



## Enlightened Corporate Governance: The Value Proposition for Building Long-term Shareholder Value

Written by Dr. Curtis J. Crawford

### Article Highlights

- Enlightened corporate governance is the foundation for building sustainable shareowner value, and extreme personal leadership is its cornerstone.
- Directors should be encouraged by their boards to use personal leadership skills to serve as the cornerstone for the boardroom effectiveness value proposition.
- Directors and boards should not wait to be told what needs to be done, they know what needs to be done. Directors and boards are in the best position to understand their organizations' effectiveness.

At XCEO, we have steadfastly strived to articulate the value of enlightened corporate governance. So it should not be surprising that we continue to believe it is the pathway for improving boardroom effectiveness. As we have written before, leveraging good corporate governance is the key to building long-term shareholder value and earning broad-based stakeholder appreciation. While enlightened corporate governance is the foundation for building sustainable value, extreme personal leadership is its cornerstone. Together, they form the board's value proposition to its investors.

The current business climate provides a tremendous opportunity for boards to improve their value propositions by demonstrating the courage to lead. To do so, boards need to move beyond compliance, because "principled leadership requires action beyond obligation to earn shareowner value". During the past few years, industry regulators, institutional investors, the general public at large, and the Federal Government have mostly focused their attention on the board's ability to effectively supervise executive compensation. This has manifested into suggested actions such as "Say on Pay", proxy access, director elections and committee structures.

Today, as demonstrated by recent pronouncements from the Securities Enforcement Commission (SEC), the focus by all corporate stakeholders outside the boardroom, clearly demonstrates a continued intensified focus on activities inside the boardroom. If directors fail to step-up their leadership and turn this perceived burden into an apparent opportunity, boards will continue to be barraged with

unwanted and unnecessary mandates.

Rebounding from the recent financial crisis, policymakers and regulators are shining their lights on areas where they believe they can influence changes in boardroom behavior. They are demanding boards listen more to shareholders' concerns and demonstrate greater accountability. In addition, they want directors to be more transparent.

Boards, as well as individual directors, are being questioned about their overall effectiveness. Regulators, governmental officials, nongovernment organizations (NGOs) and shareholders are challenging boards to step up their levels of engagement in the oversight of the corporations they serve. These challenges are being pursued during a time when confidence in the board's leadership is at an all-time low.

The aforementioned constituencies are mounting various efforts in order to improve their access, and therefore, their potential impact on activities and decisions which heretofore have been yielded to the directors and the boardroom. As a result of weakened corporate performance, shareholders are beginning to exercise their power and influence to encourage the board to be more responsive to their needs.

Of course, shareholders continue to pursue opportunities to influence decisions regarding executive compensation. In addition, shareholders are focused on board leadership, board composition, director qualifications and risk management. All of these areas are being pursued because various constituencies, as indicated above, do not believe they are being addressed effectively through the processes and procedures currently advocated by boards.



*"Instead of waiting for regulators, government officials, and other influential stakeholders to direct and or legislate how boards should execute their responsibilities, leaders within the boardroom should take the initiative to lead by example in serving their shareholders."*

This environment, which is setting increased demands on all directors, is likely to continue for the foreseeable future. In fact, it is highly likely to continue escalating. In response to these higher performance expectations, which are being promulgated by stakeholders, enlightened directors should see opportunities, masked by many of these initiatives, and set higher performance expectations of themselves. Furthermore, enlightened directors have an opportunity to inspire their colleagues to also raise their expectations. Now is the time for boards to demonstrate strong leadership in their pursuit of the building long term shareholder value. Each director has an opportunity to participate in this broad leadership initiative.

Boards should encourage their directors to use their personal leadership skills to serve as the cornerstone for the boardroom effectiveness value proposition. When combined with the enlightened corporate governance best practices, they will become part of the foundation for building long-term shareowner value.

Unlike traditional boards, enlightened boards do not feel hampered by the rules and regulations and the continuing onslaught of new pronouncements from the SEC. Unlike standard boards that aim to comply with regulations, enlightened boards regard compliance with regulations as merely a baseline for board performance. Enlightened directors go far beyond merely meeting the requirements on a checklist. They do not need the regulators, or the government to mandate that they protect values and ethics or monitor CEO performance.

Most reasonably informed persons would likely suggest that these areas of concerns are being addressed, to some degree, by most boards today. However, I also believe, the same individuals would suggest that opportunities for improvement exist. So the issue that needs to be resolved, is how to most effectively address all of these challenges without compromising the overall board's effectiveness and unintended consequences which could result in a negative impact on shareholder value.

Enlightened boards understand and value

the need for continued performance improvement. As a result, they do not consider the issues being raised by their constituencies as being either unimportant or excessively difficult to address. These boards are constantly seeking opportunities to improve their effectiveness and they value constructive engagement of all interested parties.

However, these enlightened boards share the same concerns of most boards. That is, they are concerned that lesser informed constituencies, with significant influence, could become the lightning rod for implementing superfluous and potentially damaging processes which undermine the boards' effectiveness. As a result, these enlightened boards are seeking opportunities to improve their performance, anticipating that the value of their work will be recognized, and conclude that no further intervention is required or helpful. All boards should be constantly in pursuit of improved performance. They should be mindful of all issues and concerns of their constituencies and therefore have active plans in place to address them.

