Leading from the Boardroom

Directors can reclaim their agendas and refocus on the work of leadership. Here’s how.

by Jay W. Lorsch and Robert C. Clark

It’s no exaggeration to say that the governance of companies has moved from the inner sanctum of the boardroom to the white-hot spotlight of public discourse. More is demanded these days from independent directors: They’re expected to ensure their firms’ compliance with an ever-evolving set of regulations, head off executive wrongdoing at the pass, and appease shareholders’ and Wall Street’s never-ending hunger for positive short-term results.

Directors seem to be rising to this challenge. They’re more serious, they’re working harder, and in most cases governance reform appears to have given them real power to oversee management’s actions. As a result, corporate boards have taken big steps forward in the past decade. But having to operate in a post-Enron world has also produced some negative and unintended consequences for boards—the most critical one being directors’ inability to be leaders who focus on ensuring the long-term success of their companies.

Major public companies are important engines of economic prosperity, and boards have a paramount obligation to see that these national assets thrive. As historian Alfred D. Chandler, Jr., pointed out, the decline and ultimate failure of once-great companies has been a historical fact. But such decline is not inevitable. Rather, it results when corporate leaders (CEOs and directors alike) don’t anticipate and deal with the long-term threats facing their companies.

By necessity, boards are working overtime to comply with Sarbanes-Oxley and other relatively new reporting requirements. To keep pace, they’re overemphasizing committee work instead of harnessing the intellectual power of the whole board to deal with complex matters. Instead of working collaboratively with management, they’re creating or perpetuating dysfunctional relationships that cast directors as corporate police who enforce rules and trace managers’ missteps, rather than guides who help managers choose the right path.

Further, boards’ long-standing focus on quarterly results has intensified. This emphasis on the short term has repercussions. (See Robert H. Hayes and William J. Abernathy’s “Managing Our Way to Economic Decline,” HBR July–August 1980.) In March 2007 the U.S. Chamber of Commerce, one of the world’s largest business federations, with about 3 million members, even went so far as to recommend that companies move away from posting quarterly earnings guidance. The thinking was that such reports inevitably put the squeeze on boards and on CEOs—whose average tenures during the past decade have shrunk even as their pay packages have increased—to take the quickest route to results, not necessarily the path to long-term success. The knee-jerk reaction of most boards when confronted with corporate decline
over several quarters has been to remove the CEO and search for a replacement—often from outside, since boards frequently fail to ensure internal management continuity.

Boards can and must do better at balancing their function as compliance officers with their function as shapers of the future. From their places around the table, directors must steer themselves and the company’s management team toward farsighted strategic and financial thinking and succession planning. Certainly it is management’s responsibility to develop and implement strategy, but the board must use a long-range lens when requesting and vetting senior leaders’ proposals—encouraging the top team to raise its game even when things are going well and challenging it to respond creatively when threats or problems emerge.

Independent directors cannot be expected to understand all the details of their companies’ performance successes or failures, but they can and should be able to stay focused on long-term trends and the impact of those trends on their companies. In short, they must learn to lead from the boardroom.

In the following pages, we’ll provide some advice for doing just that. We’ll explore the changed environment directors are operating in, what they need to do to regain control of their agendas, and what it looks like when directors take the lead in critical, forward-looking discussions about finance, strategy, and talent development.

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