How Bad Boards Kill Good Companies

Basil Peters

Being a Director in the 21st Century

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Boards are more important

- I often start a good debate by saying: “Boards are more important than CEOs”
- I’ve noticed if I make a lot of money on an investment, it’s due to the CEO.
- But, if I lose all of my money, it’s always the fault of the board.

The Board's most important job

- One reason boards are more important is that they hire and fire the CEO.
- One of the most common faults of boards is not making the decision, or waiting too long, to change the CEO.

There are many failure modes

- Other common ways that boards kill good companies include:
  - Unhealthy CEO relationships
  - Inadequate oversight
  - Lapses in operational governance
  - Fatal errors in judgment
  - Failure to reach board consensus

Case #1 – Judgment, Consensus

- This company is mentioned almost every time this topic comes up.
- Board failed to agree on the capability of the CTO and the quality of the product.
- One director secretly commissioned a very negative report about the product.
- And presented it at the meeting where they were going to sign off on an IPO.

Case #2 – CEO Relationship

- Another often cited local example.
- Company founded by a talented and promising young CEO.
- Board decided to replace the CEO.
- They told him and the rest of the local community.
- Then spent about three years finding a successor.

Case #3 Oversight

- In this case, the board missed the fact the company was running out of cash because they weren't collecting the A/R.
- Then the board and management couldn't raise a bridge.
- New lender got a GSA on all the assets and forced a board change – a very effective take over for a small investment.