

NACD New England Chapter Event Highlights

Breakfast Event – December 13, 2011

Dimensions of Board Effectiveness

A Deep Dive into the “360” of Board Wisdom

Event Overview

Corporate boards evolve and grow as the company’s life cycle advances. In highly functional boards, there are parallel changes in the mix of personality styles that directors bring to the table – their individual strengths and patterns of behavior beyond formal qualifications. Some directors excel at building consensus; others are good at synthesizing information; others may have outstanding critical thinking skills. Which personality styles tend to have the greatest impact at key points in a company’s life trajectory?

The stories told by the panelists at NACD New England Chapter’s December 2011 Breakfast Event cast new light on the personality dimensions of board effectiveness through the cycle of 1) startup, 2) IPO, and 3) international expansion. Each panelist described their involvement in an important board decision or corporate development at one of these stages, highlighting how the mix of personal strengths and communication styles among the directors influenced board dynamics and decisions. Questions from the floor then led to an insightful and wide-ranging discussion about the variety of roles that directors must play when confronting different corporate challenges.

Panelists and Moderator

The December Breakfast Event panel was comprised of three individuals with extensive recent experience guiding boards through challenging corporate transitions:

Representing start-up companies was **John Claussen**, a director of consulting firm The Cadmus Group, Inc., where he chairs the compensation committee. He also serves on the boards of several other organizations. Claussen is former president of TRC Environmental Corp. and also served in the office of the general counsel at General Electric.

Newly public companies were represented by **Michael Loberg, Ph.D.**, a director of ArQule, Inc., where he serves on the science and compensation, nominating and governance committees. He also serves on the boards of Inotek Pharmaceuticals, where he previously was CEO, as well as Kereos, Inc., and was voted New England Biotech Entrepreneur of the Year in 2005.

Representing international companies was **Theodor Krantz**, a director of Cognex Corporation, Hitchiner Manufacturing Company and Control Air, Inc. He has been vice president of Airmar Technology, Inc., where he previously served as president, and also served as CEO of Velcro Industries.

Introducing the panelists and moderating the discussion was **Linda McGoldrick**, chairman of FHAI, an international strategy and board advisory organization. A credentialed independent director in the United States and Europe, she serves as member and chair on multiple boards and audit, compensation

and nominating committees in healthcare, life sciences, medtech, devices, diagnostics, pharmaceuticals, manufacturing, software and technology. She also serves as a faculty member for NACD.

Panel Discussion Highlights

Commenting “It’s the soft qualities of the directors that make a board function well,” John Claussen described the challenges that arose when board members with different communications and conflict management styles tried to mentor a young, recently hired CEO who was encountering resistance from the founder of a recently acquired company. Because the company’s three outside directors were patient with one another, they found ways to work together despite their diverse personalities and help the CEO come up with a successful solution.

“We often fail to remember that a board is a team,” Michael Loberg said. “You have to get past their formal qualifications and look at the chemistry of the individuals. Are they going to respect each other? Will they realize when it’s time for the point guard to take control, instead of the center? A board composed of star athletes who want to constantly control the ball is a board that will not succeed.”

Loberg then talked about the strategic refocusing and realignment of a privately held biotech company. Its charismatic founder and CEO had set his sights on creating a global, vertically integrated pharmaceutical business, but the company’s venture investors lacked the capital to see that vision to fruition. After determining the business model to be unsustainable, given the cash burn rate, the board recruited three new outside directors to help the CEO better align the business with the available financial resources. The CEO subsequently was replaced, and the company’s R&D pipeline was focused on its single most promising drug, placing the business in a stronger position to return value to shareholders.

Ted Krantz concluded the panel’s prepared remarks by recounting his experience in the early 1980s with a technology company whose patents began to expire at the same time that manufacturing was shifting from North America to low-cost locations in the Far East and Latin America. The company’s seven board members were all well-entrenched with many years of service as directors. Responding to pressure from the CEO, the board unenthusiastically approved expansion of the business into Italy, Brazil and China, with mixed results.

