



FABLESS SEMICONDUCTOR ASSOCIATION

EXECUTIVE SERIES

Establishing An Effective Board of Directors



FABLESS SEMICONDUCTOR ASSOCIATION
in cooperation with

HEIDRICK & STRUGGLES
INTERNATIONAL

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Methodology

The original concept for the Board Study was to explore the characteristics of successful boards of directors in fabless semiconductor companies. The scope was later broadened to include both fabless companies and IDMs, and expanded to address a variety of issues about the composition, role and impact of boards in the semiconductor industry.

Underlying information for the Study was gathered primarily via in-person interviews with Board Chairmen. The interviews were conducted by Heidrick & Struggles Partners, which specializes in the semiconductor industry.

The interview guide consisted of approximately 25 questions arranged in the following subject groups:

- Board composition and building
- Board management
- Role of the board
- Board impact
- Role of the Chairman

This was not a typical “survey.” Questions were generally qualitative, oriented more toward eliciting thoughtful responses than to producing “data.” The number of companies included in the survey consisted of 25. These companies cover a broad range of semiconductor companies, from fabless start-ups to mid-size IDMs. Approximately 80% of the companies are fabless, and the remainders are IDMs. About two-thirds of the companies are publicly traded, and they range from pre-revenue start-ups to about \$2 billion in annual sales. All of them are based in North America.

The interviews were conducted between late-2001 and mid-2002. Before the Study was completed, the wave of corporate governance scandals (Enron, Global Crossing, Adelphia Communications, Tyco, etc.) came to light. We went back to as many of the respondents as possible with a few “post-Enron” questions, and included the responses in the report.

Respondents were assured that their comments would not be attributed. As a result, the interviews were exceptionally candid and forthcoming, and they produced a unique and telling body of information.

About Heidrick & Struggles

Heidrick & Struggles was founded in 1953 and currently has offices in most principal cities of the world. Generally acknowledged to be the world’s largest executive search firm, it is known primarily for working “at the top.”

The firm’s search practice is organized into eight specialty groups, focused on major industries or functions. The largest of these practice groups is the International Technology Practice, which comprises about one-third of the firm’s business. This Practice includes a group of about 25 search teams that focus on the semiconductor industry. This group is called the Semiconductor, Hardware, and Systems practice. A specialty practice in the firm is devoted to board of directors’ assignments. The partners who conducted this Study are members of both the SHS and Board practices.

Results of the Study

What follows are summaries of comments regarding the key questions. These comments cover the following topics:

1. What do Board Chairmen look for in new board members?
2. How much time does a board member need to spend to do a proper job?
3. How do Board Chairmen help board members get to know the company, the executive team and their fellow board members?
4. What makes some board members effective and others ineffective?
5. What's different about boards of fabless companies and IDMs?
6. How effective have semiconductor company boards been in shaping the strategy and the success of their companies?
7. What could be done to make semiconductor industry boards more effective?
8. Lessons Learned: Advice from current Board Chairmen to new Board Chairmen.
9. How recent events, starting with Enron, have changed the way Board Chairmen think about their boards.

Key findings:

1. What do Board Chairmen look for in new board members?

The Semiconductor Industry Board Chairmen are consistent about the type of person they would like to have as their next board member. They want five key things:

- Sufficient time to devote to board responsibilities
- Extensive knowledge of their industry and market, or of their customers' industries and markets
- Skill in a particular function, such as marketing, strategy, finance or operations
- A distinguished, successful business history
- Successful experience on other boards

The interesting aspect of these answers is that they are universal. All the Board Chairmen want essentially the same things – this included Chairmen from private and public companies, large and small, fabless and IDMs.

We found a great deal of concern about selecting the right board members. Board Chairmen are serious, thoughtful and intent on looking thoroughly and choosing correctly. One CEO summed it up, “What you want in a new board member depends on what you already have. Look for complementary strengths. As the company grows, you move from a mostly financial board with a lot of VCs, to one with more specific industry knowledge and more emphasis on long-term strategic direction. The important thing to do is to think deeply about the missing pieces in your board's knowledge base or contacts, or whatever, and make sure you fill those in. This works against the old approach of picking someone because you get along well and enjoy playing golf together.”

