

## [Oracle of Omaha Slams Independent Directors for Kowtowing to CEOs](#)

Submitted by EveTahmincioglu on Tue, 05/07/2019 - 15:31

### **Buffett's attack is the latest high-profile attack on independent boards**



Warren Buffett, the chairman and CEO of Berkshire Hathaway Inc. who's known as the Oracle of Omaha, slammed independent

directors for being too focused on their paychecks, and not on keeping the CEO in check.

"You don't get invited to be on boards if you belch too often at the dinner table," [Buffett said at the company's annual meeting](#) in Omaha, Neb.

"I've been on 20 public company boards; I've seen a lot of corporate boards operate. The independent directors, in many cases, are the least independent," he explained. If directors get about \$250,000 a year, and that's an important part of their income, he added, "they're not going to upset the apple cart."

The incentive for those directors, he continued, is to go along with the CEO. That way, if the CEO of another company calls about that director, he or she will be described as having never raised any problems. "How independent is that?"

Not everyone agrees with Buffett's premise.

"If an independent director doesn't have a stake in the company or is appointed by management," then Buffett's got a point, maintains Charles Elson, director, [John L. Weinberg Center for Corporate Governance](#) at the University of Delaware.

But that model's changing, Elson says, with more directors holding an equity stake in the companies where they serve and nominating committees making the

calls on board appointments.

[Research Elson has done](#) shows “the greater the dollar value of the outside director equity ownership, the better the company’s overall performance and the more likely in a poorly performing company that there will be a disciplinary-type CEO turnover.”

Buffett’s attack is the latest high-profile criticism of independent directors.

“We just independent director-ized the world,” Delaware Supreme Court Chief Justice Leo Strine [told \*Directors & Boards\* in a recent interview](#). “We went from having a bare majority of them to having a supermajority of them. We don’t actually empower them. We take away their ability to think long term because we put in place Say on Pay. We don’t do Say on Pay every four years or five years, where you would really have a long-term pay plan, we do it every year as a vote on generalized outrage.”

“Corporate management and employees are the most important thing to corporate success, especially employees — who, frankly, boards of directors, managers and institutional investors have undervalued for 30 years — which is part of why there are the tensions we have in society right now.”

Is it this phenomenon of bringing in more independent directors that may have inadvertently caused a lesser focus on doing the right thing for employees and the community?

“Independent directors are not like trustees at universities, who usually have prior affiliations with the university and the community in which it exists, and that they care deeply about,” Strine answered. “Independent directors are weather vanes for the market. Not to denigrate them, but let’s think about the definition of an independent director. They tend to have no prior affiliation or current association with the company, and thus they really have no reason to deeply care about it or any aspect of it. Now you can say that’s independence, but it’s also a blank slate.

“There’s great competition to be an independent director. Independent director pay has gone up. The typical pay just to be on one company board is higher than my judges in our judiciary. If you’re on three boards, you’re often making more than a half million dollars a year just as a director.

“The old concern was that directors had to be popular with management to stay on boards, but now you have to stay popular with the institutional investor community and with the proxy advisers, and therefore these directors are highly

responsive to market sentiment.”

*(To see the full video interview [with Leo Strine go here.](#))*