

LogiStyle

Helping Corporations Develop Logical Leadership

Food For Thought

June 2007

Three's a crowd: When CEO's need to bow out of a conversation

Dear *LogiStyle* Colleague:

Food for Thought is our way of sharing interesting concepts on corporate leadership and management with others who might find it useful. The thoughts offered are intended to be controversial and thought provoking. They always follow our motto of helping develop logical leadership.

Long before the current proliferation of director institutes – even before Sarbanes-Oxley, - Cynthia Richson and her colleagues at SWIB (State of Wisconsin Investment Board) organized one of the first director conferences in support of shareholders. At one of its early incarnations, Bill George, former Chairman and CEO of Medtronic, spoke about good governance practices. We credit him for planting the seed for our thoughts expressed in this month's message.

We, at LogiStyle, advocate routine one-on-one conversations between each Director on the board of a public company and each senior executive reporting to the CEO, as a good governance practice. In any public company, the CEO, CFO and General Counsel usually have direct access to the board. Surprisingly, in some companies, board's access to management ends there! Such companies aside, CEO's of most companies provide "controlled access" to the operating executives. Controlled access might include opportunities for management to make presentations to the directors at board meetings. Mind you, these presentations undoubtedly have been scrutinized by and rehearsed for the CEO. Controlled access might include participation in social events, where the CEO is at the other end of the room at the cocktail reception. Or, it might even include an occasional email interchange between an operating executive and a director, with a copy sent to the CEO. In all of these kinds of interactions, the executive – even well intentioned executives, in good companies – are likely to be mindful of what the CEO would want them to say. Just that simple psychological constraint taints the nature of that interaction.

At LogiStyle, we are often engaged by boards of directors to come and share progressive ideas for good governance. One such practice that we advocate is to establish routine one-on-one conversations between operating executives and directors. Such conversations, intended to be conducted without an agenda or resulting actions, lend insight into the thinking of the operating executives. The personal frustrations of the sales VP, or the informal account by the president of a division on the challenges in gaining market share, or what keeps the manufacturing VP awake at night, are all elements of insight that are unlikely to surface in orchestrated management presentations to the board. Yet, collectively – through the many one-on-one conversations between directors and management – the board can get a better sense of management’s thinking and the challenges they face.

However, for this process to be effective, clear protocols need to be established on all sides – the CEO, the directors and the executives. The CEO should set up the practice, and then get out of the way. The directors need to be educated on listening and asking questions, without providing any directive. Even opinions, expressed strongly, might be construed by the executive as a directive. The director has an obligation to emphasize otherwise. Management in turn needs to be totally candid and share any detail requested by the director. In public companies where this practice has been systematically followed, the board is better connected with management. We also believe that it requires a confident CEO to institute such a practice.

Lastly, this practice of “skip level” one-on-one conversations is just as useful and effective within the management hierarchy of the company and is more often practiced at that level. At a recent meeting of corporate directors it was observed that even the very CEOs that seem to encourage this practice within their company’s management hierarchy seem to be more reticent in promoting it up at the board level.

If you would like more information on how this process can be effectively implemented or on other such progressive governance ideas, please call or write to us. We have received many responses to our Food for Thought mailings, asking if you can freely share and forward these thoughts. Indeed you can. All we ask is that a clear attribution to LogiStyle and our contact information are included. As always, we welcome your comments. We hope your business is doing well. If we can be of any assistance please feel free to call – even, if just to chat.

Best Regards,

Balaji