Viewpoints

What is the board's role in business transformation?

Some companies are more successful than others in anticipating and responding to changing economic conditions, the rise of new competitors or distribution models, and market-altering advancements in technology. In the current environment, what is the appropriate role of the board in shaping strategy and how can directors best work with the CEO to future-proof the business?

We spoke with three experienced directors to get their views on the balance the board must strike in ensuring that the company has the right strategy for the future:

Susan Bowick worked for more than 25 years at Hewlett-Packard Company, most recently as executive vice president of human resources and workforce development and as a member of the management executive committee. She currently serves on the boards of Comverse and EarthLink, where she serves as lead independent director.

Jeanne Jackson serves as president of product and merchandising for Nike and previously was CEO of MSP Capital and CEO of Wal-Mart.com USA. She serves as a director on the boards of Kraft Foods Group and McDonald's Corporation.

Lee Roberts served as CEO of FileNet prior to its acquisition by IBM Corporation, where he was vice president for document, content and business process management. He currently is CEO of BlueWater Consulting and serves on the boards of Compuware Corporation, QAD and Unisys Corporation.

Susan Bowick, board director of Comverse and EarthLink

Q Talk about the tension you have seen between the independent directors and management in the area of strategy and transformation. How do directors want to be involved? What do directors want and expect from management?

Directors expect management to keep a constant eye on the trends that can affect the business — technology, globalization, market-changing developments around the customer, currency fluctuation — as proactive opportunities. The board expects management to lay out a broad, multiyear roadmap that includes assumptions about customer needs, competitors, technology, cost structures and so forth. Directors expect to be involved in strategic updates or a thorough discussion at a strategy-focused meeting once a year, with updates throughout the year.

If management is not proactive, the board will want to take charge of the strategic discussions, perhaps by hiring its own financial or strategic advisers. When this happens, the situation can degenerate to a point where trust deteriorates between the board and management, and any recommendation by management is second-guessed by the board. Dysfunction becomes the norm, potentially costing the business tens of millions of dollars in opportunity costs. Having a separate strategy committee also can lead to this type of board breakdown, as it is very easy to end up with the strategic "important" committee and then the less involved, more governance-oriented audit, leadership and compensation, and nominating committees.

Q What does the CEO and management team want from non-executive directors?

This depends on the CEO and culture of the company. My experience has been that this is all over the map, from "the best board meeting is one where management has all the answers and the independent directors ask a few simple questions ... then leave" to the other end of the spectrum, where individual board members are asked to mentor members of the executive team and dig deep into content and operations in addition to their board duties. Personally, I like the open, involved model, as there are no surprises, and if you have the right board members with relevant skill-sets then the board can truly make an impact on the capabilities the company needs.

Q In regards to strategy, what do you think is the appropriate role for the board? What specific activities should the board take the lead in, and which should they leave to the management team?

To begin, I view the board as having three areas of focus: strategy, CEO/C-level capabilities and the company's operational capabilities to implement the strategy. The board needs current skills in these areas, and individual directors need to be able to function effectively as part of the board in this “team sport.” Without all this in place, a board will not be able to fulfill its governance responsibilities for shareholders.

In terms of strategy, specifically, board members should do their own research on competitors and trends in the industry, read up on potential M&A targets and come to the boardroom discussions with an informed opinion. The board also needs to be active in setting the broad direction for the strategic moves, i.e., organic growth vs. acquisitive growth, know and describe how the best strategic value will be provided to shareholders, and be able to push the boundaries of management’s thinking around strategic decisions.

I’d also add what is the most important part and is not always part of the strategic decision-making process, and that is the ability of the company to operationalize strategic decisions. Success is 25 percent making the right strategic choice, but 75 percent of the ultimate success is in implementation. To that end, boards need to look much deeper than synergy targets on the financial statements and dig into people, processes, systems and culture change capabilities to assess whether the strategic decision is correct.

Q How can a board evaluate progress in transformational change? Is there an approach that both provides management the space it needs and also includes clear milestones to monitor progress?

My best tool, which drives holistic thinking and discussions, is to insist on a company-specific balanced scorecard approach that includes financial, customer, operational and strategic/market metrics. Then build both the annual and long-term incentive goals and incentives around these areas. The board must build an accountability framework, which — when short- and long-term goals are met — assures the company is successful in the marketplace versus peers. Moving to a holistic scorecard and away from a financial scorecard forces the management team to start building a foundation that can effect change.

Q Directors often express frustration that board meeting time is largely devoted to “must-have” governance and reporting issues. What are some of the best ideas you have seen for making sure the board makes time for strategic discussions and related transformational issues?

On both boards I am now on, we have dedicated the first day of board meetings to committee meetings and all operational updates, including CFO, legal, board governance issues, etc. We do not go through the entire slide decks sent out ahead of time, as we expect every board member to have read all the material for all committees prior to the meetings. The second day, which usually ends around 2 p.m., is entirely devoted to business issues, i.e., marketing/sales updates, strategic reviews, M&A targets/financial advisers, CEO open discussion and ends with independent board member executive session. It took some board rigor to hold to this structured agenda, but on both boards we feel our time is well-spent.

Is a strategy committee a solution?

