

## Weed Out Bad Board Members

The author says that boards need to become much more multi-functional, with representation from human resources sitting right next to more traditional finance and operational groups.

By **Brent M Longnecker**

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While chief executive officers have been taking most of the heat created by Enron, WorldCom, Adelphia, et al., there has been some significant scorching across the country toward boards of directors as well ... and deservedly so.

Shareholder confidence in board governance is at an all-time low. Analysts, investors and even employees today are asking questions like:

"What are they doing to prevent something like Enron from happening here?"

"What qualifications do they have? How are they chosen? How, if at all, are they evaluated?"

"How are they compensated?"

"Does the way they're compensated tempt them to do something bad?"



Bottom line: A board of directors is a protector of shareholder interests. Board members should not be "partners" with management. They should not be clients of management. Rather, they should be professional and independent in every sense of both words.

In a lot of cases, they do not have the qualifications to serve on the committees to which they've been assigned. This has got to change. Boards need to become much more multi-functional, with representation from legal, information technology, and human resources sitting right next to more traditional finance and operational groups.

With the implications of new regulations, new listing standards from NYSE and NASDAQ, and the new penalties associated with corporate failures, what shareholder wouldn't want a multi-functional team with the required core competencies in place--thereby ensuring their investment is being properly protected?

It's an unprecedented time in corporate governance. Shareholders will need to quickly separate the wheat from the chaff in directors who presently are supposedly representing them. They'll need to find directors who are independent and up-to-date on true benchmarking analysis. They'll also need board members committed to creating and

sustaining company values and are interested in strategic planning and willing to make the time commitments necessary. Gone are the days where board members come in the night before, have dinner, and then attend a one-hour committee meeting, a two-hour board meeting, and quickly hop on a flight back home by noon.

Despite the corporate cultures of greed and bad board members we've seen and read about of late, there is no shortage of ethical board members and candidates to protect shareholders from the type of inappropriate behavior that has led to all of these recent corporate failures.

The remaining bad board members will need to be weeded out and those guilty of such behavior will need to serve the time befitting the crime.

Those most qualified to serve as guardians will need to ask a simple question:

"Is it worth it?"

To attract, retain and motivate these guardians, shareholders will need to be more willing to pay what is necessary.

However, even pay packages for directors will need to be designed to maintain a true "guardian" status. Cash for retainers and meeting fees should certainly go up--and I believe that board members should own stock. However, I strongly believe the use of options should be discouraged, with the use of stock awards being their replacement. I also believe better SEC reporting for board members is in order to once again minimize specific temptations that arise as a result of lax or weak disclosure. Finally, we need limitations on how many boards are feasible for a person to sit on and be productive as a guardian.

Times have certainly changed. I remember when you had lines as far as the eye could see of board member wannabees. Today, the pickings are much scarcer--but never has this been as important a decision as it is today.

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