OUR TOP SIX CORPORATE GOVERNANCE DOS AND DON’TS

AVOID THE STORMY WATERS OF BAD CORPORATE GOVERNANCE
IN THE EPIC MOVIE, THE CURSE OF THE BLACK PEARL...

...the character Jack Sparrow contends that ‘The only rules that really matter are these: what a man can do and what a man can’t do. For example, I can let you drown, but I can’t bring this ship into Tortuga all by me onesies, savvy?”

This kind of black-and-white, or reality-based, decision should be applied to the way corporate boards of directors make decisions. In fact, one good measure of corporate governance is the resulting decisions, and the process by which the Board anticipates threats to the business and arrives at major changes.

Here is a look at just some of the dark and stormy waters facing corporate boards, the governance stewards of the business, and our top six corporate governance dos and don’ts.
DON’T
HIRE C-SUITE AND BOARD CANDIDATES BASED ON EMOTION, FRIENDSHIP, GLOSSY RESUMES OR EVEN REPUTATION…AND CERTAINLY NOT WITHOUT A THOROUGH VETTING OF ALL POTENTIALS FOR LEADERSHIP ROLES.

While there are many examples of the ‘good-ole-boy’ network failing as a talent acquisition strategy, Hewlett Packard is a different yet excellent example of a breakdown in corporate governance best-practice, most notably exemplified in their hiring a CEO. As successor to the failed leadership of Carly Fiorina, Mark Hurd was widely considered highly successful as a premier operator who had restored the once mighty technology giant. Under Hurd’s tenure, the company met Wall Street expectations in 21 out of 22 quarters, and increased profits for 22 straight quarters, while its revenue rose 63 percent and stock price doubled.

A personal indiscretion led to his ouster in 2010, a controversial decision that led ERP giant Oracle Corporation’s CEO, Larry Ellison, to send an e-mail to the New York Times saying “the HP Board just made the worst personnel decision since the idiots on the Apple Board fired Steve Jobs many years ago.”
AS A SEARCH WAS LAUNCHED FOR A NEW CEO...

... HP’s board relied solely on the search committee’s recommendation (even though this was a massively critical hire that was under much public and shareholder scrutiny). Incredibly, no one else on the board was willing to even meet, let alone interview, the finalists! As a group, HP’s Board was rife with animosities, suspicion, distrust, personal ambitions and jockeying for power that rendered it nearly dysfunctional. The search committee finally settled upon Leo Apothecker as HP’s new CEO.

The problem with this decision? Aside from Leo’s poor history at SAP as the CEO during a time of mass firings and large declines in revenues, many of HP’s board members had never actually met him prior to appointing him as the chief executive. It soon became obvious that Mr. Apothecker was not the best choice for the position. During his tenure, HP repeatedly lowered its revenue projections, saw high turnover in its C-suite and other senior level executives, and was embroiled in a fraud & libel suit with Oracle who had subsequently hired Mr. Hurd. Mr. Apothecker was finally replaced by Meg Whitman.

DO

Involve executive search professionals to navigate through the definition of the role and objectives, identification and assessment of candidates, acting as the Board’s ‘consigliore’ in ensuring the right candidate is chosen, and for all the right reasons.
DON’T ALLOW ‘GROUP-THINK’ TO INDUCE POOR CORPORATE GOVERNANCE. SELECTING HOMOGENOUS CORPORATE BOARD DIRECTORS SHOULD SOUND AN ALARM!

A very interesting case came to mind recently, this time in the non-profit world. In the case of the Susan G. Komen for the Cure, ‘group-think’ among the board was precisely what led to a major political controversy resulting in a dwindling revenue stream for the once booming nonprofit.

The Susan G. Komen board members made the decision to remove funding from Planned Parenthood, which resulted in an angry backlash from donors, many of whom are women. With a board that was heavily weighted with wealthy, southern, conservatives, the board’s decision came out of their desire to not be linked to Planned Parenthood’s funding and support of abortion. Since then, support for Susan G. Komen Race for the Cure and the revenue they raise have plummeted.
THE HOMOGENEITY IN KOMEN’S BOARD...

