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Corporate Boards: Credibility across the board

Craig McGuire - 28 Jun 2004 00:00

Corporate boards need to communicate outward more than ever.

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As corporate boards continue to grapple with the fallout from the Sarbanes-Oxley Act, they are feeling intense pressure to not only act more responsibly, but to better articulate their companies' governance practices. Those boards that get it are emphasizing their independence and publishing their charters, their codes of conduct, even their guidelines. Those that don't are finding themselves fending off shareholder insurrections, while witnessing staggering share-price swings. The upshot is that the need for an effective communications plan that manages outward-facing board communications has never been greater. Perhaps no more dramatic example exists of the damage a board can do to itself than the recent, very public debacle at The Walt Disney Co. Campaigning to oust chairman and CEO Michael Eisner, on November 30, Roy E. Disney stepped down from his post as vice chairman, a position that he had held for almost 20 years. Eisner's defection was followed the next day by the resignation of fellow board member Stanley Gold. The battle for the House of Mouse split shareholders - some lamenting that Walt Disney would never be the same without a member of the Disney family on the board, and others endorsing Eisner's performance. But unlike most boardroom struggles that are waged behind closed doors, both sides actively employed communications vehicles to stab at each other, such as competing websites, namely www.savemichaeleisner.com (pro-Eisner) versus www.savedisney.com (the anti-Eisner shareholder revolt mounted by the Roy Disney/Gold faction). The battle reached a crescendo in March, when a remarkable 43% of shareholders chose not to vote for Eisner's re-election to the board at the annual meeting, splitting the chairman and CEO posts he had held since 1984. In addition to the votes against Eisner, 24.1% voted to withhold their votes from presiding director George Mitchell (named Eisner's successor), 22.5% voted to withhold approval from compensation committee chairwoman Judith Estrin, and 22.3% voted to withhold their approval from nominating and governance committee chairman John Bryson. Disney's board members weren't the only ones to be punished by the fiasco. "The resulting publicity felt very much like a groundswell to financial analysts, who hammered the stock value," says Charlie Elberson, president of Elberson Partners, a marketing communications company in Charlotte, NC. "Interestingly, both sides of the dispute made use of communications experts: internal corporate resources on the side of Disney corporate, and informal professional relationships - paid or unpaid, that's not known - for the renegades." **Testing communications** Today, high-profile corporate malfeasance and issues like executive compensation and governance have exposed the boardroom to litigation, regulatory investigations, shareholder activism, and an unprecedented amount of media coverage. The result is that more and more directors are finding that their communications skills are being tested as much as their business experience and financial acumen. "The greatest challenge is having all the board members speaking the same message and on the same page," says Leslie Gaines-Ross, chief knowledge and research officer at

