

A Field Guide to Bad Directors

They are our least welcome colleagues, thankfully scarce on the best boards. But there they are, all around us. They frustrate experienced, productive corporate directors. They are often the first shock for new corporate directors. They always take a heavy toll on executive management.

**How to identify them.
How not to become
one.**

By Michael Pocalyko

**Illustrated by
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They are more noticeable in the tough times, when a company undergoes financial stress, transition, or reorganization—or more generally, in economic recession. They divert us from best-practice corporate governance. They use up time, our most precious unrecoverable resource. They pro-

voke us, raise personal conflict levels, and create unnecessary heat and light during boardroom and committee interactions. They disrupt communitarian decision making. They reactively disturb careful strategy and planning. They abound in bad companies.

They are bad directors.

No Substitute for Replacement

The most striking effect of the compliance reforms from the Sarbanes-Oxley Act (2002) and the Dodd-Frank Act (2010) has been the *professionalization* of corporate directorship. Director professionalization and its heavy demands have been advancing not just in NYSE- and Nasdaq-listed corporations. Changes demanded by the public interest have spread throughout all businesses and are ongoing for the boards of privately held companies as well. These resulting levels of professionalism are key for effective oversight, the creation of value, and risk management—the three fundamental roles of a director.

These roles are critical for the smooth operation of any board. To put it bluntly, in this environment, the un-professionals are the bad directors. Reform legislation and regulation won't fix them. Shareholder activists can sometimes get their attention but will rarely change their behavior and attitudes. Only strong corporate chairs, effective committee chairs, and proactive board governance can rein them in—but not always.

Often, bad directors have to be replaced.

Defining Characteristics

Bad directors come in many forms and are found, of course, across all industry and sector domains—anywhere a corporate board is operating and governing, including in nonprofit entities. Bad directors tend to exhibit four key features as the collective defining characteristics of the type: inattention to detail, narrow field of focus, entitlement, and inadequacy.

Inattention to detail. Bad directors use a finely practiced ability to grasp an issue quickly, figure out its broad strokes and effects on the company, and immediately cut through the thickets of complexity that they believe bog down director-level decisions. Their tolerance for nuance is short. They detest detail and are aggravated by complications, and their preparation for board meetings shows that they didn't appreciate deep data dives, especially in finance, risk management, and resource allocation. They are all big picture, all the time, and they say so.

Narrow field of focus. A bad director bears his or her own agenda, one at variance with the general corporate agenda. If the board and the executive team are in the process of reconciling disparate corporate aims, they drive an agenda that differs from both the board's and the management's perspectives. Bad directors always know the one best way: theirs.

Entitlement. It's an attitude. A bad director deserves to be in the boardroom, likes and appreciates the perquisites of directorship, simply can't understand the ingratitude of shareholders for extraordinary leadership, and finds especially distasteful the demands of institutional and activist investors. Directorship is about arriving, position, authority, and power. Service and the creation of value for shareholders are platitudes to be spoken by investor relations, not guide stars for directors. Corporate social responsibility (CSR) standards and environmental, social, and governance (ESG) criteria are nothing more than "politically correct" intrusions.

Inadequacy. Incompetence, lack of currency in real-time dynamic corporate issues, the absence of cooperation, a dearth of keeping-your-word integrity, intellectual insufficiency, incuriosity, stubbornness, and deficits of financial and legal literacy all fall within the catalogue of bad-director inadequacy. In the boardroom, bad directors never consciously transmit these building blocks of inadequacy, and they would deny their existence even while constantly evoking them. Instead, bad directors carefully curate confidence and gravitas as masks of inadequacy.

Recognize Anyone?

A board can be functional with bad directors, but a board cannot be great if it tolerates them.

No good corporation would knowingly or willingly take on a bad director, and bad directors aren't born that way. Their faults are learned behavior. There are certainly circumstances where awful companies turn their directors into bad directors. Enron, WorldCom, and Tyco are still the historic standard-bearers. The entire mortgage-backed securities sector was rife with bad directors who almost collapsed the U.S. economy a decade ago. Volkswagen and Theranos are the most recent examples of companies where too-trusting bad directors generally acting in good faith got led into thickets of poor governance, financial morass, and legal quagmire by their own worst instincts and weak oversight—while massive fraud was ongoing in the executive suites. These cases are big, rare, and media-attracting, certainly worth a cautionary nod of understanding from all corporate directors, public, private, or nonprofit.

But most bad directors are the people who serve with us in our boardrooms every day. Their types are as recognizable as they are prevalent. They are cartoonish when described (or pictured), but they are very real, populating the landscape of directorship in America and the global markets that our nation drives. Here is a field guide to the 14 most prominent kinds of bad directors.

