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Eleanor Bloxham, Editor-in-Chief

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A Conversation with John M.Nash: Boards – 35 Years Later

By Eleanor Bloxham

John M. Nash founded the National Association of Corporate Directors (NACD), the largest US organization of independent directors. This year NACD celebrated its 35th year anniversary. Here's a conversation I had with John about the corporate governance landscape today.

EB: Lots of directors use the term NIFO but don't know where it came from. Why did you coin the term NIFO?

JN: NIFO stands for Nose In Fingers Out. I came up with the term because boards and management often have difficulties sorting out what is the role of management and what is the role of the board. NIFO provides a way for independent directors to think about their role.

EB: When you and I talk about corporate governance, one of the phrases you use a lot is the more things change, the more they stay the same.

JN: Progress has been made in the last 35 years. Board members are more independent than they used to be. They're more willing to speak up. More avail themselves of education. At the same time, we have some of the same problems we had 35 years ago - and some things are worse than before.

EB: Pay of CEOs at the largest companies has skyrocketed in the last 35 years. What impact has this had on board governance and what does it say about boards today? How do you think boards are doing on CEO pay?

JN: My perspective is that CEO pay is way out of line and director pay is out of line too. This is particularly true given the economic climate we are in today. There seems to be no end to the rapid increases. And pay is becoming a political issue, which no one wants.

EB: Many more boards today have separated the Chair and CEO positions, something you advocated for years. Do you still believe this is important?

JN: Yes, I do. It is important. I don't believe in the lead director concept. I don't think it carries any true weight. If the CEO is chair, then the CEO is the leader of the board. In that situation, the CEO has control over the board. How can the board then truly govern the actions of the CEO? It doesn't work.

EB: Board/management relations and understanding the duties and responsibilities of the board versus management continue to be big issues, as they have been over the last 35 years. To bring clarity to whose job is whose, I am starting to see more directors echo your idea that the CEO should not sit on the board. Why do you think this is important?

JN: When it comes to large public companies, the CEO is a hired gun and he has to respond to the board of directors. It's the board's job to see he does what is the best interest in the corporation. He will be attending board meetings but should not be voting – he is management. He should be held accountable for his results and his management of the company.

EB: What is your prediction for the future of governance? What do boards need to do to in the next 35 years?

JN: The future for corporate governance is very good as long as directors can maintain true independence, that is be independent minded and do the right thing. Board members need to reinvent themselves because of new technologies. They need to be more engaged and more diverse with younger people on the board. They must understand the business of the business to be effective – not just where the company is making profit, but what is the long term future of the corporation and how to get there. They need to hold management more accountable than they have in the past.

They also need to re-examine pay. Today, a CEO can tank a company, take a multi-million package to leave and go on and sit on other boards. Boards need A players.

Where boards are falling down today is they don't think long term. Companies must be based on long term profitability.

Boards want to support the CEO but CEOs can be their own worst enemies. Board must step up – they are the ones who should ask where will we be 5 years from now, 10 years from now. They

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need to be able to determine if the CEO is the one to take us there.

Succession and the Board's Role: Corporations' Biggest Challenge

By Scott Saslow, Founder and Executive Director, IED, www.execsight.com

In the past, many organizations shared the sentiment that "all talent issues are solely the domain of HR." But that view is changing. Key findings based on interviews of over 50 executives and talent professionals conducted by The Institute of Executive Development (IED) at companies across multiple industries ranging in size from 1,000 to 150,000 employees show:

• Today, directors are involved earlier and more substantively in the succession process as compared to previous years. Corporations ranked "The CEO and Executive Team are actively involved in succession planning" and "The Board is involved in succession planning" number 2 and 6, respectively, as statements they most agree with among over 50 regarding talent management. The study participants did however report that senior leader and director involvement is relatively new.

• The objectives for executive talent reviews vary considerably depending on who (Board, C-Suite, or HR) is driving the process. Typically, when the board is driving the process, identifying successors for the top team is the focus. If the C-Suite is driving the process, the focus is on the capabilities required over the next one to three years. And when HR drives the process, talent reviews are used to determine promotions and bonuses. The reality is that given the time devoted to succession today, generally an organization only addresses one (maybe two) of these goals adequately - and depending on who sets the agenda, something falls off the list.

• Many organizations do not have ready successor candidates for top leadership positions. Organizations are definitely not in agreement with the statement, "There is an adequate pool or ready successor candidates for the CEO position" which ranked 42 out 52. The reason is that many organizations lack an executive development strategy. Organizations haven't identified the leaders who require the most development, haven't adequately considered the formats and type of development that is most effective, and don't regularly measure success (if any impact is measured at all).

Succession Strategy

A definition I like to use for strategy is "a unique plan to win". In the context of executive development, this has several implications. First, it is important to customize the executive development and succession plan to the organization's context (e.g. period of rapid expansion, and/or M&A, and/or international growth, etc.). It is important to determine where future pockets of leadership talent may exist in the organization. Given the succession needs and retirement forecasts, a customized plan may then be created.

