The Five Most Common Mistakes Of Board Directors

By Adam Bryant
Jun 21, 2018, 06:18am • 1,946 views • #BigBusiness

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Kevin Sharer knows a thing or two about serving on boards. During his 12-year tenure as CEO of Amgen, and across his 35 years of service on the boards of Chevron, Unocal, Northrop Grumman and 3M, he's seen good directors, bad directors, and the subtle dynamics that can derail boards or elevate them to high performance. To launch this new interview series on board dynamics, David Reimer, my colleague and CEO of The ExCo Group, a senior leadership development and executive mentoring firm, and I sat down with Sharer to get his insights.

Reimer: What's changing about the role of the director today, particularly after some of the headline scandals and crises at well-known companies?

You also need to understand the organizational health of the company, in terms of culture and whether people are treating each other properly. The worst place to be in organizational health discussions is to have only anecdotes to talk about, because then you have no context. Healthy organizations will have frequent anonymous, electronic, representative, and well-analyzed checks on their social health. That way, you can say, "This is social data, not anecdotes." At Amgen, we asked employees every two years a list of 50 questions, and one of the questions was, "What do you think of the job the CEO" – that would be me – "is doing?" You also have to have a process and structure to surface, pursue and resolve all complaints, and do it in a way that ensures everybody who makes a complaint doesn't feel prosecuted or disrespected. You also can't have a culture where a complaint assumes guilt.

The companies that don't have that approach are just sitting ducks. You have to assume you've got organizational health issues. It's like being mayor of a small town. If you as a director don't realize this is your responsibility, and that you need processes and structures to give you data, shame on you.

Bryant: You've had decades of experience serving on boards. What are some of the key insights you've learned?

Sharer: A crucial issue is the dynamic between the board and the CEO. Does the CEO see the board as a formal point of governance but not a real source of power, counsel or even relevance? That was the historical view. And many board members felt gratitude for the prestige of being on the board, for the opportunity to be on the inside. And for some board members, the compensation was important to them.

And so, by their own attitudes, they perpetuated this idea of the board as sort of a governance, check-the-box group, but not really active in any meaningful way about the company's performance or the CEO's job performance. That attitude might have persisted for many companies up to and through the '90s. Then, for reasons that we all know, things started to change and boards started to realize they had some kind of role in the leadership of the firm.

Some boards started to think they were there to be almost a shadow management force, and that they should actually lead. I think that's gigantically unhealthy because boards don't have context. They show up in a room maybe six times a year, and they hear very thoughtfully presented information by people who are on their best behavior. Good directors get information from other places, but they're not really in a position to lead.

I would come to the boardroom with the attitude that the board's in charge. We are like the Supreme Court. And every day you're trying to make only a few judgments: Is this company performing for shareholders? Do we have a healthy environment – including social factors, compliance factors, legal factors? And does this CEO have the judgment, deportment, and personal characteristics to lead this company? I don't come to the meeting with a prosecutorial view that that the answer is no to those questions and that it's my job to prove that I'm right. But I'm alert to the responsibility I have that those are the key questions.

The other thing I learned with boards is that even though there may be 12 directors, three or four people are always in charge. This is not a bad thing. What I mean by "in charge" is that nothing of consequence is going to happen unless these four people agree. These four people have, in effect, collective veto power, and that's a little bit of a check on other directors who may be confused about what they should be advocating for. The four people typically are the lead director, chairman of the comp committee, chairman of the audit committee, and chairman of the governance and nominating committee. The centrality of these four people is not well understood.

Reimer: What role did you play on the board, beyond your official titles?

Sharer: I would be the person who would ask the questions that were on everybody's mind but nobody would ask. I would always be respectful and supportive and empathetic about the complexity and challenges of the role of the CEO. But I would never be cowed or awed, and over time I earned more credibility as an advisor, because I was the guy in the room who'd done the job.

There were times when I pushed the questioning further than it needed to go, and I might have made the management a little bit uncomfortable. But my goal was to develop a very strong, trust-based, personal relationship with the CEO. And I would try to convince the CEO that, unquestionably, I was an advisor and coach for them. Some CEOs would find that gigantically helpful. Others would pay lip service. When this works well, you can make a real contribution as a director. You can also give the CEO courage to do what he or she needs to do, knowing that there's air cover from the board.

Bryant: What are the five most common mistakes that you've seen directors make?

Sharer: One, they don't do their homework, so they just come in with opinions, and they think they somehow have been promoted to omniscience. Two, they don't understand the social dynamic and culture of the board, and they try to advance a position before understanding what the group dynamic is. Three, not realizing where the power on the board really lies. Four, not investing the time with the CEO to truly gain their trust and understand what they're trying to do. And five, not understanding that there are really only three questions, as I mentioned, that the board is there to monitor.

Reimer: What is the board's role in making sure the company is developing a leadership bench?

Sharer: Every board I was on was quite aware of their responsibility to be a check on centrally important questions: What's the health of our CEO-ready pipeline? Is anybody ready now? Will anybody be ready in two years? How many? How real are they? We don't want a Potemkin village of CEO candidates, so when the time comes nobody is ready to step up. You also have to have a capable and diverse leadership pipeline.

There's an added challenge in that boards are approving strategies that look radically different from the ones they have been approving in years past, and yet the leadership pipeline maybe hasn't changed to reflect the new operating environment.

In strategy, there are classic mistakes that get made, which tie into this leadership development question because you want somebody to either blow the strategy up or implement it. I don't think most boards understand the strategy that the company's pursuing. And the company itself may not understand the strategy it's pursuing.

Because the one question I find that CEOs have the most difficulty answering is, "What's the big idea?" They can't answer it. What is a succinct statement of strategy that's clear, understandable, and accurate? They don't know. And the real strategy is very often kind of "muddle through."

It's incumbent upon the CEO to be able to say, "I want to tell you with as much clarity as I possibly can the big idea that we're pursuing around here, and the bets we're going to make. Then we'll talk about the steps that we're going to take to implement this strategy, and how we're going to know over a certain period of time whether it's actually happening, and what the real challenges are that we're facing." Instead, there's a tendency not to clarify in companies. There's a tendency to obfuscate. In my experience, few CEOs can describe their strategy succinctly, and virtually nobody does it in practice.

Bryant: That would seem to be table stakes for being a CEO.

Sharer: But it's not easy, and it takes clarity of thought. Also, the entire ecosystem works against simplicity. Smart people sometimes want to make things complicated. And sometimes the CEO wants to have a power imbalance between management and the board. The best way to do that is to snow the directors. It's also risky for the CEO to simplify the strategy, because you're capturing the essence of the company's direction, and you don't have a lot of maneuvering room. You're introducing accountability.

Reimer: If you were being recruited for a director's job, what questions would you ask the CEO as part of your due diligence?

Sharer: I'd ask the lead director: What are the current areas of greatest concern to the board and how do they investigate them? What are the points of tension between the CEO and the board? What's the dynamic within the board and where's the power?

Bryant: How much time should CEOs be spending with their boards?

Sharer: If you have the right people on the board and you have the right relationships with them, and if you have the right shared reality with them, it might be five or ten percent of your time. If you're in a difficult spot in some way, you could spend 20 percent of your time or more. I know CEOs who have been brought down because they couldn't get that.

As a CEO, you have to develop political capital because there will always be a time when you are going to need it. The board is like a collection of your really smart aunts and uncles who care about you. But the big difference is that they could fire you.

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