THE TECHNOCRAT

These bad directors are exceptional narrow-band experts, true geniuses in their fields, therefore contemptuous of anyone who cannot match their clear intellectual dominance and expecting deference because of their technological capacity and knowledge. Audit chairs have been known to de-

The Technocrat



volve into this type of bad director. With the onset of cybersecurity as a board-level priority, IT-expert directors can take on this character. Technocrats are placed on corporate boards for their ability to translate—to make their field understandable and relatable to all other members of the board. These bad directors simply don't have the ability or the desire to translate and can't fundamentally transcend their very tightly compartmented roles.

THE REPRESENTATIVE

Directors who represent only one point of view, one specific group of shareholders, or one narrow perspective on the corporation's (or the nonprofit organization's) alternative future, are not only bad directors, they are deficient in fulfilling their fiduciary duty. By the strictures of ethics, law, compliance, and responsibility, boards must be broad-based, and these bad directors don't comprehend, or they simply disregard, this perspective. To these bad directors, the construct of loyalty means loyalty to one influence of overriding

importance or one subset of shareholder interest, not to the corporation at large, never to the wholly integrated interests of the body of shareholders. The worst of the type are quite transparent about their motives—until their depositions in class actions or shareholder derivative lawsuits, where they become very practiced at advocating murky best-interests-of-the-company generalities.

THE HANGER-ON

These bad directors have stayed too long and are too emotionally invested



The Representative



The Hanger-On

in their corporate directorship to be effective any longer. Age usually plays a dominant role here, but not universally. (There are directors who remain vitally necessary and productive for their boards well into their ninth decade, while others top out in effectiveness and contributions in their fifties.) A signal of difficulty for this bad director is—and the male pronoun is appropriate here—if the guy has no other business interest or professional activity except this board, and if he departs, all he has left to look forward to is breakfast with his wife and then golf every morning. Retirement should be their honorable exit, but these bad directors resist that eventuality by digging in tenaciously, hanging on to that board seat as the last vestige of professional relevance. They create issues edging on insignificance and divert board discussions into areas that become wildly tangential to best-practice governance.

THE AUTHORITY

Frequently found on the boards of technology companies, these bad directors possess a fairly robust technical knowledge in the field, but they express their authority with resonance far beyond actual

competence. They know how to speak incredibly authoritatively. They like jargon. They are easily influenced by the latest blog post, whether or not it's on point. Medical doctors become particularly bad directors when they evolve into this type, and expressing authority is quite natural to them. Technical financial professionals on financial services boards, information technology executives on cybersecurity corporate boards, and bioscience professors on biotechnology boards can all lean in this direction. This type is probably the most insidious of the bad director forms, because other directors—general managers, operations executives, structured finance professionals, and came-up-the-hard-way-through-sales corporate directors—tend to defer to them.

THE SIDEKICK

These bad directors are especially frustrating. They are effectively the “second vote” for one director with a particularly strong personality, more often than not the board’s chair. They are gentle in character and disposition, never wave-makers, never challenge executive management, and are not the most particularly probing or assertive or oversight-affirmative. They are followers, not leaders, deeply reliable supporters of that one alpha director, rarely contributing to board dialogues beyond their reliability. They are delighted to be corporate directors and usually are quite pleasant people.



The Sidekick

THE FINANCIAL STUMBLER

These bad directors are less than wholly financially literate, and it shows. They are more or less comfortable with basic financial terminology, but are lost in discussions of technical finance and have not mastered the board-level nuances of accounting oversight,

The Authority

The
Financial
Stumbler



requiring patiently spoken mini-tutorials by CFOs and SEC auditors, often to the embarrassment of other directors. They are self-admittedly not the financial experts on the board. Their distinguishing characteristic is distance from finance and accounting, even a distaste for the numbers, sometimes masked by self-deprecating humor about their deficit—as though acknowledging this enduring weakness exculpates it.

THE UNPREPARED

These bad directors are “fifteen-percenters.” They pre-read and understand about 15 percent of the board materials, are about 15 percent attentive in committee or board conversations, are 15 percent knowledgeable on any given issue, and wing it magnificently based on long-practiced shallow-and-wide preparation for all board work. Highly self-assured, highly self-regarding, completely comfortable while blatantly overextended, they question executives diligently until the board-level discussions reach secondary stages or touch

The
Unprepared



upon technical issues in finance, risk management, or operations. Then they are quiet and give intelligent, penetrating looks, nodding thoughtfully. Active, tough-sounding feedback is their strong suit, but their advice is always quite general. They generate silent eye rolls from audit committee chairs.

