What Directors Think 2008". *Corporate Board Member/PricewaterhouseCoopers Survey* (2008).

<sup>2</sup> "What Directors Think 2007", *Corporate Board Member/PricewaterhouseCoopers Survey* (2007).

<sup>3</sup> "What Directors Think 2008", *Corporate Board Member/PricewaterhouseCoopers Survey* (2008).



## About the Author



Michelle Ronco

As the Program Director of Corporate Governance & Board Leadership Development, Ms. Ronco led the development and release of XCEO's Online Extreme Personal Leadership Tools. Michelle also designed and created XCEO's Enlightened Corporate Governance Board & Director Evaluation Program intended for use in corporate boardrooms around the globe. A completely web-based program with eight different on-line evaluation exercises, the program provides a reflective and creative evaluation process. The questions are derived from a perspective developed from within the boardroom and each program can be tailored to fit each individual board in terms of length, offering and exercise allowances.

Ms. Ronco is a member of XCEO's research team in addition to being the principal publisher of the books *Corporate Rise* and *Compliance & Conviction*. For almost six years, Ms. Ronco has participated in many facets of the XCEO organization including idea creation, researching and editing. She was responsible for the layout, production and distribution efforts of both XCEO publications. As well, Ms. Ronco designed a production process in order to coordinate the many intricate aspects of book publishing. Ms. Ronco also developed marketing strategies for the successful release and circulation of *Corporate Rise* and *Compliance & Conviction* to the general public.

Currently, Ms. Ronco is responsible for the development of, and oversight of XCEO's LinXsus Elite® Program. This program, intended for newly appointed directors or high-aspiration individuals seeking board service opportunities, serves as a lifeline for directors. This program includes XCEO's professional mentoring services, inclusion in XCEO's Search for Development program, a Risk Oversight Evaluation Module as well as other personal brand concepts to provide a comprehensive experience to directors seeking improved boardroom effectiveness.

Previous to joining the XCEO team, Ms. Ronco worked for Morgan Stanley as a Financial Advisor and was Assistant Web Master for Santa Clara University's Leavey School of Business website.

Michelle earned her MBA with an emphasis on Finance and International Business from Santa Clara University in Santa Clara, California. She also holds a Bachelor of Science in Commerce (BSC) in Economics and Operations and Management Information Systems from Santa Clara University.

## About Our Organization

At XCEO, Inc., we believe individual leadership is the driving force for inspiring creativity and ultimately maximizing intellectual capacity. We provide individual and corporate development in the principles of *Extreme Personal Leadership*®. We call this *X-Leadership* and it is the touchstone of our company.

In today's globally competitive world, intellectual property is a key indicator of long-term success. Corporations and individuals are seeking knowledge intensive solutions to sustain a competitive advantage. At XCEO, we offer *Professional*

*Mentoring and Personal Leadership Development* programs, as well as *Corporate Governance and Board Leadership Development* programs, for high-aspiration individuals and forward-looking corporations.

Through our Professional Mentoring and Personal Leadership programs, we assist individuals in developing personal career and development plans to achieve senior executive-level positions. We also support corporations that recognize the need for a broad array of development options for their high-potential employees being

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groomed for senior leadership responsibilities.

As part of XCEO's pursuit of enlightened corporate governance, we have created *the Enlightened Corporate Governance Board Performance Evaluation Program* to support boards and directors in their pursuit of excellence. Through our program, we are leading the movement past compliance, toward principled action which maximizes shareholder value. We have designed a set of eight individual and board evaluation exercises which provide an exceptional opportunity for directors to take their boards to a whole new level of effectiveness.

XCEO is a unique research, development and consulting firm. We are committed to excellence and the pursuit of *Extreme Personal Leadership*®. We specialize in inspiration, and endeavor to inspire highly enlightened executives and high-aspiration individuals to pursue maximum personal

achievement. We have a leadership team of highly trained and highly motivated colleagues who are eager to serve our clients. Excellence is our goal. We are located in the heart of Silicon Valley and we stand ready to help our clients achieve extraordinary levels of performance and success.

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