Conversations

Ira M. Millstein: Reflections On A Life In The Boardroom

Ira M. Millstein, a long-time senior partner with the Weil, Gotshal & Manges law firm, has been in the background (and sometimes, the foreground) at many historic boardroom crises. The 1992 boardroom coup at General Motors, the collapse of Drexel Burnham, and even New York City's 1970s brush with bankruptcy saw him offering governance advice.

Millstein has drawn on this insider access to offer a new book that is both a memoir and manifesto, The Activist Director *(Columbia University Press). He offers inside-the-boardroom perspective on lessons he has learned over the years, and lays out ideas for improving both long-term value for corporations and new weaknesses he sees in corporate governance.*

The Corporate Board: Why this book, and why now?

Ira Millstein: I've been dissatisfied with the way corporate governance has gone, and thought I needed to review what's right and what's wrong with it. I believe that what I have to say has some benefit because this is no textbook treatment—I was in these boardrooms, and saw what happened. I don't know anyone else who has that first-hand experience and written about it. That's not meant to be self-glorifying, but I've been in 30, 50 boardrooms over the years, and these are incidents I actually witnessed.

TCB: Doesn't that raise the danger of "telling tales out of school?

Millstein: No. Most of this has been in the public eye already, but I wanted to discuss what happened through my own eyes. I had the text scrupulously reviewed for confidential information. These are known facts, and if anyone's hurt, they're already hurt by public information. At Drexel, you already knew that Michael Milken went to jail. I just wanted to show why he wasn't better policed by the Drexel board.

TCB: Have boards become better at dealing with crises over the years?

Millstein: Directors are more likely to get involved in a problem now *before* it becomes a crisis. I find I now get called in by directors who want advice on dealing with a matter before it can become a crisis and want to know what to do, or how to deal with reputational risk.

TCB: How is the problem of companies focusing on short-term versus long-term results best handled at the board level?

Millstein: I recognize that this tradeoff is a fact of life—you don't have a long term unless you have short-term results. But you need to have both, with balance. You have to look at how short-term value creation is adding to long-term value, and be willing to sacrifice some short-term results for long-term benefits. This is tough, and many boards wrestle with this, but the first step is having a solid long-term plan, and then convincing shareholders that it's worthwhile.

It requires a much more intimate relationship with investors. If activists want a short-term bump, management has to be able to show they have a credible, long-term plan. It's a tough balancing act.

TCB: One of the major discussions in your book is the need for change in how boards select directors.

Millstein: I'm not convinced that today's governance committees are looking for people with guts and knowledge. They seem to be picking more for diversity or geography. Does that mean diversity isn't important? No. But boards need balance in recruiting.

TCB: So who do we want for this job in the boardroom?

Millstein: Probably younger people, but ones who aren't trying to put a feather in their caps. I realize this is trying to change the culture of the boardroom, and will take time, but such changes should be on the table. Boards ought to pick directors the way private equity does, with incentives for increasing the value of the firm. We should pick new directors as carefully as we pick a new CEOs. There are lots of behavioral standards and studies on what you want these candidates to have, and we go to great lengths to make a good pick. I think that's good for directors too. If you're going to change the culture, you need governance committees to seek candidates who buy into this notion. It won't happen quickly, but boards can't survive the way they've been doing things—it's just not working.

TCB: How do you identify these new directors?

Millstein: It requires heavy interviewing of prospects. First, you want someone who really gives a damn about the business. Ask if they're really interested in what you do. If you're in retail, do they know retail, and will they find it interesting? If not, they shouldn't go on the board. You want someone who really cares. For incentives, there's nothing like money. We've got to increase director pay, not to the level of CEOs, but something like private equity boards, where directors have a piece of the action. You can structure board incentives to act as sparkplugs for directors.

TCB: Have you seen a change in board views on independent chairmen?

Millstein: This is a hobby horse topic of mine. I've modified my take on it over time to include a lead director—that's better than nothing. My opinion still is that if you have a chairman like [former General Motors chair] John Smale, then things really happen. The other directors will respect him, he'll recognize that the CEO has his job, but the chairman also has his. They respect each other. The good independent chairman can frame the agenda and direction of the board, can lead discussion, and also shape the agenda of the governance committee in doing its homework. A good chair makes sure a topic gets discussed, and not washed away in other board business, and controls what happens in the boardroom. ■

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