Here is more about what respondents said they will look for in their next board members:

Sufficient Time

Everybody wants board members who will “do the time.” This characteristic was the most frequently mentioned by our respondents. So if you’re thinking about participating on a board, be honest with yourself about whether you can commit the required time.

Some prospective board members may be surprised to learn how much time they will be expected to spend when they join a board. Although the time expectations vary, nearly all Chairmen said having adequate time is their number-one concern when considering prospective board members. As expected, availability is important, because it takes a lot of time and attention to be an effective board member – especially now, with boards under pressure to show they are closely involved and well informed. Less expected was that Chairmen and CEOs often look to their board members for personal advice and counsel, and they want board members who will spend the time and show the interest to be sounding boards for ideas, objective listeners for reality checks, etc. As one CEO expressed, “Being a CEO is lonely. Sometimes I feel that the only people I have to talk to are my board members.”

Chairmen want board members under consideration to be their peers. These would be people who hold senior management jobs themselves, or who sit on other boards. However, some respondents aren’t so sure their peers would have enough time to spend on their boards. With that in mind, several Chairmen would not consider current CEOs of other companies, or people who serve on multiple boards. Although they feel they could benefit from having other sitting CEOs on their board, they also feel they are unlikely to get sufficient benefit from someone who is “too busy.”

Most respondents are open to less-experienced executives, as long as they are high-trajectory “stars.” Less-experienced young executives are valued for the fresh perspective and energy. In this study, private company Chairmen are more open to having young people on their boards than Chairmen of public companies.

Venture capitalists with good experience and a strong network are perceived to be invaluable by some start-ups and private companies. But VCs are not universally valued. “. . . They’re always anxious to go on to the next deal. When they leave, we’re left with a big vacuum to fill.”

Post-Enron, some Chairmen feel board members would probably need to spend even more time to carry out their board duties. They acknowledged this will limit the available pool of talent they can invite to join their boards, but feel it is just an unavoidable consequence of the recent developments.

Industry Experience

Across our spectrum, Chairmen want board members with extensive industry experience and knowledge. Interestingly, several Chairmen don’t think all their members must have experience in the semiconductor industry – in fact, they want some members from outside the industry. In all cases, however, a broad understanding of the technology industry is considered essential.

Private companies are more interested in board members with experience in some form of groundbreaking technology than public companies. Generally, private companies are smaller and perceive they are more dependent on leading-edge products. They also have fewer internal resources to develop breakthrough products. So they put a premium on members who have brought new technologies through the development cycle and successfully introduced products to the market.

Both private and public companies want board members with high profiles in their industry. They look to these individuals to bring key contacts that can help build their business, form closer relationships with customers, obtain political influence, etc. Several companies are interested in attracting marquee names to their boards, but not for any public relations value. They see people with marquee names as heavy hitters who know where the industry is going. They want people with better crystal balls than they themselves have – without that, big names mean little in the semiconductor industry.

Functional Experience

Chairmen generally want their new board members to have deep skills in a functional area of business. Finance is the most sought-after skill area, with marketing and overall business strategy also strongly desired. Chairmen in both new companies and established corporations also see a need for board members strong in technology, particularly a technology their company wants to emphasize. Some public company Chairmen want engineering or operations experience, but these functions are not high on the private company list.

Public company Chairmen are more likely to place importance on successful operating experience. One respondent's comment summarizes the views of most others, "To understand the company, how it's operating and what its fundamentals are requires serious operating experience." Private company Chairmen are less concerned about operating experience. Particularly, start-up companies want strategy, marketing and financial expertise. Operations can come later, in their views.

Pre- and post-Enron Board Chairmen want board members who are well grounded in financial matters. They want at least one member who has extensive financial knowledge, who can bring wisdom and guidance about financial issues to the board. One Chairman said, "When it comes to financial, legal, SEC or shareholder issues, it's helpful if the board member has already encountered those issues. If there has been no exposure, we have an education process to go through, and I'm not sure we should afford to do that."

