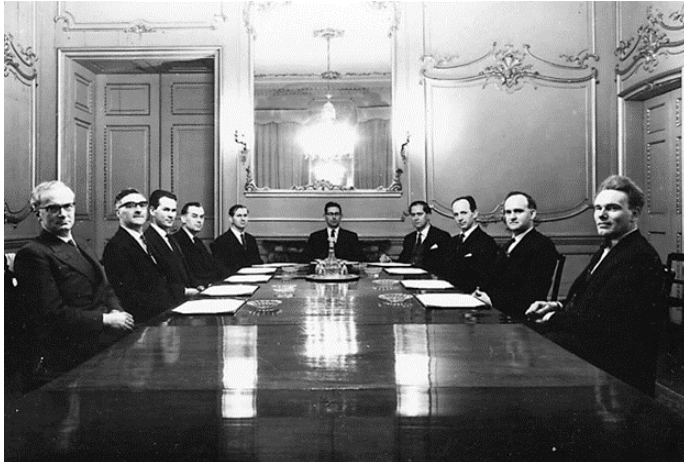


## The White House Should Solicit Advice From Independent Board Directors

Harry G. Broadman, CONTRIBUTOR

*I advise, speak and write on global markets and business strategy.* [FULL BIO](#)

Opinions expressed by Forbes Contributors are their own.



It was all but impossible to find any silver lining in the aftermath of the divisive remarks by President Trump on the violence, injuries and death that occurred at the white supremacist rally that took place in Charlottesville, VA in early August 2017. But there may well be one stemming from the demise of the President's various Business Advisory Councils: the composition of these councils focused too heavily on participation by CEOs and were largely devoid of Independent (or "Outside") Directors of Corporate Boards of U.S. companies.

Any attempt to reconstitute such councils—whether by the current administration or future ones—needs to address the omission of these important stakeholders. After all, they are the ones to whom the CEOs report. It is Boards of Directors who have the ultimate governance responsibility to guide the fundamental direction of U.S. corporations. Thus, they are the ones who ultimately shape the decisions that CEOs and the rest of a company's management team take, which in turn drive the competitiveness and growth of the U.S. economy

No doubt, many, if not all, of the CEOs invited to join these councils jumped at the chance. Who wouldn't? What an opportunity to have a seat at the table with President Trump, both to hear firsthand the content of the economic policy strategy being pursued by the White House ([to the extent one actually exists](#)) and to (presumably) exert some degree of influence on specific policy decisions being contemplated by the Administration that could enhance the prospects for the businesses they oversee, the workers they employ, the suppliers from whom they purchase, and the customers to whom they sell.

To be sure, many current CEOs not only sit as "Inside" (Non-Independent) Directors on the boards of their own corporations—indeed they frequently actually *chair* such boards—but they also sit as "Outside" Directors on *other* companies' boards, sometimes multiple such boards. In this respect, one could argue that in effect independent board directors actually were already represented on these Presidential councils. Strictly speaking that is true. But I do not know of any CEO of a Fortune 500 company who would seriously take issue with the point that when it comes down to it, the principal daily preoccupation of any CEO is his or her own company, and that is the job which is almost always of an all-consuming nature for them. Thus, their role as outside director is quite a different ilk than that of other members of a corporate board, especially bona fide independent directors. It is members of the latter constituency that, along with CEOs (as well as other key stakeholders), need to be front and center with the President.

Consider this. The presumption is that the establishment of such councils is to provide the President with feedback on practical policies that will increase the long-run growth of the U.S. economy. This will come about only through enhancing the international competitiveness of the nation's businesses and workers — the underpinnings our economy's fundamental performance. Yet as many of us know all too well, the incentives conditioning our country's

CEO's decisions — far more than those of members of our boards of directors — are based on very short-term time horizons. Let's face it: it's rare to find a U.S. CEO who does not live from one quarter's financial performance to the next quarter's.

This is not at all to suggest that CEOs cannot offer extremely valuable advice to the President and the other leaders of our executive branch of government on strengthening the prowess of U.S. business. Of course, they do. But they themselves — just like labor union representatives or other business stakeholders — do not occupy a position to convey a comprehensive view. Simply put, relying on them alone short circuits a more fulsome 'voice' that could be provided by the addition of independent corporate board directors.

One presumes that in light of Trump's iconoclastic campaign platform, and now that he is president, to shore up the base of those who supported that platform, he should be most eager to hear from the U.S. business community recommendations as to the types of policies his administration should consider in order to better the lot of the 'average' shareholder of these companies. This means both active workers, who, in varying degrees, likely invest a portion of their earned income in shares of publicly held companies, the proceeds of which may be used to help secure home ownership or provide for their children's college education, as well as retirees, whose accumulated savings are often invested in stocks either through social security accounts or via 401K plans established during their working years.