...which is largely composed of people of similar backgrounds, as well as religious and political views, led to ‘group-think’ and poor decision-making.

Komen should remake the board with more racial, economic and regional diversity, to be sure. But more than that, Komen should bring on board members who will challenge the way Komen does business. Does your board have such members? It should!

DO

Encourage diversity of thought, perspective, and skillset as well as race, creed, political affiliation, ethnicity and gender in selecting board members. Also, perform periodic corporate governance board assessments to ensure 'group-think' doesn't invade your boardroom.
DON’T
LOSE SIGHT OF THE COMPANY’S CORE MISSION AND YOUR CUSTOMERS’ PASSIONS WHEN MAKING STRATEGIC DECISIONS.

The “defunding” of Planned Parenthood isn’t the only instance of limited insight on the part of Susan Komen’s Board. Their original decision to fund Planned Parenthood in the first place was also highly questionable. As a nonprofit whose mission is to raise awareness and fund research for breast cancer, Komen’s board lost sight of its core mission.

As I noted in a recent blog post, there is no shortage of companies who succumbed to corporate boards not having a fundamental understanding of the business, nor of the threats facing that business. Glaring examples include Kodak and Polaroid, Borders Books, and most recently, Blockbuster. The once-mighty video juggernaut who had more than 9,000 locations at its peak in 2004 just announced they are closing their last 300 stores. Just as Amazon ate Borders up for lunch, Netflix thoroughly vanquished Blockbuster.
THESE BOARDS JUST HAD NO IDEA THE BUSINESS THEY WERE IN...

...and lost sight of the company’s core mission. Kodak wasn’t in the film business, it was in the memory business; Borders wasn’t a mass retailer, they were in the content delivery business; and Blockbuster wasn’t in the video rental business, they were in the home entertainment business.

When companies fail to recognize their customers’ true passions, as well as threats to their true core business, they risk losing market share, and even their long-term sustainability.

DO

Remain competitive by establishing a system for identifying, evaluating and acting on new trends as well as competitive threats. In addition, always circle back to the company’s core mission to ensure appropriate alignment of strategy and board decisions.
DON’T
BE AFRAID OF MAKING BOLD
LEADERSHIP CHANGES IF THE
COMPANY IS IN NEED OF A FRESH
APPROACH.

There was a time when Sony was considered the most dominant brand in the consumer electronics and entertainment space. Yet, since the turn of the last century, Sony saw dramatic losses in sales and market share. When it came time to find a new CEO, Sony opted to hire from within, and passed the CEO role to former COO, Sir Howard Stringer.

Although he promised a fantastic turnaround with improved efficiencies and greater profit margins, Stringer’s restructuring plans were only able to deliver large fiscal losses. As promised, he focused on cost cutting and operational efficiency, which are his strengths, but was unable to successfully negotiate the rapid evolution of technology to capture market share.
SALES ALWAYS TRUMPS COST CUTTING...

...when trying to restore a market leader. This is a case where the company could have benefited from outside talent in the CEO role. Sony needed someone with a fresh pair of eyes and a vision for how Sony was going to recapture its once dominant position in the market. Instead, they settled for in-house “talent” that was not aligned with their objectives.

DO

Hire from outside to populate your leadership team with a fresh perspective.

If the company is failing, or growth is stagnant or decreasing, it may be time to revisit strategy and leadership.
DON’T USE ROMANTIC OR UNREALISTIC NOTIONS TO BASE YOUR M&A DECISIONS.

One such company that is a prime example of what can happen when a board doesn’t use objective analysis to pull the trigger is the social start-up Digg.com, founded by Silicon Valley darling Kevin Rose.

