

BEST PRACTICE

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How Well-Run Boards Make Decisions

by Michael Useem

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In the aftermath of seismic debacles like those that toppled Enron and WorldCom—as well as several noteworthy but more modest tremors, such as Disney’s estimated \$140 million payout to dismissed president Michael Ovitz—corporate boards have been shaken up and made over. They have more independent directors these days, and nearly all of them (up from roughly a third just a few years ago) have appointed lead or presiding directors to help ensure the board’s vigilance in company affairs. Corporations now disclose directors’ salaries and the names of committee members on their Web sites as well as in SEC documents. Sarbanes-Oxley legislation requires boards to maintain an audit committee consisting entirely of independent directors. Researchers have found that most of the changes are for the good: Along with other increasingly common board features—the existence of independent nominating committees, for instance, and requirements that directors own company stock—they have a positive effect on company performance.

Such visible structural changes, however, don’t go to the heart of a board’s work: making the choices that shape, for good or ill, a company’s future. Which decisions boards own and how those calls are made are largely hidden from public view. Unlike the outer trappings of good governance, the inner workings of the boardroom haven’t faced widespread investor or regulatory review.

In fact, directors looking to revamp their own decision-making processes have been hampered by the veil that typically obscures the workings of corporate boards. Boards can turn to other boards, investors, and researchers for guidance on the best governance practices visible to outsiders, but they usually lack the vantage point to draw lessons from other companies’ best inside practices. This article—based on interviews that my colleague Andy Zelleke and I conducted with directors and executives of 31 large, publicly traded companies, along with a detailed study of three particular boardroom decisions—is meant to help corporate boards learn from one another. It identi-

fies some formal processes and informal norms and principles companies can use to improve the quality of decisions that their directors make behind closed doors.

Drawing the Right Decision-Making Lines

More and more, companies are developing formal processes for figuring out which decisions should go to the board. These include the following:

Annual calendars. In recent years, many corporations have started creating a schedule for major topics the board must consider. The company strategy might be set for the January meeting, the business plan for February, the capital budget for March, and so on, through executive compensation for November and succession planning for December. Similar schedules have been established for audit, compensation, nominations and governance, and other standing committees. As rudimentary a process as these calendars represent, they help ensure that boards participate in key decisions. (For a look at the decision calendars of HealthSouth's board and three of its committees, see the exhibit "One Board's Annual Calendars.")

Committee charters. Most companies have also developed charters to define the decisions for which board committees are responsible. Often, committee recommendations must be ratified by the full board, but the actual decisions are largely made within the committee rooms. Since the disclosure of management fraud at HealthSouth in 2003, the company has formally charged board committees with specific responsibilities. For instance, the charter of its compensation committee requires that directors choose independent compensation consultants and review all compensation plans, equity awards, and executive employment agreements.

Decision protocols. Many large companies explicitly identify which decisions should be made by directors and which should be made by executives. Although this information is typically confidential, HBOS, one of the UK's largest financial services companies, has made its "matters reserved to the board" public. The list (published on the company's Web site, at www.hbosplc.com/about/bos/board_matters.asp) includes dozens of items under the directors' purview, such as financial statements, annual dividends, executive remuneration, significant

changes in internal controls, and new business that would represent more than 1% of a division's gross income.

Another company follows a highly detailed, 30-page "delegation of authority" that specifies a host of decisions that must be brought to the directors for final resolution. (An excerpt can be found in the exhibit "Matters Reserved for the Board.") A third corporation uses a protocol with 194 rules detailing director decisions on financial reporting, risk management, human resources, competitive strategy, acquisitions and divestitures, technology, and governance and compliance. After reviewing a decade's worth of board minutes, the chief executive instituted this process to bring order to what he saw as a dangerously ad hoc approach to determining which decisions the directors would make and which ones would fall to the managers. Some items that had previously belonged to the board, such as substantial borrowing decisions, went to management, and vice versa.

Creating a Governance Culture

While the decision protocol defines many of the areas in which directors retain explicit decision-making control, other boardworthy issues—such as regulatory changes, competitor moves, and technical problems—can arise unexpectedly. In these cases, choices have to be made on the fly concerning what (and what not) to submit for board consideration.

Usually, the chief executive makes the judgment call. That call is based on a set of informal norms that have evolved over time, norms that reflect the company culture and, more pertinently, the personality of the CEO and the relationship he or she and the rest of the executive team have with the board. While these norms vary from company to company, most revolve around the idea that boards should have a say when a question is "strategic."

