

R1 Wolfe: Implementing Self-Directed Teams



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Agenda

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- Introduction
- Directors
- Board Structures
- Functions Of The Board
- Board Committee
- Conclusion



Conclusion

- Different board structures imply different power hierarchies
- The type of "director" defines the corresponding tasks and duties
- The board of directors has different dynamic functions to fulfill
- Committees play an integral role in ensuring correct dispersion of control, accountability and due diligence.
- Correct delegation of Tasks and function is crucial in CG.

Introduction

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The Washington Times FINAL
FRIDAY, OCTOBER 1, 2004
25 cents

Merck recalls Vioxx
Heart risk found in arthritis drug

TRENTON, N.J. (AP) — Merck's blockbuster arthritis drug Vioxx, the blockbuster arthritis drug taken by 2 million people, was pulled from the market yesterday after its maker found it doubled the risk of heart attacks and strokes. Experts advised patients to immediately stop taking Vioxx and talk to their doctors about alternatives.

"Given the availability of alternative therapies, and the questions raised by the data, we concluded that a voluntary withdrawal is the responsible course to take," said Raymond V. Jenner, chairman and chief executive officer of Merck.

The withdrawal is a serious blow for the New Jersey company, the world's third-largest drug maker. Vioxx accounted for \$2.5 billion in worldwide sales in 2003 and has been taken off the shelves of people worldwide.

Merck stock fell \$12.07, or nearly 27 percent, to \$32.90 in heavy trading on the New York Stock Exchange yesterday. Merck dragged down the Dow Jones Industrial Average, which was off by 56 points.

Merck's recall of its Vioxx painkiller surprised pharmaceutical companies in the United States and Canada, leaving questions about how the company handled the recall. The company said it was taking its arthritis drug Vioxx off the market.

Vioxx, which is also prescribed for acute pain and described as a potential cancer-prevention medicine, was recalled after a three-year study aimed at showing the drug could prevent the recurrence of potentially cancerous polyps in the colon and rectum.

Participants taking Vioxx for more than 18 months were found to be twice as likely as those given placebo to have a heart attack, stroke or other heart complications.

The Food and Drug Administration said there were early signs of potential problems with Vioxx. A Merck study led to warnings about heart risks in 2001, and the FDA has been monitoring problems that have been reported since then.

"This is not a total surprise," said Dr. Steven Galsen, acting director of the FDA's Center for Drug Evaluation and Research. Vioxx is part of a class of anti-inflammatory drugs called cox-2 inhibitors that have been heavily touted by the pharmaceutical industry as being more effective and having fewer side effects, particularly on the stomach, than older drugs. Pfizer's Celebrex and Bextra are also cox-2 inhibitors. But so far there has been no evidence that these other drugs pose any dangers to the heart.

Officials do not know how Vioxx may be causing the increased risk.

Alternatives to Vioxx include generic pain relievers such as ibuprofen and aspirin, as well as Celebrex.

"There are very few patients for whom there won't be a good alternative drug," said Dr. Steven Abramson, director of university rheumatology at New York University Hospital for Joint Diseases. Dr. Abramson said there were early cases of heart attack in Vioxx users. He said there is no evidence that the elevated risk of heart attack persists after a patient has stopped taking the drug.

Personal-injury lawyers already have begun circling Merck. Trial lawyer Wayne Cohen said the decision has opened the company up to tremendous legal jeopardy.

Besides possibly knowing about the harmful effects and not acting quickly enough, the company is also vulnerable to huge settlements because the injuries — cardiovascular problems and stroke — are debilitating and costly, said Mr. Cohen, the president of the D.C. branch of the Association of Trial Lawyers of America.

"One hundred million people have used Vioxx and therefore the potential for claimants is monumental," he said. "You also have users of Vioxx that are not injured now but may need to get monitored."

A law firm in Oklahoma City, Pederman & Sherwood, said it had filed the first lawsuit to seek a recall of the drug. Within hours of the announcement, lawyer Barry Slotnick of New York announced plans to file an unspecified number of federal lawsuits on behalf of Vioxx users.

"It's a disaster for Merck, coming at the worst time," said health care analyst Hemanth Shah of HKS & Co. in Warren, N.J.

PAINFUL
Merck's stock plunged after the pharmaceutical company said it was taking its arthritis drug Vioxx off the market.

Sept. 30
\$33
-\$12.07

MERCK

Why do directors get appointed?



- Re-appointment on the expiry of a director's term of office



- Appointment to fill a vacancy arising on resignation, death etc.

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- The creation of an additional directorship

How do directors get appointed?

19th Century model



Modern model



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- **Not feasible** that the shareholders voted the directors
- **Chosen by existing** directors and **routinely approved** by shareholders
- Directors were **chosen from small network** of influence
- **Founder**/chairman/entrepreneur made **suggestions**
- **Still the case** in many **private** companies

- Only **influential** shareholders can have an **influence** on director **appointment**
- **More INEDs** are appointed
- **Existing** directors/management **choose new** members
- **Networks still in existence** but **INED's counteract** the problem a little
- **Little influence** for **small** shareholders

'Implications of the Election

Should CEO and chairman be the same person?

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Separated:

- Check and balance mechanism
- Limits potential Abuse of power



Combined:

- One leader limits conflict (Historically Accurate)
- In the US combination of the two roles is common

Appointing retired CEO's as chairman

- Check and balance mechanism
- Limits potential Abuse of power

- In the US combination of the two roles is common

Appointing retired CEO's as chairman



Daniel Akerson

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Pro:

- High level of experience, knowledge and connections

Con:

- Potential friction with new CEO's

Board Structures

Unitary boards

All-executive director board

- Top managers = directors
- small firms , start-ups
- No duty distinction

Majority-executive director board

- non-executive directors:
in minority
- add expertise, new perspectives
-> British public listed companies
until 1970s

Majority non-executive director board

- non-executive directors > managers
- Managers make strategies
- Management has too much power
-> USA, UK, advanced economies

All non-executive board

- not-for profit entities
- Managers provide information only

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Two-tier boards

Executive board and supervisory board
-> Europe, Taiwan, China

Examples

• Germany

Two parts: Vorstand (management board committee)
Aufsichtsrat (supervisory)

• Netherlands

Three parts: Representation of Capital, Employees,
Society

