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Corporate leaders at risk as feds take over.

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An endangered species is a population of an organism which is at risk of becoming extinct because it is either few in numbers, or threatened by changing environmental or predation parameters. — Wikipedia

Over the last decade, the center of gravity for corporate authority and oversight has shifted from the CEO to the board of directors, to shareholders and now increasingly to the federal government. In this new world, the government is exerting growing oversight and control over mergers and acquisitions, executive and board appointments, executive compensation and the ownership and financing of businesses.

Just how vulnerable are directors? Are their numbers so few, has the environment changed so dramatically and predation parameters shifted so significantly that directors could go the way of the dodo bird?

Directors are a small and rarefied breed. The route to board membership has been through the crucible of success. Now, as more companies limit the number of boards their CEO can join, directors are drawn from the ranks of other top-level executives.

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Not only have bankruptcies reduced the number of iconic companies in the Fortune 100, but more companies are seeking to go private to avoid public scrutiny, and what appears to be a creeping socialism by the government. As board work becomes more demanding and thankless, the ability to attract sufficient numbers of qualified directors adds to director vulnerability.

For generations, corporate boards carried out their responsibilities behind closed doors. Communication with shareholders was largely handled in legal documents, 10Ks, 10Qs, proxy statements and annual reports. Facing a financial collapse of global magnitude, businesses and other enterprises are reeling. Today, the public at large has joined the chorus of shareholders and the financial media to ask, “Where were the boards?”

In the face of high unemployment, recession and a volatile stock market, shareholders and the general public place far less trust in prevailing corporate board governance. Congressional hearings, new legislation and general skepticism convey a hostile environment for many directors, especially for the role they played in approving the compensation packages that rewarded CEOs in excess of 300 to 400 times the average employee's salary.

The consequence of director inaction is shareholder and government action. Emboldened by wins on “say-on-pay,” shareholders are morphing into a stronger force in corporate governance. More alarming, the government has intervened in private enterprise in ways that were once unimaginable. Bills in both the Senate and the House seek to regulate executive compensation, director election and shareholder involvement, further usurping what was previously the exclusive domain of the corporate board.

Beyond the issues of executive compensation and risk management, directors face a more challenging responsibility for succession planning, the critical practice of ensuring the long-term value of the enterprise. Independent surveys by executive search and other organizations continue to confirm that many corporate directors do not believe that the companies they serve have adequate succession planning processes, let alone qualified internal candidates for the CEO position. Recent data confirms record turnover for CEOs with tenure under four years. There are growing indicators that directors will be challenged as to whether they are dutifully carrying out effective risk management in this critical area. These and other issues are giving rise to growing demand for separation of the chairman and CEO roles.

Directors have an opportunity to demonstrate and communicate proactive leadership in restoring trust and sound governance. But, they need to move beyond the audit and accounting risks and an overall compliance mentality and look ahead to the larger issue of ensuring the long-term value of the enterprise by insisting on stronger talent identification and leadership development/succession programs within companies at both the executive and director levels.

Directors are best positioned to create solutions. But, as boards more fully embrace their public constituencies — shareholders, employees, the community and the public at large — adopt greater transparency in their actions, show a willingness to engage appropriately with diverse publics, they enhance their roles as stewards.

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In asserting their leadership, independent directors are best qualified to hold management accountable for developing the most talented, innovative and responsible leaders within an organization.

Directors can ensure their survival by focusing on the work that ensures long-term. sustainable value creation for the company, the employees and the community.

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