Interestingly, semiconductor company Chairmen seem to be well prepared for the tighter rules and more stringent requirements that are coming. Public company respondents indicated they had put in adequate financial controls long before the Enron situation, and feel that the new SEC, NYSE, NASDAQ, etc., regulations will not be a problem to them. One Chairman stated, "Serious people already have financial controls in place that are ahead of the new requirements."

Record of Success

Almost all respondents made it clear that they want board members who have achieved significant success in their own careers. Here, people who have served as CEOs, COOs, or have run large divisions are very desirable, as long as they are not currently in those positions and have the time to devote to the board.

Definitions of "success" vary. One key aspect is that the drive and commitment that produced the prospective board member's success remain during board tenure. This comment epitomizes that idea: "After I'm satisfied that I've got someone who is a success in his or her own right, I start looking hard for evidence that the person still has passion and commitment. I'm looking for someone who is an independent thinker, willing to go up against me if I get off the track." We found frequent mention of wanting people who fit in, ". . . we have to have people who are

compatible with our collegial style,” for example. But Chairmen who want collegiality are quick to add that they don’t want “yes” people. The important point here is that they link personal success with an independent mind and a willingness to speak up and play devil’s advocate when needed.

2. How much time does a board member need to spend to do a proper job?

The answers in the original pre-Enron interviews added up to a lot. At the time, the Board Chairmen respondents wanted between eight days per year to as high as 30 days per year. These were just averages, with a few companies in each category requiring less and some requiring significantly more time from their directors. These numbers increased in the post-Enron interviews. The following provides some details on the original estimates:

Public company Chairmen look for board members to spend an average of about eight to 10 days per year in board meetings and related activities. They calculate that members need to attend typically four meetings per year, with an average of one to two days per meeting (not counting travel time), plus unscheduled board meetings and occasional company events.

Later-stage private company Chairmen want about twice as much time — between 10 and 20 days per year. They still see the need for some “hands-on” involvement, and they tended to require more meetings than established public companies.

Early stage companies typically require the most time from their directors, in the 25 to 30 days-per-year range. These companies have more meetings, sometimes many more, than established companies. They also often require outside activities by their members – road shows, meetings with prospective customers and investors, interviews with candidates for executive positions, etc. *(Author’s Note: Directors in start-up companies will not be surprised by these numbers – they already know that board work in start-ups sometimes approaches full-time. They also recognize that the 25 to 30 days per year don’t spread evenly over the year. More typically, they bunch up over a few intense periods during the year.)*

Recent developments seem to have increased Chairmen’s perception of the time needed to do a good job as a board member. One Chairman’s comments post-Enron: “With the new requirements comes a realization that responsible board membership will require increased time and attention. No one is yet sure exactly how much of an increase will be necessary.”

Another CEO said, “It isn’t just the new regulations but the tough economy, as well, that puts a pressure on board members. Now board members can’t just show up every few months, but they must get involved in complicated actions the company has to take. Suddenly, board membership has become an even harder job with a lot of risk.”

A private company CEO said that the post-Enron environment “makes us want to have boards that are more involved. The days of boards being able to be passive are over.”

Clearly, board membership involves a major commitment of time – and a lot more work and risk than it used to.

3. How do Board Chairmen help board members get to know the company, the executive team and their fellow board members?

This question generated some surprising answers. We had expected to find some organized efforts by Board Chairmen to get their board members involved with their companies and with their fellow board members. We found almost nothing.

The majority of respondents do little to encourage interaction beyond what takes place during and around regular board meetings. A typical comment: “I don’t see much need to do mixers or social events. Most of my board members know each other anyway . . .” Even so, some Chairmen hold dinners for board members, invite board members to attend company events and sales meetings, encourage them to visit facilities, and give them blanket permission to consult with various executives on hot issues. But few Chairmen do these things. Most of our Chairmen feel their boards are sufficiently involved and don’t view efforts to get them more involved as a priority.