Even with that criterion, such norms are obviously going to be hazily defined. But it is important to try to articulate them, to let the board know where it stands and to give the CEO and the executive team something to measure their actions against. The chief executive of one firm, for instance, says that the board should be involved in "large-impact decisions" and those that "will change the future." The chairman of another firm tries to ensure that the board is well-informed about decisions that have "a big outcome for the company."

Michael Useem (useem@wharton.upenn.edu) is the William and Jacalyn Egan Professor at the University of Pennsylvania's Wharton School in Philadelphia and the director of its Center for Leadership and Change Management. He is also the author of *The Go Point: When It's Time to Decide* (Crown Business, 2006).

The CEO of a third corporation says the board needs to be brought into the picture in the case of “any issue that could have material impact on the company, from either a financial or a public perspective.”

These sorts of vaguely defined standards do little more than force a CEO to think about

how decisions are divvied up. But that in itself can be useful. Most of the executives we’ve interviewed say that, at the least, they are constantly mindful of decision-making rights as an issue. One chief financial officer says, “I’m always thinking, ‘If I were a board member, what would I want to know?’” The answer to that question becomes clearer in a company over time. Decision-making norms take shape in a common-law fashion, incorporating lessons learned from previous applications.

Here, we’ll look at how decision-making rights have been divided between managers and directors at three companies. In each case, we’ll see how existing or emerging governance norms have affected the balance. From these examples emerge a handful of principles that all companies may find useful in determining who decides what—and how. (See the exhibit “A Board Decision-Making Primer.”)

Digging for Diamonds at Universal Investments

The CEO of Universal Investments, Mary Cantrell, faced just such a decision when she focused on whether to close an investment vehicle—a fund that invested in diamond-mining companies—to new investments. (The company name, the individuals, and other identifiers have been changed in this example.) Though the fund’s overall assets constituted a tiny fraction of the firm’s assets under management, she asked the board to review her tentative recommendation to limit the size of the fund. Cantrell’s reasoning for going to the board: This was a tough call; the directors’ collective wisdom had historically been invaluable in similar situations; and the decision would touch on the company’s core value of customer service.

Universal’s diamonds-fund manager, John Shore, was a well-established professional, having advised the fund since the early 1990s and run it since 1995. Shore had assembled a portfolio that increased an investor’s holdings from \$10,000 when he took over to more than \$17,000 by the end of 2003, a period during which the S&P 500 index had barely budged. Clients and prospective clients alike noticed this exceptional performance and began pouring cash into the fund. Shore feared that the astonishing growth in assets contained the seeds of the fund’s destruction.

In the diamond-mining industry, companies are small in number and tend to be large in

One Board’s Annual Calendars

To ensure sufficient board and committee involvement in key decisions, some companies are creating fixed calendars of topics for review. Health care service provider HealthSouth has been doing so for the past few years. Here are the decision schedules that guided its board and three of its committees in 2005.

Board of Directors as a Whole

February: Review annual plan and quarterly results; evaluate board and committee performance

March: Conduct annual review of executives and equity awards

April: Review committees’ reports and quarterly results

June: Conduct annual review of quality of care

July: Review committees’ reports and quarterly results

September: Review compliance and internal audit

October: Review committees’ reports and quarterly results

December: Review 2006 budget

Audit Committee

January: Review draft of SEC Form 10-K alongside the company’s annual audited financial statement

February: Evaluate performance of committee; review quarterly results

March: Review financial risk exposure and performance of independent auditor

April: Review quarterly results

May: Review management reports

June: Review prior year’s quarterly reports

July: Review earnings release, guidance for investors, and quarterly results

August: Review management reports

September: Review internal audit function

October: Review compliance procedures and quarterly results

Nominating and Corporate Governance Committee

February: Evaluate performance of committee; review governance guidelines

April: Review management reports

July: Review management reports

October: Assess director nominees

Compensation Committee

February: Evaluate performance of committee; review director and executive compensation plans

March: Review executive performance and compensation

July: Review trends in compensation; authorize equity plan

August: Review benefits program for coming year

October: Review executive compensation philosophy and policy

December: Review performance goals of CEO and other executives

size. Shore concluded that the growing dollars under his management were quickly making the fund a major player in a minor market, forcing him to make riskier investments at the margins of the industry. The problem was exacerbated by consolidation in the industry, which was reducing the number of players in which to invest. Believing he could no longer prudently allocate all of his fast-growing assets, Shore recommended to Cantrell that the fund be closed to investors.

