from the PRESIDENT

# How Directors Can Be More Effective

Corporate governance of our public corporations continues to improve and is a great source of strength in our capital markets. Much credit goes to institutional investors energized by the huge flow of baby boomer capital into the equity markets. A deeper and more competitive marketplace has evolved among professional money managers over the last 10 years as well. One result of this increased competition has been flow-through pressure on corporate management teams to increase their returns from underutilized operations and assets.

Both investors and corporate executives have embraced this pressurized environment. When you outperform the benchmarks, you win; if you don't meet them, you get out of the game fast. In a world where capital and information move ever faster, the game has been played faster, too, and the risks and returns are much higher.

Former House Speaker Tip O'Neil once said that "all politics is local." The same is true for corporate governance — it's local. One matter at time. One encounter. One decision. Small groups and one-on-one interactions.

The Honorable E. Norman Veasey, Chief Justice of the Supreme Court of Delaware, recently gave a talk at the Stanford Directors College. He made the following points that I think every corporate director should think about in the management of those local decisions, encounters and interactions that impact the corporation's future:

**1** Directors must do their homework. They must put in the time to be prepared, and read the material that is sent them. They must acquire other sources of information about the industry, and about competitors. There is no excuse for an inactive, unprepared director.

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**2** Directors should meet face-to-face regularly. Phone meetings for procedural or emergency matters are fine, but are not a replacement for physical meetings.

**3** A key source of higher performance has been the successful infusion of independent directors, those without family or social ties to the chief executive. Boards should have a heavy majority of independent directors. Holding regular executive sessions of the board without management present is also necessary. The free exchange of thoughts is facilitated by making this a standard agenda item.

**4** Directors must manage their workload as well. An overtaxed individual who holds too many board seats or is buried in his or her own job does not serve shareholders well.

**5** Financial literacy is good (though it is not required for all directors, just public audit committee members), and every director should work on and enhance his or her own skills. Being able to read and understand the many compliance and disclosure documents that the company must make is a requirement for board service today.

**6** Most importantly, directors should be healthy skeptics. A skeptical framework and critical thinking not only add value but help steer the ship away from the minefield of problems facing all companies.

I think this last point is key. Too often, decorum and politeness get in the way of asking the tough questions. Most management teams walk in prepared for questions at least one magnitude tougher than they actually get. Directors shouldn't be afraid to ask the difficult questions that may be hanging in the air during a meeting.

Much progress has been made in corporate governance. The returns have been tremendous. Let's invest some more!

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