THE QUESTIONER

These are the only bad directors with their own often-articulated universal motto: “I ask the tough questions.” Board meetings and committee meetings become captured, mired down by their inquiries, which mostly demonstrate the extent to which they are unprepared. In boot camp, college, or business school they were probably told, “There are no stupid questions.” That’s demonstrably not true in a boardroom—these bad directors ask stupid questions all the time. Their questions are mostly inchoate but sometimes unveil an agenda. And they never like tough answers.

THE PARTISAN

In a nation that remains deeply divided following the presidential election of 2016, these bad directors are intent upon interjecting partisan politics into the boardroom. Their oversight of the corporate enterprise must be brought into conformity with their perceived political reality. They are known to travel in packs, and when a like-minded cadre of them populates the majority of a corporate board, political interests dominate board-level strategy. They are naturally agenda-driven. When they succeed, corporate political contributions, political action committees, and reactive consumer boycotts by their political opposites take up board time and resources. They love nuance and complexity, but



The
Questioner



The Partisan

only in political-social dynamics. Oddly, these bad directors are rarely actual former political officeholders. Politicians who have successfully completed public life and made it into the boardroom seem to know better.

THE CONSENSUS DENIER

Often incredibly experienced and smart, these bad directors again have an agenda. They know group dynamics and possess formidable people skills. The most often-employed weapon in their arsenal is their denial of consensus until accommodated. They are passive-aggressive negative people, and they effortlessly make corporate board life miserable for their colleagues.

They are the bad directors who must always be pleased, no matter how inconsequential the issue—or no matter how late in the board’s deliberation process that issue is raised for the first time. They are masterful at linking matters that have no relation to each other, and they have major difficulty with the whole “noses in, fingers out” best practice of directorship.



The Consensus Denier

Mid-level executives fear them because their methods often involve the gleaming of information before its digestion for board consumption, then selectively applying that data to deny issue resolution. In public companies, they are especially bad directors during the board’s review of the Management Discussion and Analysis (MD&A) in the annual report, and during any discussion of compensation.

THE BULLY

The worst type of bad director, they are straight-up mean, conflating aggression with toughness, hiding their deep-seated insecurities with volatility, and denying effective oversight by means of threats and intimidation. They denigrate all efforts to expand corporate board ethnic and gender diversity, roar and rail at the very concept of regulation, and refuse to accept the imposition of any externalities upon a corporate board. They perceive regular and natu-



The Bully

ral board disagreements as personal affronts to their power, and they usually do not last long as corporate directors. A corporation’s stock market performance alone is what sustains them. The damage that they cause while serving on a board, and the toll that they impose on corporate value, however, are lasting. They affect corporate culture for decades while impeding in the near term the board’s and executive management’s ability to attract top talent.

THE STORYTELLER

These bad directors constantly tell war stories, unrelentingly and to distraction. Not real war stories (e.g., Vietnam, the Persian Gulf, Iraq, Afghanistan), but “war stories” about their past experiences in business and on corporate boards. Every issue or ac-



The Storyteller

tion undertaken by the board will trigger a past experience that they judge to be pertinent, fascinating, and compelling to share. Their reminiscences begin “When I was on the board at...” and end with courteously unexpressed questions about relevance in the minds of their fellow board members. These bad directors are generally well-meaning and clueless, but they repeatedly demonstrate their inconsequence.

THE LAWYER-RELIANT

These bad directors take one of two forms. The first kind always defers to legal counsel and mistrusts their own judgment and the board’s collective wisdom, risk averse to the extreme, overly fearful of litigation or even its possibility. The second kind is the inverse—demanding that the lawyers find a way to accomplish whatever dubious action they may desire, rather than engaging in a reasoned board-level discourse about the law and where its fences may stand. Corporate general counsel especially dislike them, a view shared by outside counsel, who nonetheless sincerely appreciate the fees that either variant of this bad director generates for their law firms.

