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BLOG

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Six Ways to Tell if You Have a Bad Board

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It would be nice for shareholders to know in advance of a potential corporate crisis whether they have good directors or not. This is especially the case given that when they need good directors most, they are least likely to have them. Sadly, there is no way to know for sure; just like there is no way to know how a soldier will fight until he or she faces a live battle.

However, there are a number of clues that tell shareholders that they have a crummy one for sure:

1) **They complain about how hard Sarbanes-Oxley has made it to be a director**. Guess what? It has also become hard to be an investor. And hard to be a public company auditor and a capital markets regulator. It's hard all over. If your directors complain that they don't have time on the board to talk about strategy and succession and other important management issues because the formal SOX procedures have crowded that out, you have mice not men (or women) on the board. Every person in every organization has the personal choice to be a value-added contributor or turn into a useless bureaucrat. Directors have that choice; nobody is putting a gun to their heads. If they complain, they are likely to be useless to you.

2) **They complain about how the fees for being a director aren't high enough to compensate for the onerous work involved**. You don't want a director on the board because they think it is great money. If they complain about the money, it is because they are obsessed about making money by being on boards and want it to be a lucrative gig. If they think it is great money, they won't do anything to rock the boat and risk losing that gig.

3) **They are paid in the top tertile of peer boards**. Boards set their own compensation. If board members set their compensation significantly above the median of peer boards, they want to make the board a lucrative gig and that is a bad thing, per the point above.

4) **They express excessive pride over being on the board**. This is likely to mean that they are enamored with the prestige of being on the board. If that prestige is important to their sense of self then they won't do anything to rock the boat and risk losing the prestige associated with being on the board.

5) **They express enthusiasm for the enjoyable social atmosphere on the board**. This means they will be incline to avoid doing anything to rock the boat because that will reduce the enjoyment of the atmosphere on the board.

6) **They express enthusiasm for the personal growth opportunities the board provides them**. That is lovely for them, not for you.

These are all strong clues that shareholders don't have a director that they can count on to do the sometimes difficult things — like standing up to a self-serving CEO — that need to be done to have actually worthwhile governance.

If none of these clues are observed, can the shareholders be sure that they have good directors? Sadly no: they could still be useless — but at least it's less likely.

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