The company continued to perform well, overall, but the board remained concerned about the risk of operating struggling foreign entities. Ultimately, the directors voted to replace the CEO and executive team with a new group of leaders that would focus on geographic retrenchment instead of expansion. The takeaway, Krantz said, is that “directors need to change in line with the company’s stage of development.” He emphasized that it is important for the boards of global companies to have members who are diverse in background and personality types. “Directors of companies with international operations need to be especially comfortable taking the long view, as long as the balance sheet permits and, perhaps most important, is to have considerable appetite for risk.”

Moderator McGoldrick asked the panelists to comment on board effectiveness in terms of the “softer skills that often are not discussed, but readily apparent when they are successful in creating the positive chemistry that characterizes highly functioning boards.” Michael Loberg responded by pointing to the challenges faced by directors of sales-oriented companies whose CEO and executive team aggressively pitch their strategic plans to the board. “A board that is continually sold to, is highly burdened,” he said, in arguing that boards of more analytical, R&D-focused companies tend to make better strategic decisions. John Claussen talked about the importance of determining whether prospective directors are truly capable of being team players in the board room. Ted Krantz agreed, saying “We all seem to have an easier time recruiting for experience and formal qualifications; it’s not easy to recruit for soft skills.”

Questions and Answers

The greater part of the event consisted of audience questions from the floor, focused on topics ranging from handling disconnects between the CEO and the board, to recruiting to achieve greater board diversity, to recommended steps for director team-building.

Q: “If the CEO is resistant, how can I get and stay in touch with a broader cross-section of the executive team?”

A: Panelists discussed “the fine line between isolation and inundation with data,” and suggested having executives interact with the relevant board committees.

Q: “What steps have you found most helpful in getting the board and CEO back on the same track?”

A: The ability of board members – the chair or lead director, in particular – to give the CEO constructive feedback is crucial. Having a chair with depth of experience equal to or greater than the CEO’s can be helpful. Off-site board meetings can help break down interpersonal barriers.

Q: “Is it best to evaluate the board as a whole, or through individual evaluations?”

A: Highly effective boards pay close attention to regular self-evaluation. Individual director evaluations are difficult, and far less common.

Q: “When recruiting directors, what is the best way to achieve diversity in the subjective, soft skills, backgrounds and perspectives?”

A: There was extensive discussion among the panelists and participants regarding a recent study finding that 41 of 90 Boston area corporate boards were all-male in composition. The consensus was that greater gender diversity at the board level will continue to be difficult to achieve because as one panelist stated, “In many cases it relates to who you know. Boards tend to recruit in their own image.”

Q: “How do you find out what’s really going on inside a company without getting too deeply immersed in operations?”

A: Panelists emphasized the value of arranging informal settings, such as dinners and lunches, for directors and members of the executive team to get to know one another.

Q: “How much time should be allocated to team building at the board level?”

A: Instead of formal “team building” sessions outside of the regular board meeting schedule – which can be difficult to arrange – it’s possible to structure the board’s strategic planning sessions in ways that foster team building. “Plan on spending twice as much time on team building as you think you’ll need to spend.”

Q: “How do you deal with a new director who turns out to be an agitator?”

A: The best solution is to prevent such situations from happening in the first place with a more effective board recruiting process. If that’s not possible, it usually falls to the chair, lead director or governance committee to deal with a nonperforming director.

Q: “What is the best way for directors to guard against board complacency? Is a certain level of turnover beneficial?”

A: The panelists agreed that “disequilibrium” can enhance board effectiveness when it shakes things up in a positive manner. The pros and cons of director term limits were discussed.

Q: “How can chairmen or lead directors become more effective in coaching management?”

A: Boards are similar to athletic teams, all of which have coaches. Consequently, the ability to effectively coach fellow board members is a core competency for any board chair or lead director and must by all means be fostered and encouraged.

Q: “There are evaluative boards, and there are value-added boards – can you comment on the different personality styles that characterize each type?”

A: Panelists and participants responded by discussing this question from a variety of perspectives, ultimately focusing on the importance of the board’s speaking to management with one voice, despite the internal disagreements they may have.

Wrap-Up

NACD New England Chapter President Bill Earon closed the December 13th session by thanking the committee members working on the chapter’s sixth annual New England Director of the Year Awards program, scheduled for March 29, 2012. He also reminded everyone about the chapter’s next breakfast event: “Key Board Issues for 2012,” scheduled for January 10, 2012 at the Boston Harbor Hotel.