The CEO's first reaction was, "Sure, let's close the fund. There's too much money coming in, and we want to save the existing customers from becoming disadvantaged." But on further reflection, she had second thoughts. Cantrell had inherited from her predecessor a company culture that stressed reliable returns at reasonable costs—and, above all, customer care ahead of company welfare. To limit the fund would be to deny Universal's current and future clients an opportunity to invest where they wanted. Uncertain of which way to go but certain that the issue had become strategic since it was testing one of the company's primary values, Cantrell decided that the board should weigh in. Although she chaired it, the board was a model of independence, with seven strong-willed nonexecutive directors.

"I don't know what the answer is," she candidly admitted to the board, "and I'm here to

roll ideas around with you." After intense discussion, the directors decided that they wanted not just to roll around the ideas but also to decide the issue. Were there alternatives to closing the fund? What about creating a diamonds index fund that would simply mirror the market? If the fund were closed, would it be reopened when the demand to invest in it cooled down? The directors soon concluded that they required more information on fund customers and diamond producers to reach an informed decision. They directed company staff to conduct a far-reaching analysis of client needs and diamond trends.

After several months of study, the staff reported to the board that consolidation had left the diamond industry without the capacity to absorb the sharply rising investment flows. With this analysis in front of them, the directors decided to keep the diamonds fund open but expand its investment boundaries to include companies that mined other precious stones, metals, or even coal. Customers, the directors concluded, generally would want to invest in a range of valuable rocks, not just diamonds, and they instructed the fund manager to find good investment opportunities in this larger domain. The directors had moved from discussion to data to decision, and they voted unanimously to expand the fund's charter.

John Shore welcomed the board's decision. As his fund's assets grew, to \$1 billion by 2005, he spread his investments across a host of mining companies, including Rio Tinto, a firm that extracts virtually anything of value from the ground. Before Cantrell took the question to the board, the diamond fund had invested in fewer than 20 companies; now it spread its holdings among more than 40. Consistent with client interests, the newly titled Precious Stones Fund outperformed most benchmark indexes. As of mid-2005, the fund's one-year return was four times greater than an S&P/Citigroup benchmark index for precious metals and mining. Over the previous three years, the fund had averaged an annual return nearly double the industry benchmark.

Cantrell says that "you don't want the board running every aspect of the company." And the diamond fund constituted little more than 0.2% of Universal's dollars under management. Still, the strategic and symbolic implications for customer service made board in-

Matters Reserved for the Board

Some corporations spell out the types of decisions that the board, not management, should make. The following list is drawn from one company's 30-page "delegation of authority" document, an array of rules for determining which decisions should fall on the board's shoulders.

Decisions Delegated to the Board of Directors

- Annual business plan
- Officer hiring and compensation
- Stock options
- Capital structure and indebtedness
- Dividends
- Risk management and insurance policies
- Acquisitions, divestitures, and capital expenditures above \$30 million
- Litigation settlements above \$30 million
- Fines and penalties above \$30 million
- Restructurings that exceed \$60 million
- Tax settlements that exceed \$125 million
- Contingent liabilities above \$275 million
- Pension contributions that exceed \$275 million

A Board Decision-Making Primer

Companies can use these guidelines to determine which decisions should go to the board and how those decisions should be made.

