"Leading From the Boardroom"

Harvard Business Review (04/08) Vol. 86, No. 4, P. 104; Lorsch, Jay W.; Clark, Robert C.

Boards continue to work toward compliance with recent regulatory reforms, such as the Sarbanes-Oxley Act, at the expense of working toward long-term organizational success. In addition to the regulatory pressure, CEOs and boards must focus on short-term results, which are posted in quarterly earnings reports. Following the Enron scandal, boards now micromanage organizations, monitoring the actions of executives instead of focusing their attentions on over-arching goals. Even though directors have increased responsibilities, most organizations have not extended their board's meeting time, forcing them to get through a longer agenda in just a few days per year. To fix this problem, boards and management teams need to get together and realistically determine what they have the time and ability to do, creating a more collaborative relationship. Management should work on developing long-range plans, while the board is tasked with debating the viability of these plans and ultimately offering managers advice. Since directors must be involved with compliance issues, they should limit their involvement in strategic issues to advisory capacities and focus on a broad view of the organization. Boards and senior management must reach an agreement for long-term goals, determining a time frame, financial goals and strategies for future growth. Independent directors also need to take charge with developing new talent, finding a new CEO and aiding in the transition process. Although the new regulations are designed to protect stakeholders, if boards do not provide strong leadership, the value of the company will falter.