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Delta Organization & Leadership

The Governance Strategy

Shaping New Relationships
Between CEOs and Boards



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Your Problem: “It simmered slowly on the back burner for more than a decade, but times have changed. Now the issue of corporate governance has America’s full attention. A tidal wave of rules, regulations, and laws may or may not achieve the ambitious goals of reforming and improving governance, but already, one outcome is certain: a fundamental shift in the relationship between most CEOs and their Boards.”



At so many companies for so many years, that relationship was cozy, comfortable, and conspicuously ambiguous. Not anymore; the fall-out from a spate of high-profile corporate scandals is accelerating the emergence of a much different dynamic between CEOs and their newly independent, empowered, and accountable Boards.

This new era of corporate governance represents uncharted territory, fraught with peril. Most Boards won't merely be evolving; they'll be mutating. The question for CEOs is this: if your competitive landscape were to change this dramatically, you'd be scrambling to develop a new business strategy. So with all the new rules and expectations at play in the realm of corporate governance, shouldn't you have an entirely new strategy for dealing with your Board?



Make no mistake: The front page attention given to governance issues will ebb and flow, but the old days are gone for good. The reform measures pouring forth from Congress, the SEC, the major stock exchanges, and the investment community represent much more than a temporary case of post-Enron hysteria.

This transformation began in the early 1990s, fueled by the “good governance” pressures of major pension funds, a new era of shareholder activism, and a growing sense of empowerment by Boards, illustrated most dramatically by the unprecedented rash of CEO firings in 1993 at corporate icons like General Motors, IBM, and American Express.

Up until very recently, many Boards—if not most—were merely ritualistic appendages to the apparatus of corporate governance. The Board was involved in little more than infrequent, ceremonial meetings. The CEO’s goal was to gather the directors, anesthetize them with a massive dose of well rehearsed presentations, feed them a good meal, and send them on their way before they could do any damage.

At many companies, the Board was stacked with insiders—either members of management or people with close ties to the company and its CEO. Their demographics and business perspectives mirrored the CEO’s; socially and professionally, the inside and outside directors all belonged to the same “club,” and often sat on each other’s Boards.

That picture began changing a decade ago, and before long, it will vanish entirely. By 2004, the Boards of companies listed on the NYSE and Nasdaq were required to have a majority of independent directors, who cannot have any material financial ties to the company. Companies listed on the NYSE are required to have audit, compensation, and nominating committees made up entirely of independent directors. Their Boards have to create guidelines and charters explicitly spelling out critical processes ranging from management succession to evaluating the Board’s performance. And both exchanges require independent directors to meet regularly without any management directors in attendance, including the CEO.

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The cumulative impact of these and many other changes is an essentially new corporate Board—one that is both independent and empowered. For the CEO, this new reality holds the potential for both serious threats and major opportunities.

From the CEO's standpoint, there's huge potential for mischief and mayhem. Boards may feel more empowered to block major business decisions. They may start to meddle and micromanage, consuming vast quantities of management time. Directors might undermine embattled CEOs through press leaks—a trend we're already seeing. The presiding director for the executive sessions could evolve into a de facto lead director, potentially spawning power struggles both with the CEO and within the Board. Directors may bow too easily to growing pressure to limit CEO compensation. They might interfere with orderly executive succession. And, feeling the pressure of public scrutiny and heightened legal exposure, Boards of troubled companies may leap more quickly to the dramatic step of firing the CEO.

On the other hand, the right set of circumstances could result in significant benefits for the corporation, the Board, and the CEO. By bringing new ideas and fresh perspectives to the table, these new Boards could provide valuable advice and counsel to the CEO, and act as a useful sounding board. They could be a source of both professional and personal support to CEOs, who can rarely share their real thoughts and concerns with subordinates. In times of crisis, directors could present a unified front to the outside world, helping to tell the company's story and influencing important outside constituencies. Finally, they could be of tremendous assistance to the CEO in managing an orderly succession process.

Either scenario is plausible. It's up to you, as CEO, to determine which way it plays out. You can start by asking yourself three questions:

- As my Board starts responding to the new rules and regulations, will I sit back and react, or will I take the initiative?

- As my directors get ready to exercise their new independence and power, do I really know what's on their mind? (Our advice: Assume you don't. Time after time, we've seen CEOs completely misjudge where they stood with their Boards. Indeed, the more cordial the relationship, the more likely it is that the CEO will eventually be blinded by the patina of gentility that often obscures dissatisfaction until it's too late.)

- How can I avoid the potential risks and realize the potential value?

Our Approach: The Change Cycle

Based on more than two decades of experience as trusted advisors to more than 100 CEOs of major corporations, together with our deep expertise in the field of corporate governance, we can help CEOs effectively manage the challenges inherent in independent and empowered Boards. You might start by considering these broad concepts.

First, start thinking of your Board as a real team with real work to do. That requires leadership, teamwork, and collaboration of a kind that was rarely necessary in the past. While much attention has been focused on the new legal requirements regarding the Board's structure, composition, and duties, keep in mind that for the Board to function effectively as a team, the dynamics are as important as the mechanics.

Second, be clear about the degree of engagement you want from your Board. Boards can be too passive or overly intrusive; the key is to find the appropriate degree of engagement that fits the needs of your situation.

Consequently, your challenge is to develop a strategy that paves the way for constructive engagement. We can help by:

- Working with you to develop constructive ways to *implement the new Board requirements* through collaborative processes that maintain the CEO's involvement
- Designing and implementing the newly required *assessment processes* for the Board and its committees
- Designing appropriate CEO *performance evaluation* and feedback processes, or helping to enhance processes already in place
- Helping to reshape the *Board's composition* by capitalizing on the significant turnover that will be created by new requirements for independent directors
- Developing and implementing approaches for engaging the Board in a *participative corporate strategy process* that maintains the CEO's preeminent role in this area
- Designing effective *executive succession* processes that involve the Board appropriately and collaboratively



As You Move Forward...

Let's be clear: Before long, every Board that isn't already reshaping itself to meet the new requirements will have to start. As that process begins, you, as CEO, have only two choices: You can sit on the sidelines and accept the consequences, or you can take the initiative and start working with your Board right now to reshape your relationship in ways that can benefit your company, your Board, and you.

The choice is yours.

About Oliver Wyman – Delta Organization & Leadership

Oliver Wyman is building the leading global management consultancy, combining deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. Delta Organization & Leadership works collaboratively with CEOs and senior executives to meet the challenges of building talent, accelerating organizational performance, and driving business success. Our Executive Learning Center provides top-tier executive education around the world, designing and implementing customized programs that develop the leaders you need to compete and grow.

We bring deep expertise and a track record of high-impact solutions that minimize business risk by:

- Maximizing CEO and senior team effectiveness
- Making your strategy work
- Building an effective board
- Managing the business of change
- Redesigning your organization
- Developing a pipeline of the right leaders for your business
- Securing commitment through communication and engagement
- Bringing meaningful data to decision-making

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