		Illustrations
Processes	Create an annual calendar that specifies major subjects for review by the directors.	The annual calendar of one large firm's board prescribes six subject areas, one for each of its board meetings, ranging from strategic planning in January to succession planning in November.
	Prepare committee charters that define the decisions for which each board committee is responsible.	The charter of the compensation committee of HealthSouth requires that directors choose independent compensation consultants and approve compensation plans, equity awards, and executive employment agreements.
	Use a decision protocol to identify which decisions should be brought to the directors.	In its list of "matters reserved to the board," HBOS specifies that items such as executive compensation, large transactions, and new businesses fall under the directors' purview.
Cultural Norm	Send "strategic" decisions to the board.	Many directors and executives assert that "large-impact decisions" or those that "will change the future" of the company should be made by the board.
Principles	Take to the board decisions that touch on a company's core values, even if those decisions are modest in financial impact.	The CEO of a large investment-management company asked her board to decide whether to close its rapidly growing diamond equity fund, despite customer demand to invest more in the fund. (This illustration and the one below come from a disguised example.)
	Research and review the decision options before approving a plan of action.	The investment-management company's directors asked for detailed analysis of customers and the market before reaching a decision on the diamond fund.
	Subdivide large strategic decisions into smaller, sequential ones.	Boeing's directors broke down the big decision of whether to go ahead with the 787 into three separate pieces: authorizing development, initiating sales, and commencing manufacturing.
	Remain engaged in secondary decisions that flow from primary strategic decisions.	After giving the go-ahead for the 787's launch, Boeing's directors continued to monitor the manufacturing and sales efforts to ensure that the program stayed on track.
	Sustain ongoing dialogue between the CEO and the nonexecutive chair or lead director.	When divesting many operating units, Tyco's CEO Ed Breen and lead director Jack Krol jointly decided which decisions should go to the board.
	Request and evaluate explanations and assumptions for proposed executive decisions.	Tyco's directors challenged management's recommended set of units for divestiture, altering the final list.

volvement a must.

With the aid of staff analysis, the directors reached a decision that was different from what Cantrell and Shore had originally proposed. As the ultimate defenders of the company's mission, they chose a course that reflected both customer concerns and company objectives. "It's a great example," Cantrell says, "of the board doing the right thing," since it came up with "a better solution for customers than it began with."

Universal's experience highlights a useful governance principle that might become part of a company's informal decision-making norms: Decisions entailing even relatively modest resources should be taken to the board if they are of strategic significance, because they touch on the firm's core values. In addition, when directors have the opportunity and resources to carefully vet the underlying issues, the board can bring invaluable insight and analysis to bear that is not otherwise available, resulting in a better company decision than management would have made on its own.

Betting the Company at Boeing

In designing Boeing's new 787 aircraft in the early 2000s, company engineers faced thousands of decisions. These ranged from big ones, like the choice of materials to use in the airframe, to seemingly minor ones, like whether to include "gaspers," those round overhead nozzles that channel gloriously cool air toward customers' seats but require space-consuming ductwork and make seat reconfiguration difficult.

Individually, none of the design decisions were make-or-break propositions, but together, they could mean the difference between the airplane's success and failure. Sorting through all of them on the way to a final design would cost billions of dollars. The board clearly had to be involved in what then–nonexecutive chairman Lewis Platt called a "bet-the-company decision" on the plane's design.

Such a decision couldn't be made in one sitting, based on the contents of a fat binder plunked down in front of each director—and on the presumption that the board would give a thumbs-up. In order to ensure board scrutiny, management broke the overall design decision into smaller pieces and had the board weigh in at three critical go or no-go points in the development of the plane.

Decision-making norms take shape in a common-law fashion, incorporating lessons learned from previous applications.

First, the board sat down to review and approve a multibillion-dollar budget and a timeline for the aircraft's development. This task required that the board accurately appraise the future of airline travel. Airbus had already cast its lot with the double-decker A380, on the premise that a superjumbo, with 555 seats in a three-class configuration (and 853 if all in coach), would be more appealing than ordinary jetliners to the carriers in crowded hub-and-spoke airports. The A380 could carry double the normal load with the same number of gates, pilots, and takeoffs. In its proposal to launch the 787, Boeing was banking on a different view of the future. The company believed that the traditional hub-and-spoke system was breaking down, as passengers increasingly demanded direct service between two points. The 787 promised just that: Long-haul, point-to-point service for 20% less cost because of its new weight-saving technologies and its more modest capacity of 200 to 300 seats.

The two aircraft giants were making enormous—and opposite—wagers on what their customers would want six to eight years later. Boeing's management team began by presenting the directors with its vision for the 787—the aircraft's cost, its capacity, and why it would be appealing to the company's airline customers. The directors challenged the team's numbers and the assumptions on which they were based. Was the hub-and-spoke scheme really destined to disappear? Was the point-to-point scenario economically feasible for airlines? In response to these questions, the team returned to several subsequent board meetings with refined forecasts, finally convincing the board in 2002 that the 787 would find a profitable market.

Second, management asked the board to rule on whether the time was right to allow sales managers to discuss the aircraft's specifications with the airlines. This, too, was difficult. To authorize such sales calls, the board had to be confident that Boeing could manufacture the 787 with the promised performance at the promised price by the promised date.