These enlightened boards are committed to doing what they perceive to be in the best interest of their long-term shareholders. However, it is understandable, that at times their views, and the views of their investors, may not be fully aligned. As a result, boards must improve their overall effectiveness in communicating with all of their stakeholders and be committed to implementing most commonly accepted corporate governance best practices. In fact, enlightened boards and their directors should lead the efforts to build best practices in corporate governance.

Rather than wait, directors need to lead by example. Instead of waiting for regulators, government officials, and other influential stakeholders to direct and or legislate how boards should execute their responsibilities, leaders within the boardroom should take the initiative to lead by example in serving their shareholders.

Most issues such as "Say on Pay", proxy access, executive compensation, board leadership, shareholder communications,

and etcetera, are well understood by boards and their directors. Therefore, enlightened boards should be addressing each of these concerns such that it will obviate the need for external intervention from those who deem it necessary to do so because of their perception of boardroom and director ineffectiveness.

It is time for boards to deliver their value propositions by demonstrating the courage to lead. They are in the best position to do what is needed to govern the organizations in which they serve. When appropriate, boards should collaborate with stakeholders in an effort to improve its effectiveness. Furthermore, boards should go beyond compliance in their pursuit of meeting the standards because simply meeting the standard will prove to be ineffective in building sustainable long-term shareholder value.

Directors and boards should not wait to be told what to do when they know what needs to be done. Directors and boards are in the best position to understand their organizations' effectiveness. Simply stated, boards and directors need to exercise their responsibilities according to the authorities that have been granted to them.

Most directors understand the importance of leadership. Many of them are, or have been effective leaders within their own organizations. As a result, they bring a vast amount of experience, insight and understanding of how organizations work. It is a matter of executing their responsibilities in such a way to earn the confidence and support of their stakeholders.

Enlightened directors should consistently seek ways to improve their overall effectiveness in the boardroom. Enlightened boards have the responsibility to seek directors who are willing and have the courage to lead the board's efforts to build long-term shareholder value. When directors courageously seek their opportunities and exercise their responsibilities and boards fulfill their obligations to deliver on their value proposition, they create an environment for building long-term shareholder value.

Now is the time to lead. Also, now is the time

to follow. Boards have the ability to demonstrate their willingness and commitment to shareholders by developing, acknowledging and following the best practices and deliver on their value proposition through enlightened corporate governance.



C.E.O.

## About the Author



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Dr. Crawford is President and CEO of XCEO, Inc. He is the author of *Corporate Rise: The X Principles of Extreme Personal Leadership*, *Compliance & Conviction: The Evolution of Enlightened Corporate Governance* and *Manager's Guide to Mentoring*.

Dr. Crawford currently serves on the Board of Directors of E. I. du Pont de Nemours, ITT Corporation, and ON Semiconductor. Also, he is a Trustee of DePaul University. He previously served on the Board of Directors of Agilysys, Lyondell Petrochemical and The Sisters of Mercy Health Corporation. He has served as Chairman of the Board of ON Semiconductor; Chairman, President and CEO of Zilog; President, CEO and Director of Onix Microsystems, and Chairman of the Board of ISTAT. Dr. Crawford also serves as a special advisor to several start-up companies.

He began his career as a systems engineer at IBM. Over 15 years, he held executive positions including Vice President of Marketing. During a ten-year tenure, Dr. Crawford was Group President of the Microelectronics Group and President of the Intellectual Property division of AT&T and Lucent Technologies.

Dr. Crawford earned his BA in Business Administration and Computer Sciences and a MA in business from Governors State University. He earned his MBA from the Charles H. Kellstadt Graduate School of Business at DePaul University, and a Doctor of Philosophy degree in Organization and Management from Capella University. In addition, Dr. Crawford has been awarded two honorary doctorate degrees, one from Governors State University and the other from DePaul University.

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At XCEO, Inc., we believe individual leadership is the driving force for inspiring creativity and ultimately maximizing intellectual capacity. We provide individual and corporate development in the principles of *Extreme Personal Leadership*<sup>®</sup>. We call this *X-Leadership* and it is the touchstone of our company.

In today's globally competitive world, intellectual property is a key indicator of long-term success. Corporations and individuals are seeking knowledge intensive solutions to sustain a competitive advantage. At XCEO, we offer *Professional Mentoring and Personal Leadership Development* programs, as well as *Corporate Governance and Board Leadership Development* programs, for high-aspiration individuals and forward-looking corporations.

Through our Professional Mentoring and

Personal Leadership programs, we assist individuals in developing personal career and development plans to achieve senior executive-level positions. We also support corporations that recognize the need for a broad array of development options for their high-potential employees being groomed for senior leadership responsibilities.

As part of XCEO's pursuit of enlightened corporate governance, we have created *the Enlightened Corporate Governance Board Performance Evaluation Program* to support boards and directors in their pursuit of excellence. Through our program, we are leading the movement past compliance, toward principled action which maximizes shareholder value. We have designed a set of eight individual and board evaluation exercises which provide an exceptional opportunity for directors to take their boards to a whole new level of

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