There are exceptions, however. One Chairman recently arranged a three-day offsite for board members to deal with in-depth company issues while getting to know each other better. Another arranges frequent dinner meetings for board members, with a primarily social intent, to ensure that they know each other as individuals rather than just people they sit in the same room with for a few hours every three months. Yet another pays particular attention to arranging for board members with specific functional expertise to meet and work with his or her counterpart on the executive team. For example, a board member with strong strategic marketing skills will be asked to meet regularly with the Marketing executives and give them the benefit of his or her experience in their area.

Although most Chairmen aren’t big on the socializing, they tend to work hard at communicating with their boards. Most of them pay significant attention to making sure their Boards receive timely information on Board matters. The frequency of these communications varies from e-mails every two to three weeks to one-on-one conversations with board members two to three times between board meetings.

4. What makes some board members effective, and others ineffective?

Answers to this question are, as might be expected, all over the map. Some Chairmen view effective board members as those who dig in, learn the company’s business and therefore speak from a position of knowledge. Others like members who push back on them, as long as they do it in a businesslike way, without personal overtones. Most respondents value board members who listen more than they talk, but say intelligent things when they do speak up. One Chairman went so far as to indicate that the most effective board member was the one who is consistently an independent thinker, willing to go against the flow.

Respondents most frequently value two characteristics: good communication skills and useful experience.

By “communication skills,” they mean the ability to communicate openly and honestly, listening more than talking, dealing with issues rather than personalities, and having the ability to give advice and counsel without crossing the line into running the company.

By “useful experience,” they mean having enough first-person encounters with similar situations to give solid advice, see strategic issues and consequences, and give good advice and mentoring. Useful experience also means knowing enough to be helpful with customer contacts and market knowledge.

Several respondents, but not all, indicate that their most effective members are those who are willing to think strategically.

Many respondents said, in one form or another, that they value board members who understand and support the vision of the Chairman/CEO.

One CEO stated, “Effectiveness isn’t a function of technical knowledge. It’s a function of leadership.”

We also asked for examples of board member who have not been effective. This was a sensitive area, and some respondents didn’t want to talk about it. But others provided some telling insights. In summary, the three biggest reasons why some board members become ineffective are:

1. Not being willing to invest enough time and effort to do a good job.
2. Failing to be objective and logical, and/or letting disagreements become personal.
3. Not being trustworthy, for example, breaching confidentiality.

Those Chairmen who spoke about ineffective Board members are quick to note that they find ways of moving those members off their Boards. As one said, “It’s important to know who is effective and who is not. It’s as important to get rid of an ineffective board member quickly.”

One Chairman said, “The best board member I’ve ever worked with was outstanding because he had great native skill set, fine communications capabilities and a strong desire to be a mentor to members of management when needed. The poor performers I’ve known showed some or all of these: shallow thinking, lack of availability, a tendency toward personal diatribes and self-serving behavior.”

5. What’s different about boards of fabless companies and IDMs?

Some IDM Chairmen think their board members need different skill sets than fabless companies, based on the sheer size of capital expenditure decisions that have to be made. Some fabless Chairmen, on the other hand, think their board members need to be more marketing and strategy oriented than IDMs, because the major decisions in fabless companies tend to be about what markets to enter and what products to bring forward, rather than whether to build another fab.

However, most respondents think there isn’t much difference in the characteristics of an effective semiconductor company board, fabless or IDM.

Those who see differences in fabless and IDM boards view them mostly as a function of capital investment decisions and operational issues. They feel that IDMs need board members who know how to evaluate large-scale investment alternatives, and how to deal with highly complex operational issues. These respondents see fabless companies as focused more on external business issues and product strategy matters. For example, one respondent stated, “In an IDM, capital investment and financing are big board issues. In a fabless company, there’s less of that stuff, and more on product strategy and foundry performance.”

Fabless company boards are generally viewed as needing to have stronger marketing and customer-oriented members, while IDMs have a larger need for some members who are familiar with big capital decisions and expenditures.