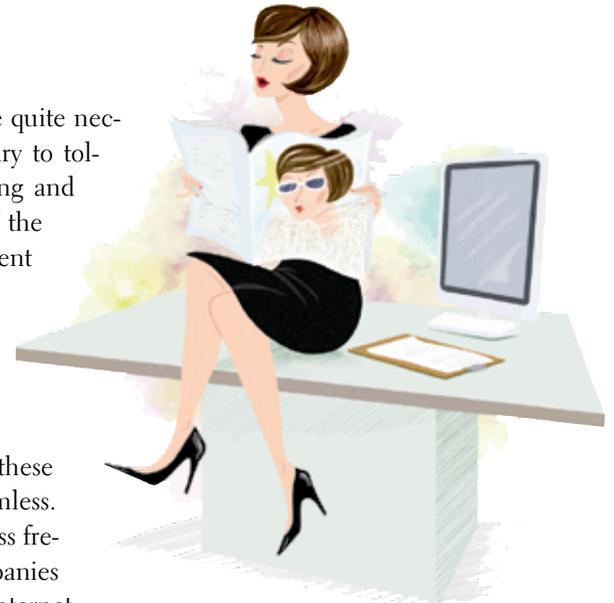


The Lawyer Reliant

THE CELEBRITY

Marquee directors—big names with major cachet, high Q-score, and seven-figure numbers of social media followers—are not always bad directors, but there are enough of them to confirm the type. They certainly like being directors, notwithstanding their ephemeral grasp of even the most basic board responsibilities. They defer easily to authority. On nonprofit and

university boards, they can be quite necessary (and therefore necessary to tolerate) for the revenue-gleaning and contributory requirements of the institution. The entertainment industry, venture-financed, highly speculative, invention-driven companies, and internet innovators tend to draw them. When they keep relatively quiet, these bad directors are fairly harmless. They are diminishing now, less frequently found in public companies than they were during the internet bubble before 2001 and again leading up to the Great Recession—both times during which the numbers of these bad directors reached their high-water marks.



The Celebrity

The Solution

The best companies—those with the best boards—rarely make safe harbor for bad directors. Yet bad companies always have some bad directors, and sometimes all of their directors can be found within the descriptions here.

The antidote to bad directors, or to bad directorship in general, is threefold:

- A structured program of director onboarding, continuing education (where NACD can play a role), and shared decision making;
- Active communication, conflict resolution, and currency in technology, finance, and accounting among the board;
- And boards embracing the best concepts of moral strength, applied integrity, and ethical leadership while seeking profits and social advance.

Bad directors will continue to exist. But we do not have to be one of them.

Michael Pocalyko (@mikepocalyko), a four-time corporate chair, is CEO of SI, a Washington D.C.-based professional services firm and government contractor in the information technology, cybersecurity, investigations, and intelligence sectors.

Good Directors on Bad Directors

“The role of a director is not to provide management. It is to assure that management is provided.”

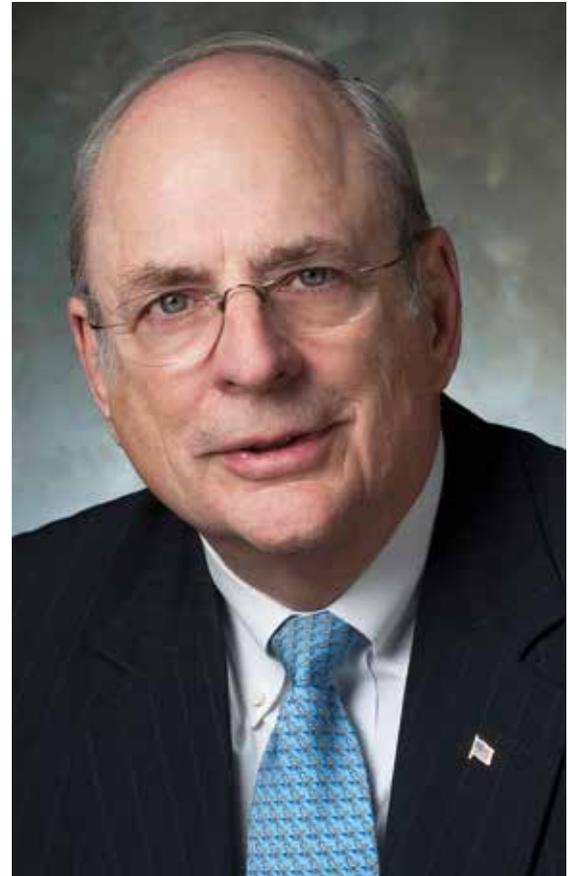
—NORMAN R. AUGUSTINE

Norman R. Augustine, former chair and CEO of Martin Marietta and Lockheed Martin Corp., is among the country's most distinguished and experienced corporate directors. He also chaired the American Red Cross, the National Academy of Engineering, and the Advisory Committee on the Future of the United States Space Program. He reflects on his experiences with bad directors.

