

# THE WALL STREET JOURNAL.

WEDNESDAY, JANUARY 15, 2014

© 2014, Dow Jones & Company, Inc. All Rights Reserved

## *Book Review: 'Boards That Lead,' by Ram Charan, Dennis Carey and Michael Useem*

*Today nine of 10 governing boards of S&P 500 companies have a lead director; 43% have a separate board chairman and CEO.*

BY ALAN MURRAY

Corporate boards of directors have been around for centuries, but for most of that time they were inert—rubber-stamping CEO proposals with minimal oversight. They came alive, like Gepetto's puppet, barely a decade ago. I trace their animation to Jan. 7, 2005, when 10 former directors of WorldCom agreed to pay investors \$18 million out of their own pockets as part of a settlement in the giant accounting-fraud case. Before then, a book called "Boards That Lead"—as Ram Charan, Dennis Carey and Michael Useem have titled their latest—would have seemed oxymoronic and probably triggered protests from the Business Roundtable. Boards weren't supposed to lead. They were supposed to monitor—and they didn't even do that very well.

But post-Worldcom, post-Enron, post-Sarbanes-Oxley, post-Dodd-Frank, boards have become the big guys on the block. The new laws and stock-market listing standards have forced them to take greater oversight roles, and the court cases have raised the stakes if they fail. They responded by taking charge, in part to protect their own pocketbooks, and this has changed the governance equation of America's big businesses.

As frequent advisers to these companies, the authors have had, as they describe it, "a front row seat" during this transformation. Their very helpful book provides lessons from their experiences, as well as practical advice to others going through the transformation.

Today nine out of 10 governing boards of S&P 500 companies have a lead or presiding director; 43% have a separate board chairman and chief executive, although only 23% of chair-

men are truly independent. Boards are also much more aggressive about changing management, and much more involved in major strategy changes, mergers and the like. Today, only 8% of companies have "poison pill" measures designed to protect management from hostile takeovers, down from 59% at their height of popularity. These changes, the authors contend, not only have helped boards become more effective at monitoring management but also "are now helping boards become even more engaged in the task of leading the company."

Lest anyone question the potential importance of boards, the authors begin with a story that predates the transformation—the decision of the board of Apple Computer to bring back Steve Jobs as CEO in 1997, described in the book as "one of the greatest business decisions of all time." The Apple board had helped make a mess of things over the previous decade, recruiting and burning through three CEOs after Jobs was pushed out in 1985.

In 1996, former DuPont CEO Ed Woolard joined the board. He took a hands-on approach, diving deep into Apple's malfunction, exploring the possibilities of selling the company and finally personally reaching out to Jobs about returning. Together the two men remade the board, then remade the company, developing a close partnership. According to the authors, Mr. Woolard's wife sometimes called her husband to take one of Jobs's many off-hour phone calls by saying: "Your son's on the phone."

Another compelling example of collaboration between board and management was Procter & Gamble's decision to acquire Gillette in 2005. The process

started when Gillette CEO James Kilt called P&G chief executive A.G. Lafley to suggest an acquisition. Mr. Lafley, an unusually secure and open CEO, was instantly intrigued by the offer but made the decision to engage his board in an "inquiry process rather than an advocacy process." The board was an exceptional collection of business talent, including the current or former CEOs of Lockheed Martin, General Motors, eBay, Intuit, Verizon, TRW, Gucci and 3M. "The directors were incredibly important" for the deal's vetting and for putting together the final offer, Mr. Lafley told the authors. "Every director played an active role. There were no 'wallflowers.'" The authors note that, even today, such partnerships are far from universal and offer as example Mark Zuckerberg's negotiation of Facebook's \$1 billion acquisition of Instagram, informing his directors only after the deal was all but consummated.

Not all the book's examples are success stories. Inevitably, Messrs. Charan, Carey and Useem devote a few pages to the monumental failures of the Hewlett-Packard board, which brought in a succession of CEOs from the outside, and became bogged down in infamous intramural spats, including a spying scandal. The authors also tell the story of the board of Motorola Inc., which the authors blame for destroying the company. In 2004, it pushed out CEO Christopher Galvin (a grandson of the founder) just as his strategy was starting to deliver success, then replaced him with CEOs who enjoyed some early successes based on Mr. Galvin's efforts, and then presided over the company's decline and breakup.

One drawback of the book's detailed narratives is that the authors don't

always disclose their potential conflicts of interest. They clearly acted as consultants to some leaders they lionize. In other cases, their personal involvement, or lack of it, is less clear. In some of their most compelling stories of failure, the names have been changed to protect the guilty. The authors' proximity to power, however, does strengthen the authority of their conclusions. They have organized their advice into useful "checklists" that can help boards sort out what is—and isn't—their area of responsibility. The checklists will also help boards manage a number of other critical tasks, including defining the company's "central idea," choosing and culling directors, selecting a board leader, and the all-important job of choosing and evaluating the CEO.

Books about effective CEO leadership could fill even the most expansive library. Books about board leadership are all too rare. For that reason alone, "Boards That Lead" is a must for anyone who sits on a major corporate board—or who wants to understand them.

Mr. Murray, president of the Pew Research Center, is the author of "The Wall Street Journal Essential Guide to Management."