Burson-Marsteller, and a CEO and corporate-reputation expert. "There is no denying that as the business climate continues to be increasingly complex, communications professionals are playing a deeper and wider role," Gaines-Ross adds. "Communicators are increasing their contacts with board members during mergers and acquisitions, investor relations activities, and issues management. But when board members do not ask for their opinions on matters related to the company's many publics, communications strategies suffer." In this post-Enron and Richard Grasso era, board members must place greater emphasis on the needs of all the constituencies they serve, as well as on effectively communicating the decisions they make and the rationale for those decisions. "What this all means is that boards of directors need to have a plan in place and the right counsel to effectively communicate their decisions, policies, oversight, and independence, along with their corporate strategies and business models," says Rich Tauberman, SVP at MWW Group. "Directors must be prepared to speak publicly to reinforce the business activities and key messages of their companies and the shareholders they serve." Increasingly, board members are viewed as manifestations of the company's management and ideology. "A board member should [represent] leadership and communications positioning to a company," explains Reed Byrum, immediate past president of the PRSA. "This can be good or bad. For instance, a small tech startup that I work with just appointed one of the top executives of a large tech company to its board - the new director brought credibility and positive recognition to the smaller company." Of course, the very same attributes that lead a company to recruit a high-profile director can sometimes backfire. For example, most companies require board members to be CEOs. If a board member faces an ethical or financial challenge at his or her own company, the shadow of that controversy can spread over his or her associations with other companies. Also, if a board member tends to be outspoken, he or she might inadvertently make comments that are untoward or controversial - and these might reflect badly on the company on whose board he or she sits. **Increased opportunities** To navigate multifaceted board PR challenges, more and more opportunities are emerging for corporate communications professionals specializing in board relations. These communications executives need to be comfortable reporting strategies and activities to the board. Consequently, they must be comfortable working with C-level professionals, as they will inevitably be called upon to serve as liaisons for the CEO to board members, while simultaneously coordinating media and event activities. They also should be experts at discussing ethics, Title IV of Sarbanes-Oxley, Reg FD, and the national corporate communications scenario. "A board will not have patience with a communications executive who can only discuss media relations," Byrum notes. "That executive must be a strategic contributor to business solutions." Clearly, an involved, outspoken, high-profile board invites greater scrutiny on the part of all constituencies, with shareholders and media at the top of the list. "From a communications standpoint, that raises obvious challenges and benefits," says Michael Geczi, SVP and director of APCO Worldwide. "The question is, of course, can your company, its board, its strategies, its management, and its performance stand up to the scrutiny?" In this day and age, though, companies must invite scrutiny, as transparency demonstrates good corporate governance. However, at the end of the business day, your management and your board must understand that transparency should go far beyond slick annual reports and press releases. **Wooing golden board members** If you can lure celebrities and well-known corporate leaders onto your board, it is possible to harness their credibility for the good. "The greater the profile of the board, the greater the attention," says Leslie Gaines-Ross, chief knowledge and research officer at Burson-Marsteller. "Among the benefits of a high-profile board is that they often set the pace for other company boards, while also attracting the best talent for new directors." Therefore, it is no surprise that some major US corporations have a reputation for recruiting a high-profile, diverse blend of board members. "For instance, GE's board is racially, ethnically, and gender diverse, including a business school professor, retired CEOs, a retired US senator [Sam Nunn], and a financier," says James McManus, VP at Morrissey & Co. "Time Warner's board includes a retired ambassador [Carla Hills], professors, CEOs, and the former baseball commissioner [Fay Vincent]." Citibank and the New York Stock Exchange also have better-known board members, adds Susan Shultz, president of SSA Executive Search International in Phoenix, and author of *The Board Book*. "And when it comes to the members themselves, you have those like Vernon Jordan, who is a template for one who has been 'overboarded' in the past," Shultz says. "A high profile should never be the most important criterion in recruitment, but clearly it has its advantages in certain situations." For firms looking to land their own boardroom stars, experts advise they seek out an executive recruiter with a corporate A-list Rolodex. Retaining such a third party allows the firm to cast a wider golden net, while introducing a middleman should put both parties more at ease during negotiations. An arduous courtship can be expected, though, and the company doing the wooing needs to have a well-thought-out strategy lined up that focuses on incentives and explanations, clearly spelling out the advantages both sides would gain from a proposal acceptance. Still, just because a company might have an opportunity to recruit a boardroom powerhouse doesn't necessarily mean it should. "Having a well-respected and successful business man like Warren Buffett, plus the benefits of his business acumen, is positive for Coca-Cola," says Patrice Luoma, MBA director and associate professor of management at Quinnipiac University. "But it has also been a pitfall for Coca-Cola in that its board is an active board, composed of high-quality directors. It had a hard time finding a new CEO willing to work with an active board with such high expectations." And a high-profile board can only get a firm so far, a lesson not lost on ATA Holdings, the regional jet service. "ATA has a small, internally focused board, which has supported the company in its continued growth and capital investment," says Reed Byrum, immediate past president of the PRSA. "It has produced sound financial and operating results, while it added services, airplanes and employees. Conversely, American Airlines has a marquis board, but has struggled with its reputation during large cutbacks in employees and services." Lastly, if a company chooses to go the celebrity route, it should be careful whom it selects because one can never predict what he'll do down the road. Just ask Infinity Broadcasting, which has the dubious distinction of having appointed O.J. Simpson to serve on its audit committee several years ago.

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