In 2006, News Corporation, which had recently acquired MySpace and a host of other Web startups, approached Digg with a purchase offer of $60 million.
DO

Use cold, hard facts when deciding if it’s time to buy or sell, and always consult with an outside party to provide clarity and improve decision-making.

THEN CEO MR. ROSE WAS EAGER TO JUMP ON THE OPPORTUNITY TO CASH OUT.

However, Digg’s board was not interested in selling, believing there was far more value to be realized down the line for the growing web company. Rose was livid, “You don’t have any idea how it feels to have someone (the board) tell you that you can’t sell your company for $60 million.” Later, a Google deal for $200 million came tantalizingly close to fruition before collapsing.

After raising $45 million in investment capital over the course of the company’s lifetime, Digg was sold in 2012 to Betaworks for a mere $500,000. Decisions to maximize shareholder value should not be taken lightly. By improperly assessing the current and potential value of the business over time, boards can fail to capitalize on the best opportunity for shareholders.
DON’T IGNORE THE IMPORTANCE OF PERFORMANCE-BASED EXECUTIVE COMPENSATION, PARTICULARLY IN TIMES OF TURBULENCE, TO ENSURE ALIGNMENT WITH THE CORE STRATEGY.

In 2012, Best Buy became the poster child example of gross misalignment between executive pay and actual performance, resulting in a rebuke from angry shareholders and losing the “Say on Pay” vote. When Best Buy dismissed unpopular CEO Brian Dunn after reports of an inappropriate relationship with a young Best Buy employee, they offered him a $6.6 million farewell payout. This came at a time of non-stop turmoil in the company including massive layoffs, stock prices falling off a cliff, and a year that saw three CEO’s at the helm with a combined compensation of $26 million.
IN THE SPRING OF 2013, IN AN UNUSUALLY FRANK LETTER TO SHAREHOLDERS...

...Best Buy’s Chairman Hatim Tyabji admitted to having an unsound executive compensation plan, and the board of directors established new policies that links pay overwhelmingly to performance, includes ‘clawbacks’ for departing employees, and eliminates excessive payouts for departing executives as with Dunn’s exit.

DO

Use a holistic executive compensation program that reflects both the company’s current fiscal position and performance. Link pay directly to job performance. If job performance is lacking, pay should reflect that.
So...

...does your board performance measure up, or are you in danger of plummeting into the stormy waters of failed corporate governance?

In this challenging era of corporate responsibility, shareholder activism and ever increasing regulatory requirements, corporate governance has taken on a whole new meaning. Today’s Directors must be hands-on, engaged and strategic, and held to a higher standard that is “beyond fiduciary”.

Old traditional methods to assess Board performance, and attract the next generation of directors, are not working. Nearly half of the Fortune 500 report seeking an outside, independent 3rd party to assess Board performance as well as attracting new skills to the Board.

If you don’t want to chance drowning in the waters of bad corporate governance, assess the health of your board’s corporate governance practices today with our interactive online Board assessment tool.

To learn more about our Board Advisory and Search practice, visit us online at epsenfuller.com Or call 888.800.9931.
“Leadership, talent, people...these have the greatest impact on the success, or failure, of any organization.”

About the Author

The Founder, CEO & Managing Partner of Epsen Fuller Group, Tom has executed hundreds of senior executive and board director search projects for Fortune 500, Small to Mid-Cap, and privately held companies. He is an author and sought after speaker on leadership, board composition, talent assessment and building high-performance organizations. He has delivered keynote addresses and panel presentations to various business and civic groups to include The Human Capital Forum, The Association of Executive Search Consultants (AESC), National Association of Corporate Directors (NACD), New York Venture Association, New Jersey Technology Council, Council of Growing Companies, BioNJ, Pennsylvania BIO, and New York Entrepreneurs Forum.

An NACD Certified Board Governance Fellow, Tom is a Board Member of Tingley Rubber Corporation, IMD International as well as non-profits including AESC, MCOHA, and The Council of Growing Companies.

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