The new airliner was to be built with a higher percentage of lightweight, high-strength composite materials that Boeing had pioneered on earlier commercial jet programs, such as the 737 and the 777. These composites would allow for lower costs and increased creature comforts, like higher humidity (the composites would not corrode with greater moisture). But

the board was not entirely certain that the company could successfully mold the composites into the larger, more complex sections—including entire fuselages—envisioned for the 787. Directors required executives to present compelling evidence that the 787 could indeed be built with composites and priced competitively against what Airbus was expected to offer. When it was convinced, the board authorized the sales team in 2003 to communicate the aircraft's projected performance and price to the airlines.

Third, the board was asked to give the final go-ahead for production of the aircraft, which would require Boeing to commit additional billions of dollars to the project long before its customers had given it any money to do so. The board had to be convinced that customers would in fact like what they saw. Then the sales team would be unleashed to secure the written orders upon which the big bet rested; once signed, those orders called for stiff penalties if Boeing failed to deliver as promised. So the directors pressed management for a detailed production plan and proof that anticipated engine suppliers General Electric and Rolls-Royce could create the required thrust at an acceptable price.

After many board meetings that focused on 787 discussions, Boeing's directors finally voted unanimously in 2004 to commence the formal product launch. Directors walked out of the boardroom both elated that the go-point had been reached and believing that the company was doing the right thing. Even after the formal launch, however, the directors insisted on monitoring both manufacturing progress and order flow. Engineers coded their key production stages red, yellow, or green, and directors pressed them to explain why anything other than green remained.

The board's first two decisions were necessary precedents to the third, and all three were required to go fully ahead. And the decisions were hardly pro forma. The directors had sought tangible evidence to support each of management's major assumptions. Sometimes it came down to examining the actual test data on very specific functions, such as whether the 787's passenger doors could withstand an accidental slam against a Jetway. After seeing countless test results and fact-driven forecasts, the directors concluded that Boeing's 787 would join the 707 and the 747 as one of the

company's most successful airliners.

Two principles emerge from the board's experience with the 787. Management should divide large strategic decisions into smaller pieces that the board can address sequentially, so the board can give each piece detailed attention before approaching the next milestone. Additionally, directors must remain vigilant after making their decisions, following up with management to ensure that they are effectively implemented and that the many secondary decisions stemming from the primary decisions are dealt with as well.

Shedding Assets at Tyco International

At Tyco International, a new management team inherited an infamous mess. The board had replaced Dennis Kozlowski in June 2002, after he was indicted for sales tax evasion and resigned as CEO; in the months that followed, the company began digging through massive accounting irregularities, repaid a huge debt, and replaced 290 of its top 300 executives. By March 2003, the entire board resigned in the wake of an estimated \$600 million in fraud, for which Kozlowski and his chief financial officer would later be convicted.

With a new board in place, the new chief executive, Edward D. Breen, set out to undo the damage of the Kozlowski era. Kozlowski had built Tyco from a \$3 billion company in 1992, when he took the helm, to a \$36 billion company at the time of his resignation. He had assembled a mammoth conglomerate with nearly 260,000 employees. Much of the growth had come from acquisition after acquisition, but in his buying binge—some 900 companies, at a total cost of \$63 billion—he had taken on operations that fit poorly or performed weakly. Kozlowski had focused on acquiring rather than consolidating; Breen vowed to do the opposite. He imposed a moratorium on acquisitions and made plans to shed whatever remained a mismatch. Tyco's revival, the new CEO concluded, would depend on its swift conversion from a buying engine to an operating machine.

Representing the board, new lead director John A. Krol was already in agreement on the need to shed weak assets. In fact, when he was recruited to join the board, Krol told the new CEO that parts of the business—those that were chronically underperforming or trapped in commoditizing markets—obviously did not

belong at Tyco at all.

Breen's first months in office were consumed with the tasks of stabilizing operations, restoring confidence, and compiling cash. With the worst behind him, Breen turned in mid-2003 to the company's restructuring. His first step was to reaffirm that the lead director was still of the same mind. Krol was, and the two agreed that the time had come to get rid of the underperformers. They also concurred that the board should have a direct hand in deciding which divisions should stay and which ones should go. The mass disposal would so remake the firm that the board would have to be involved.

After the new directors received a crash course in Tyco's operations, Breen and Krol asked them to authorize management review of Tyco's hundreds of business units, one by one. The board unanimously endorsed the plan, adding that management should not waste its time trying to fix anything of marginal value.