In setting forth its plan, each company must determine its own portfolio of development processes (e.g. coaching, customized programs, business school open enrollment courses, on the job development and rotations, mentoring opportunities, stretch assignments, and action learning). Every organization must decide which of these to include and in what proportions.

And each company should outline what success looks like. While for some companies this may be simply having names on a succession plan, more organizations today are setting targets for the proportion of leaders promoted internally vs. brought in from the outside, as an example. Metrics should follow from the objectives. Measuring the performance of successors once in broadened roles, or operational metrics such as percentage of job openings filled from the successor pool are some examples

Moving forward, companies would benefit from greater board involvement in the succession process. Boards should evaluate the plans, assumptions, and resources that go into the succession planning and executive development activities. Rather than allow discussions to remain at a high level, boards should actively question the CEO and head of HR on the talent pipeline.

Companies that consistently produce talented leaders have clearly identified strategies, established cultures of ongoing learning and development, and receive board level and C-suite support in addressing talent issues in a strategic way.

Emerging Country Markets – Eight Inquiries for Directors

By Dean A. Yoost, board member at Belden, Emulex Corporation, Pacific Life Insurance and Union Bank; and D. J. Peterson, founder and president of Longview Global Advisors, an emerging markets strategy firm.

Board members of global companies are focusing on the expanding opportunities in emerging country markets. But as US firms push more aggressively into new and diverse territories, boards have a steep learning curve to overcome.

Boards are responsible for gaining sufficient insight to ensure they are in the position to provide thoughtful, meaningful counsel to management, and to exercise skepticism regarding the company's plans, operations, and risk management practices.

Virtually all major boards seek directors with relevant experience and specialized expertise in these markets. Yet, emerging country markets vary greatly and are evolving rapidly, requiring recalibration of the board's approach and potentially re-composition of its members. An advisory board that counsels the board and management can help in plugging deficiencies.

Here are eight key inquiries directors should use in assessing the opportunities in emerging country markets:

1. Is the information we receive about the emerging country markets reliable? Boards need to determine if personnel stationed in the emerging markets can meet their information needs. Have they "gone native" and become inured to the environment around them? Or perhaps don't have the time, skills, or interest in identifying opportunities and trends or calling out potential threats? If this is the case, global investment banks and consulting firms with experience in the

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geography and industry, can be useful in providing inputs.

2. What is management's view of the future? Year-to-year performance can be volatile. Swings in government policy and the business environment can be sudden and sharp. Management should be able to present a range of alternative market scenarios.

3. What are the interests of prospective business partners? In many emerging country markets, it is preferable to partner with a local entity to navigate the vagaries of government permitting and regulation, local business-to-business interactions, and labor management. Is the prospective partner in the government's good graces? What are their political ties or encumbrances? Could there be FCPA concerns? Many emerging market companies have aspirations (and, often government backing) to be global leaders and, hence, competitors. Are interests of the partners aligned over the long term?

4. How does the situation in Market A differ from that in Market B (or the home market)? Common practices differ country to country. If management is discussing a tax issue, they need to explain the differences between and among alternative markets. It may sound like a simple question but management should have a well-developed answer. This is especially critical when dealing with potential corrupt practices.

5. What's our government relations strategy? Many management teams have not made investments in a government relations capacity in Beijing and Brasilia, let alone Jakarta and Johannesburg. Government officials and policies can suddenly change. This leads to a subsidiary question -- do we have the attention of the right mix of government agencies and officials over the long haul?

6. Do we have the right people and processes in place to manage corruption risks? As is commonly known, official corruption is endemic to many emerging markets. The US government has enhanced its FCPA enforcement capabilities in recent years resulting in a number of high-profile cases. Many firms also have publicly staked out strong positions opposing all forms of corruptions. Getting the talent required to achieve the aspiration is imperative.

7. What is the transparency of information? Even when corruption is not present, the quantity and quality of information may be opaque, if not inadequate, incorrect or nonexistent. There can be little, if any, information available on the government's inner workings and relationships, partner profiles, and reputations. Information on market attractiveness information tends to be unreliable. Officially, independent data aggregators rarely corroborate published data in these markets. Boards accustomed to very stringent reporting standards should understand the potential of being unable to meet their usual standards and, if necessary, accept exceptions to normal practices.

8. What are the issues associated with unwinding the investment? In many emerging markets, terms negotiated today may be ineffective in only a few years. This dynamism and uncertainty mean that agreements should include provisions for restructuring the contractual terms if the competitive landscape changes.

Emerging countries represent important growth opportunities. Agility in these markets is required. Although the growth prospects can be seductive, board members need to understand these markets. The most important task for the board is to exercise skepticism regarding the company's strategy and plans by challenging management's assumptions and critically assessing progress.

In the News, Eleanor Bloxham

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