If true, Trump, in light of his business background, should have a natural inclination to hear from those who represent the interests of these shareholders, who, after all, are a company's ultimate owners. Those are, of course, the boards of directors.

Indeed, one hardly need be an expert in the Anglo-American model of corporate governance to know that the *raison d'être* of corporate boards in the U.S. economy is to make decisions to steer a company's long-term direction aligned with the fundamental interest of the shareholders that the CEO and the rest of the company's management team are to then discharge on a day-to-day basis.

In cases of large publicly held U.S. firms, shareholders are almost always huge in number and, as a result, they often have heterogeneous ownership objectives. This means that decision-making by boards is, in principle, a daunting challenge since a balance ultimately should be struck among what are likely competing shareholder objectives. Typically, there are two paths to achieving this balance.

One is for the board itself to ensure the composition of its membership is sufficiently diversified across a variety of dimensions. In essence, the goal to approximate the diversity of the shareholders themselves. Often this is both in terms of areas of professional expertise (for example, seasoned senior executives of complex commercial organizations; specialists in the company's sector; accountants; experts in corporate finance; and practitioners with extensive experience in the functioning of international markets) as well as personal attributes and cultural background (for example, gender, ethnicity, etc.).

With respect to the latter objective, recent data from [Spencer Stuart](#) indicate some progress is being made. In 2016, women accounted for 32% of the new directors elected to boards of a surveyed sample of S&P 500 companies, the highest rate of female representation on S&P 500 boards to date. However, in 2016 the share of minority directors elected was 15% of the total, a drop from 18% in 2015.

Equally, if not more critical, is to ensure that there is integrity and transparency in the process of checks and balances between a board's decisions and management's actions.

In practice, accomplishing these tasks is often challenging — sometimes made far more difficult than it should be — in three ways.

In part, difficulty arises because there is fixed number of board seats, often far smaller in number than the diverse set of interests of the underlying owners. The result is the need for a scrupulously deliberative process with judicious consideration of the pros and cons given to each potential director to ensure that *as a whole* the board is an effective representation of the underlying owners of the company. One way to help remedy this is to have frequent turnover of directors and/or enlarge the size of the board.

Another problem arises because despite the fact that it is the shareholders who actually decide who is to fill the seats on the board — through an election process where each owner casts a vote — the vetting and selection of board candidates that are put before owners for their vote is carried out by incumbent directors. Needless to say, one only has to glance at news headlines to know that this process is not always smooth sailing for an existing board. Not only can shareholders vote down a new candidate for the board, but they can also vote to remove an incumbent board member. In either or both cases, activist shareholders — if they are well organized and have sufficient resources — can actually place on the ballot a candidate of their own choosing.

Finally, and most critically, there is too often a lack of independence between board and management. This is not a question of whether or not management should be shareholders. Indeed, ensuring managers' compensation is tied to share value provides perhaps the strongest incentive for management to make sound business decisions. Rather it is a question of the degree to which a board is comprised of insiders, especially an incumbent CEO of the company itself, as opposed to non-executive, independent directors. The Spencer Stuart data show that compared to 2015, in 2016, the amount of newly elected independent directors on S&P 500 boards actually fell slightly, from 376 to 345. And, only just under one-third of the new independent directors elected to S&P 500 boards in 2016 never had served on an outside corporate board.

Ex CEOs on boards of directors is one thing. They have valuable lessons to share with other directors as they collectively make decisions to guide the remit of the existing CEO of the company in question. This is akin to a peer review process. But having current CEOs sitting as voting members — let alone assuming the role of chair — of their own company's board is quite another. To say this regime poses potential conflicts of interest and blunted incentives for rigorous checks and balances would be an understatement. It is a clear invitation for intervention by activist shareholders.

Spencer Stuart's data suggest that regrettably little progress has been achieved in the adoption of this core principle of sound corporate governance in U.S. firms. In 2016, 73% of the S&P 500 boards were chaired by the companies' CEOs rather than by a non-executive, independent director, a slight increase compared to 71% in 2015. In 2011, 79% of board chairs and CEOs were one and the same.

To this end, the Anglo-American model of corporate governance could learn a lot from the Continental European model, where the 'supervisory board' is a wholly separate entity that contains no executives from the company and wholly oversees the decisions and composition of the 'management board'.

This set of issues, one supposes, should be familiar terrain for Donald Trump, one of only a handful of U.S. Presidents to occupy the Oval Office following an extensive career in business. It would thus be ironic—as well as a pity—if, should he choose to resurrect the Presidential Business Advisory Councils, that he does not profit from the opportunity to think through their composition more thoroughly.

*Harry G. Broadman is CEO of [Proa Global Partners LLC](#); faculty member at [Johns Hopkins University](#); non-executive board director; and [speaker](#). Contact: [www.harrygbroadman.com](http://www.harrygbroadman.com)*

The link to this column is: <http://www.forbes.com/sites/harrybroadman>