Breen assigned Tyco's new treasurer, Martina Hund-Mejean, the task of appraising those units. With the board's blessing, she set out the disposal criteria. Did an operating unit generate enough value to justify the capital invested in it? If not, did it support other units, display turnaround potential, or hold the promise of rapid growth? She compiled a list of 130 units that didn't meet these standards. Some were tiny, with assets of as little as several hundred thousand dollars; others were hefty, with assets running in the hundreds of millions.

One unit—TyCom, which lay undersea cable—was hemorrhaging so much cash (around \$300 million annually) that Breen and Krol recommended to the board that it be sold immediately. Breen then turned to the remainder of the disposal list and, in discussions with the directors, whittled it down to 60 units. Breen and Krol presented the candidates to the board for review at its annual off-site strategy meeting in September 2003.

The directors pressed Breen's team to explain the financial and strategic pros and cons of disposing of each unit. They questioned timing: If all 60 went on the block at the same time, wouldn't that depress the prices Tyco might fetch? They asked about each unit's management: Couldn't the team, or a better one, resurrect the unit? And they asked about the strategic plan of each: Why ex-

actly wouldn't it work? In six instances, the directors decided that the case for divestiture was not yet conclusive or that the timing was not right. Otherwise, the directors gave the go-ahead. Breen publicly announced the disposal of units generating, at that time, 6% of Tyco's revenue.

Hund-Mejean then began the process of shedding some four dozen of those units. Over a period of months, she kept the directors abreast of the divestiture progress in meeting after meeting, typically highlighting in detail the six largest deals under way at a given moment. She later reported to the directors that several units were better liquidated than sold. Upon further study, she determined that several others were in fact too good to let go. Hearing management's rationale for these changes in the plan, the board backed them. The transformation of Tyco from aggressive buyer to lean operator took two years, with the last units from the disposal list finally sold in 2005.

Reflecting on the directors' decisions during the divestiture process, Krol characterized the board's approach as one of granting approval, but with a discerning eye. Instead of rubber-stamping management's disposal plan, the board reviewed each of the proposed divestitures and ultimately approved a modified list. "The board's 'value add,'" Krol concluded, was "in the questions it asked."

The decisions Tyco's directors made were typical of the ones boards most often face. Unlike the decision concerning the diamonds fund at Universal Investments, which was relatively small in terms of the resources involved but important because it related to core operating values, Tyco's divestment decisions would materially affect the company's balance sheet. Yet unlike the 787 design decisions at Boeing, they weren't so momentous as to put the future of the company at risk. Decisions of this sort—acquiring a new operation, divesting an underperforming division, or entering a new market—are tackled by boards all the time.

The Tyco experience illustrates two additional decision-making principles. Ongoing informal dialogue between the chief executive and the nonexecutive chair or lead director can usefully guide which decisions should be taken to the full board and when. And directors can helpfully review management proposals before making yes-or-no de-

isions. By asking questions and challenging assumptions, they force executives to explain and justify their tentative decisions prior to execution, and in doing so they come to alter some of the provisional decisions before they are finalized.

Making Good Decisions

To avoid the kinds of fiascos that occurred at WorldCom, Disney, and Enron, companies need boards that can make effective decisions. If the directors at WorldCom had researched and reviewed its acquisitions, they might not so quickly have approved the buying spree that helped bring the corporation down. If Disney's directors had followed the requirements of a compensation committee charter, they might not have allowed Michael Eisner to extend an overly generous separation package to his new hire, Michael Ovitz. If Enron's directors had taken the time to request and evaluate the rationale behind CFO Andrew Fastow's proposal to form off-balance-sheet partnerships, they might have prevented the company's downfall.

As we have seen, though, improved decision making can be generative as well as protective. Good decisions about strategy and products can move a business to the next performance level. This view of the board's role is broader than the traditional one, which casts directors as investor-elected monitors of management, installed to ensure that *executives* make good decisions or are swiftly replaced. It has become clear that directors need to be decision makers in their own right, there to help a company choose the correct path when approaching major forks in the road.

The principles and processes sketched out here, drawn from contemporary board practices and experience, can't guarantee good decisions or prevent bad ones. But by pulling back the curtain on decision making at a number of firms, they should prompt directors and executives to examine their own companies' processes, explicit or not, and to create a customized set of guidelines that will promote effective board decision making—the essence of good governance.

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