

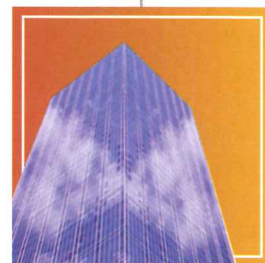
- ▶ A laissez-faire director attitude is no longer acceptable at many companies
- ▶ Shared or distributed leadership models are better suited to the current climate
- ▶ A concise director's checklist can help with leadership decisions

Directors' duty: when to lead, when to keep clear

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The directors' duty of leadership is ascendant at many companies. Here are four starting points:

- ▶ Directors and executives increasingly view the boardroom as a place where they can mutually engage in reaching critical decisions for the company.
- ▶ While boards are still obligated to the duties of care and loyalty – their vigilance on behalf of investors must be honored – many boards have been adding a new obligation, focusing director attention on company strategy, capital allocation, executive succession, management compensation, talent development and enterprise risk. That does not mean wandering into the weeds – micromanagement is decidedly not the point – but laissez-faire is no longer an acceptable posture at many boards, either.
- ▶ In selecting a new chief executive officer, boards are becoming more mindful of both their monitoring and leadership roles. This points toward selecting a new CEO who has a tangible record of creating shareholder value, either within the company or in another firm, though not necessarily as a chief executive. And it also points toward a new CEO who has displayed a capacity for working hand in hand with governing boards.



- ▶ In building the leadership at the top, executives are increasingly furnishing directors with the information from both inside and outside the firm required to reach strategic decisions, and directors are increasingly conveying their strategic intent to guide executives in taking clear-eyed actions.

That last item in particular points to the key ingredient in making this new model work. In certain leadership areas, such as selecting a new chief executive, directors tend to drive the process, as we have seen at Apple. In other realms, such as setting strategy and developing leaders, directors and executives often work collaboratively, with executives more at the wheel. And in still other areas, directors wisely avoid any involvement.

Each company board will want to fashion its own unique blend of the components of direct and collaborative leadership. 'Boards should sit down' annually, urged Ford Motor's lead director Irvine Hockaday, 'and say, OK, what are we really doing here? What really is our role given the situation of this company at this time? What are we doing to incarnate that role? How are we going to function with the lead director, and what are our priorities?'

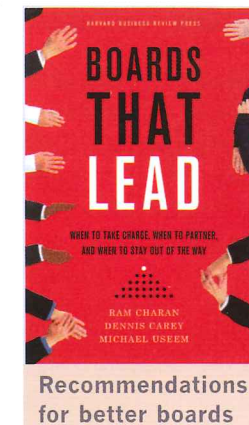
Finding the right balance among the board's leadership components – knowing when to lead, when to partner and when to stay out of the way – is one of the premier tasks of the board's leader.

A duty of leadership also implies that directors should remain steadfastly detached from the products of their labors. Though now far more deeply engaged in the company's strategy and other practices than ever implied by the monitoring function, directors nonetheless

must also be able to back away from a path they have had a direct hand in mapping. That is never easy, of course, but the prescription here is clear: leadership by its very definition implies that directors resolutely focus on what is right for the enterprise, regardless of personal pride or sunk investment. A useful dictate to keep in mind: mission first or, in Peter Drucker's well-known phrasing, 'leadership is doing the right thing' – regardless of commercial interest or personal pride.

Our assessment does not imply that executives are any less in the driver's seat.

But the way they drive at many companies is now markedly different – a shared or distributed leadership model that is better suited, in our view, for guiding companies that are facing more uncertain, more changing and more complex markets.



The director's checklist

We believe executive leadership can be mastered and that a leader's checklist can focus mastery on the most vital principles for navigating through virtually any leadership challenge. We have similarly come to conclude that much the same kind of director's checklist can be important for boards [in order] to lead, as well. A set of enduring checklist principles can furnish directors with a road map for leading through the most challenging moments boards inevitably confront.

From watching dozens of governing boards in the US and elsewhere, we are convinced their experience points to a relatively modest number of emergent mission-critical leadership principles. Albert Einstein said the calling of physics was to make the natural universe as simple as possible – but not simpler. The director's checklist is likewise at its best when it is as bare bones as possible, but not more so.

Companies vary greatly in how they specifically work to enhance the board's hand, customizing their architectures and practices around their own specific histories and mind sets. Within a given board, directors also vary in their conversational intelligence – their ability to advance the boardroom dialogue in ways that serve company leadership. We see a broad spectrum across boards and even within boards, with some boards and some directors more drawn to the direct-leadership calling, others to more collaborative leadership, and still others to neither.

A distinctive feature of this emergent governance model is that one size does not fit all. Rather than trying to cram square pegs into round holes, directors and executives are crafting their own way forward. And the way they will do so in good times can be quite different from hard times. Running through it all, however, is the common thread of boards more forcefully leading, not just monitoring. We believe this is an important and welcome development. Publicly traded companies, in our view, deserve no less. CS

▶ Ram Charan is an author and business adviser. Dennis Carey is vice chairman of Korn/Ferry International. Michael Useem is director of the Center for Leadership and Change Management at the Wharton School of the University of Pennsylvania

DIRECTOR'S CHECKLIST FOR LEADERSHIP DECISIONS

When to take charge

- ▶ Central idea
- ▶ Selection of chief executive officer
- ▶ Board competence, architecture and modus operandi
- ▶ Ethics and integrity
- ▶ Compensation architecture

When to partner

- ▶ Strategy, capital allocation
- ▶ Financial goals, shareholder value, stakeholder balance
- ▶ Risk appetite
- ▶ Resource allocation
- ▶ Talent development
- ▶ Culture of decisiveness

When to stay out of the way

- ▶ Execution
- ▶ Operations
- ▶ Areas of delegated authority
- ▶ Non-strategic decisions
- ▶ Excluded by board charter

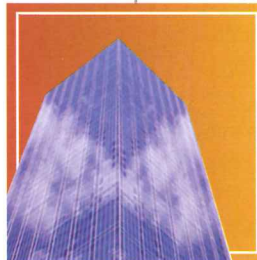
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