One Chairman of a fabless company said, “The questions are different, the strategies are different. You need less traditional IC experience for a fabless company. Finance and marketing are more important to a fabless company because they tend to have less capital cushion than IDMs and so run closer to the brink. Fabless companies tend to give their CEOs more latitude in making decisions and commitments. Big IDMs, by contrast, tend to have less wiggle room for decisions so the board doesn’t have to be on high alert all the time.”

One fabless Chairman/CEO disagreed that IDM boards have to deal with bigger capital decisions. “If you normalize the relative capitalization of fabless companies and IDMs, the capitalization decisions are similar in magnitude. For example, when a fabless start-up buys EDA tools to design its chips, the cost of those tools, relatively speaking, is on the same order as a new foundry decision is to a big IDM.”

We should note that many Chairmen who see little difference in fabless and IDM boards feel that semiconductor company boards are somewhat unique to the industry. These Chairmen believe that almost no other industries have the same set of challenges faced by semiconductor companies. This view was far from unanimous, but the feelings were strong among some respondents. One Chairman’s remarks summarize this feeling well: “Semiconductor companies have two unique elements, capital intensity and vicious business/supply cycles. On the capital issue, our industry spends more on capex per revenue dollar than almost any other industry. We have to figure out how to sustain the pace of innovation with lower capital expenditures. Doing this requires a deep understanding of how things get done in our industry. Regarding the cyclical nature of our business, I know some other industries have cycles, but not like ours. People from outside our industry are amazed at the intensity of our cycles. Without some experience with these things, I’d be concerned that some board members might panic in the face of these huge ups and downs.”

6. How effective have semiconductor company boards been in shaping the strategy and the success of their companies?

We found little evidence that semiconductor company boards have played a central role in shaping strategy. (Typical comment: “Management shapes strategy, not the board. I look to the board to review the strategies put forth by management and tell us if they make sense.”) However, it’s clear that boards serve important functions in semiconductor companies.

The most frequently mentioned areas where boards have contributed were:

- The role around the choice of CEO, i.e., removing and replacing the CEO.
- Providing assistance and guidance in special situations, e.g., fundraising, acquisition strategy, supporting investment in areas of strategic focus and forcing management to think through their strategic plans and “stay ahead on the chessboard.”

Boards are usually the instruments of change with regard to CEOs. Several respondents mentioned that the most important contribution the board had made to their company in recent years is to recognize when the CEO needs to go, and to act on that recognition.

It is clear that Boards know what to do when the CEO isn't performing. What is less clear is how they measure the performance of their CEOs. Few formal processes are in use to evaluate CEO performance. CEO evaluations tend to be done by "looking at the numbers," or by informal meetings. For example, "It's not a formal process. We do it in closed, private sessions." Or, "We don't have a need for a formal process. They haven't fired me yet, so I guess the assessments are positive so far."

On the other hand, we saw evidence of movement toward more formal and comprehensive evaluations of CEO performance. For example, "The outside directors have a set of criteria, objectives-based. The criteria have had to be somewhat flexible, considering what's happened in the industry the past couple of years. But the process is working, and we're continuing to refine it. For me personally, the ultimate measure is what the Compensation Committee does each year." Another example, "The board's quarterly review of the operating plan and results constitute a review of sorts. That's all we do now, but we're working to put in a more rigorous review process for the CEO that includes qualitative factors."

Although boards are generally thought to be involved mostly in strategic issues, our respondents tend to see their boards' greatest value in tactical matters and special situations. For example: "Our board has been a real part of our management team. They took pay cuts when we did, were supportive and available through good and bad times and really extended the resources and collective wisdom we've had available."

Some respondents feel strongly that semiconductor industry boards have not been as effective as they need to be, nor have they (in general) provided the kind of leadership needed by their management teams. As one respondent stated, a board is "near worthless if they don't exercise enough independent judgment and they don't spend enough time and effort. Many don't care enough. Too many guys don't [care] —they're too involved in their own careers or too focused on their real jobs."

Others feel that the semiconductor industry has suffered in the past by having boards stacked with cronies of the founder(s). However, these same critics generally feel that semiconductor industry boards are becoming better balanced and providing more value. "Boards of directors made up of cronies are prone to rubber-stamp the founder's decisions. The industry seems to be changing where boards seem to be more hands-on. The SEC and the risk issues have forced this and continue to do so."