“Yes, I've known 'em all! I've sat in more than 500 board meetings of Fortune 100 companies and many board meetings of start-ups. Every time I get to thinking that I've seen everything that there is to see, I get surprised. A few poor directors go with the territory. Fortunately, they are few.

“To me, the most frustrating are those single-issue 'representative' directors who judge everything from one perspective. Their sole interest might be spending money on R&D, or protecting the environment, or some other single focus. They have that one issue that always comes up. These are often legitimate issues—but such concerns have to be weighed against all other competing objectives. You wouldn't need directors, you could just use a computer if all you had to do was to pick one issue from a list of one.

“I have encountered another kind of 'bad' director: the ones who circumvent management and talk to the buddies they have made down in the organizational structure. They skip over the senior levels of management to get the inside skinny, or worse yet, give direction. This can be a quite controversial issue, since such directors occasionally come up with something that the other directors haven't ascertained that may be important. But such conduct undermines management. My view is that directors should have contact with anybody they believe they need to contact, but only through the management structure, unless it's an issue that involves malfeasance on the part of management—in which case, directors should, of course, speak with anyone having relevant information. Contact within the company has to be balanced with maintaining a chain of command. The chair of the audit committee,



for example, should definitely be accessible to employees for major issues. But I don't think that it's up to a director on his or her own initiative to prowl around the organization on fishing trips.

“There is some irony here. On one board where I served, there was a director who had a network within lower levels of the company. I must confess, that director on occasion knew better what was going on than the rest of the directors combined. But the penalty paid for that knowledge was that the individual effectively undermined management. If employees know that they can go directly to directors, that they don't need to rely upon their leaders to solve problems, they will, and that's counterproductive. The role of a director is not to provide management. It is to assure that management is provided.”



“A corporate director has to actively assist the CEO, and that means working between board meetings.”

—JOHN G. MEYER JR.

John G. Meyer Jr., a retired Army major general with extensive experience in public and private corporate directorship, was CEO of Allied Defense Group and Heckler & Koch.

“The worst kind of director is the one who acts in his or her own personal interest, operating on a different agenda than what’s collectively best for the company, the board, and the shareholders at large. I’ve experienced boards where the personal interests of certain directors drive the application of resources to the detriment of everything else. To me, a bad director might have some significant financial interest in the company, possibly can control the board vote, and then acts in personal interest against the advancement of the company and the shareholders at large. Independent board directors have to step up and make sure the best interests of the company and the shareholders are maintained.

“It’s also extremely frustrating to serve with a director who only shows up for four quarterly board meetings every year and in between meetings does not take any steps to actively assist the CEO in growing the company, opening doors that the CEO can’t open, and helping solve seemingly intractable problems from a director’s perspective. That’s why you’re a director. A corporate director has to actively assist the CEO, and that means working between board meetings.

“I get annoyed by directors who are blatantly ill-prepared for the board meeting...but lack of preparation is much more prevalent than most shareholders are aware. I’m referring specifically to directors who don’t read the read-ahead, raise irrelevant questions, and just waste the board’s time, while it’s obvious to everyone that they’re unprepared because the answer was right there all the time in the read-ahead. That kind of bad director shows little interest in, and provides limited value, to the board and the company.”



“I see the influence of technocrats whenever as a board we deal with the cyber threat. The best boards—the ones we aspire to be—are always open to listening.”—DAWN EILENBERGER

Dawn Eilenberger was U.S. Deputy Director of National Intelligence. A career senior service lawyer in the intelligence community and an agency inspector general, she recently retired from federal service and became a corporate director.

“I’ve dealt with many of these bad director traits. They don’t exist only in business. The bad director that strikes me as most important right now is the technocrat. These are the people—and there seem to be a lot of them—who are truly genuine experts in one area.

“I am particularly concerned about cybersecurity and cyber-defense. The single most critical question for all of our boards today is: What is the cyber threat? Boards need the knowledge of these technocrats, but they can present a problem across the board—if you’ll permit a bad pun—because other directors defer to them too easily. It’s critically important to hear competing views—to think broadly, to encourage dissent and discussion, to reach solutions. I see the influence of technocrats whenever as a board we deal with the cyber threat. The best boards—the ones we aspire to be—are always open to listening.

“With my background in government and the intelligence community, I notice another imperative that could be stymied by bad directors: the extent to which boards must make executives aware of the full range of compliance, regulatory, and legal dimensions, well beyond the operational management of the company. That’s the emerging mission for our boards, and it’s an area where the federal government may be leading the private sector.

“Compliance is key to the three challenges of directorship: understanding the threats, knowing how to respond, and then balancing resources and risk.” 

—Interviews by Michael Pocalyko