One respondent's perspective on board effectiveness relates to board size: "With a relatively small board (approximately 7 members) you can get things done. Large boards are worthless because there's no way to achieve real interaction on critical issues when you have too many people who have to have a say, want to have a say, or feel they have to have a say. You can't get singular direction."

7. What could be done to make semiconductor industry boards more effective?

As noted above, many respondents were vocal about their feelings that the semiconductor industry boards need to be more effective. So we asked them what might be done to make boards more effective:

- Balance the board with members who have talent in marketing, finance and knowledge of the industry.
- Bring in more outside members with a broad range of experience and skills.
- Make boards more outward looking, and more sensitive to industry and regulatory issues.
- Boards need to get involved with understanding the demands of the customer and looking ahead to anticipate where the market is going.
- View change as an opportunity rather than as an obstacle.
- Have nominating committees that have to go on record as to why they nominate candidates for the CEO position and board seats.
- Push for faster decisions and more rapid closure on setting strategic direction.
- Frequently ask: Did we make the last decision fast enough?
- Prepare well for the transition from a VC-dominated board – it's a whole new game when they're gone — harder in some ways, but with more latitude for deciding and taking action.
- Insist on getting board members who care, who stick with important issues and who see that the management team follows through on important actions.
- Create boards with diversity and commitment to building a sustainable business.
- Bring directors with more of a global perspective.
- More careful selection of new members, perhaps not just marquee names but those who have the right personalities and the right interests.
- Clean out the non-performers on the board.
- Do careful, systematic searches for qualified members, rather than just going to old buddies.
- Avoid having boards made up of cronies of the CEO.
- More qualified board members.
- Condition the board not to respond to market panic.

8. Lessons Learned: Advice for new Board Chairmen

As a final question, we asked respondents if they had any advice for newly appointed Board Chairmen in the semiconductor industry. Below is the collective wisdom from people who have that job today.

On recruiting and building a board:

- Bring in proactive members – don't settle for people who might sit back and wait for something to happen.
- Take a careful look at board members with regard to their enthusiasm and interest in the company. Rule out people looking for prestige, and seek those who truly provide counsel.
- Be careful about picking board members. Find people who fill the bill. It's difficult to oust them when you are wrong. It's important to take a good expertise inventory gained over time and clarify what is needed.
- Make sure prospective members do their homework before agreeing to be on a board.
- Carefully interview each board member to see what they're all about, what axes they have to grind, what they want to contribute and what has held them back in the past.

- When bringing new members on: make sure the person really has enough time to devote to the cause and make the hard decisions. Acquire quality members, and be ready to let them go to get the right people on the board.
- Be willing to make the hard decisions about getting quality board members. Be ready to roll heads if needed and get the right people on the board.
- Realize that the board should change – it needs to change every few years.

On managing the board:

- Give board members more information and agendas before meetings so they can be prepared on specific areas.
- Make the management team present more clearly.
- Include everyone in discussions so all members feel involved.
- Make sure the board does what the company needs, not just what they think is important individually.
- Be willing to make changes to the board as necessary.
- Be as clear as possible about the level and type of communication the board expects, and then deliver on it. Don't surprise them.
- Don't force decisions. Don't be selective in the issues pursued in the board meetings.
- Minimize detail and emphasize discussion.
- Over-communicate.
- Strike a balance between being critical and helpful. Composition of the team is key because you need to have people who know enough to be critical.
- Clarify the roles and limits of the committees and have them define the limits on executives.
- The Chairman must build a strong relationship with the other board members. Get close to them, try to understand what makes them tick. Know their strengths and areas of expertise. This knowledge and these relationships are key to managing the board and getting them to work together effectively. There's no substitute for personal contact and relationships in making boards effective.

On being successful as a Board Chairman:

- Pay a lot of attention to CEO performance – and develop good metrics beyond just financial results.
- Dig into the financial performance of the company. Be alert for shenanigans. They happen with alarming frequency. Accounting decisions are subject to a lot of judgment.
- The CEO's job is too demanding to allow time to think about being on other boards.
- Always be very open and honest with the critical issues; otherwise the members will be of no help to you.
- Sometimes CEOs/founders are too optimistic. Few are paranoid enough with the necessary financial management skills.
- Do succession planning. Make sure to have someone who is being groomed to be CEO.
- Take a course for board members. The Stanford two-day course is highly valuable.
- Think like Andy Grove to build a company. Be quick on your feet and have flash if you want to flip the company.
- Avoid politics.

9. How recent events, starting with Enron, have changed the way Board Chairmen think about their boards.

Near-Term Changes

One respondent stated, “I have a feeling that there are a few rotten apples that had serious violations of shareholder trust. It feels as though the government has no choice but to do something because the perception of the public shareholder is that everybody is doing it. I don’t believe that is true. But it is necessary to do something that would help restore the confidence of the public. The question is, ‘what do you do without destroying our system?’”

Most early stage companies and private companies did not see a requirement for near-term changes. They did recognize a new visibility on having people on their boards who had operating experience. “In the aftermath of Enron, people are expecting a different level of participation in the day-to-day activities on the part of the board itself. Understanding the company, how it’s operating and what its fundamentals are to provide oversight requires having operating experience.”

One respondent saw the fundamental issue that precipitated the Enron situation as resulting from a lack of confidence in public markets such that the source of capital dried up. “Probably not what any of the board members would have thought even if they had true operating experience,” according to this respondent. “What Enron was reported to have done was probably pushing the envelope but not the underlying cause of what happened...the real issue is access to capital.”

Some respondents feel a major effect of Enron et. al. would be in the relationship with auditing firms and banks. With an uncertain environment, default behavior becomes, in the words of one respondent, “ultra conservative.” One respondent feels this impact will require boards to dig in and spend more time on financial reports, with a heightened sensitivity to the responsibility of the audit committee, especially that of oversight. For some companies, the decision had been made for the auditing firm to now report directly to the board, with the board having hiring/terminating capability.

The larger public companies typically feel they have stayed ahead of the curve on the outside member requirement. As one respondent stated, “The guidelines have been out for a long time so if people were paying attention, they should be in good shape.”

Impact on Board Members

Most respondents feel that people will be reluctant to join boards without doing more homework and that it will be tougher to recruit members. They also responded that some companies may have to “up the ante” for board members because more of their time will be required and there is more liability.

To this point, one respondent replied, “This makes it more painful to be on a board. If you’re on a board, there was enough risk even before all this stuff happened. This makes it worse. It’s going to be harder to find board members, especially members who are active in places like audit and compensation committees ... Now members can’t just show up every few months but must get involved with the complicated actions the company has to take.”

This additional risk has some respondents concerned that senior retired or semi-retired executives may be reluctant to join their board because of the increased liability potential and the resulting exposure of their personal wealth. One respondent replied, “I wouldn’t join a board if it was the last job on earth. Who in their right mind would take a board seat on a public company and risk their own personal wealth? I’m thinking about getting off the boards I’m on.”

Some viewed that the possibility of board member exposure to increased liability (since indemnification provided by the company is limited to the company assets, which may turn out to be very low or zero) as leading to what one respondent referred to as a situation where “you’ll get a professional directors who may be the least qualified to take a company through the changes we’re going to experience over the next few years.”

Expensing Stock Options

There were interesting thoughts on the issue of expensing stock options. “The real issue of expensing stock options is the desire to understand what is happening organically in the business. If you confuse this with the mechanism of expensing options, how will people understand what is truly happening with the company’s ability to sustain operations?” Another response: “If pressure is brought to bear on stock options, the lower half of the company may be where the options are cut. It’s the average American who will be hurt, not the leadership. This will be doing permanent damage to the infrastructure. The long-term strategy is flawed.”

Last Thought

“People forget that high tech has been the engine for the American economy for many years. Witch hunting now in high tech is not helpful to the recovery.”