Categorically, no. The one exception is if there is an intense single deal evaluation that requires specific board expertise and the workload is like a full-time job. In such cases, a special committee for a specific duration can be very effective. Other than this situation, I believe strategy is one of the main three jobs of the entire board so their participation as a group is essential.

When you think about the board's role in strategy and business transformation, what are the implications for board composition?

My philosophy is this: it is the board's responsibility to evaluate every member and the collective contribution of the board by answering the following question: Would this board member be hired today in a competitive situation, given his or her area of business expertise and interpersonal skills in this team sport? If the answer is no, then the board needs to move those board members out in order to refresh the entire board. The board needs to model the same behavior we expect the CEO to exhibit in continually assessing the talent pool and promoting or hiring people based on what the business needs at that point in time for what the company must deliver.

What preventative measures can boards take to make sure their organizations avoid falling prey to a business model threat?

In today's world, the time required to be a fully informed board member means being on fewer boards than in the past, e.g., two total. I have found the frequency of calls with the CEO, urgent material to be read followed by a telephonic board meeting and the pace of business require board involvement on a frequent basis. The old model of meeting four to five times a year does not work when you are transforming a company. And in this rapidly changing business environment, every company, regardless of sector, has to transform to remain competitive.

Jeanne Jackson, president of product and merchandising for Nike, and a board director of Kraft Foods Group and McDonald's Corporation

When you think of companies that were or have been most successful in anticipating and responding to various threats to their business model versus those that weren't, what do you think was the key difference?

Those that are most successful are two things. First, they are close to their consumer; they don't have three layers of insulation between them and knowing what's going on with their consumer, and obviously they have to listen. It's one thing to be close, you also have to listen and care. The other thing is that they are nimble, either because of the way they're structured or because they've made a conscious choice as a cultural bias to be nimble.

What do you think is the role of the board and independent directors in decisions around strategy and transformational change?

There's an overarching theme around what boards should and shouldn't do. I don't believe boards should craft company strategy; that's not the role of the board. Sometimes I've seen individuals on boards get confused in believing that they should play an active role in "helping" management to craft their strategy.

The correct role, first and foremost, is the selection of the CEO. If your CEO is setting the right tone and has the right curiosity around the business and understands the marketplace within which he or she operates, then you've got the right CEO to navigate the course of change.

Secondly, best practice for most boards that I know of is to have an annual or bi-annual strategy review, where there's lots of open dialogue and thought sharing. It's the role of the board in that setting to participate in the lively dialogue and bring with them whatever experiences they have in the world in which they operate. Sometimes that's helpful in management's thinking about strategy because a director may bring a point of view they never thought of before or an insight they hadn't gotten from their own business.

The third piece is obviously in the formal strategy and incentive approval. So, if the strategy is stated around, let's say, R&D and consumer focus and agility, the incentives are aligned to make room for R&D and agility.

What's the appropriate timing for that type of discussion?

It depends on the company. If you're in a fast-moving company where consumer trends can change fairly quickly, you probably need to do it annually. If the industry you're in tends to have a long arc to change, then maybe you need to do it every two or three years. It's company- and industry-specific.

What is the role of the board in challenging the fundamental assumptions behind the strategy? How does that play out or should it?

In a strategy session, where the assumptions are presumably put forth, if the board chemistry is right and there is a robust, honest dialogue among participants in the strategy session, that's the environment where a seasoned CEO and a strong board will have an open dialogue. The board will be able to say, "Gee, do you really think consumer trends are going to continue in that way?" Or, if you're in a business where you see a different trend, it's your obligation to let management know that you see a different trend. It's not the board's role to say to management, "Your trend is wrong" or "Your assumption is wrong," but to participate in the conversation and bring to light whatever knowledge you may have that they may or may not have.

Jeanne, you've been both a CEO and a director. As CEO, what do you and your management team expect from non-executive directors?

The CEO's job is actually pretty lonely because your team is usually trying to follow you and execute your strategies. So when you really need a thought partner, it's wonderful when your board can be a thought partner for you, whether it's on an individual basis or as a group. If you've got the right board members, as a CEO you can pick up the phone and say, "I'm wrestling with this issue that may have something in common with your company or your industry, do you think I'm thinking about it the right way?" When that chemistry occurs, I think it's magic.

What do you, as a director, expect from the CEO and his or her management team?

On the flipside, from a director's standpoint, I love it when that same chemistry exists, when the CEO sees us as part of the solution, part of the process, as thought partners, as being there to be helpful as opposed to being there as the auditors or the checkers or the people they have to be very guarded with in what they say or don't say.

Directors often express frustration that board meeting time is largely devoted to governance and reporting issues. What are some of the best ideas you have seen for making sure the board makes time for strategic discussions and related transformational issues?

From my experience, the best practice is to have a whole board strategy discussion — a once-a-year or every-other-year off-site, where the board really has the time to get full exposure to the strategy and the thinking and the fundamentals. Each of the key components of the strategy then becomes a check-in topic at each board meeting. Over the course of the next eight board meetings, the board would tick off one of the topics and have a more in-depth discussion about progress and plans.

If you can get that kind of cadence, that's fantastic. You can't talk strategy at every board meeting; that's not practical. You also can't go two years and not talk strategy. Finding that balance is the goal. Again, it's different by industry because for some companies in some situations — for example, a company in a turnaround situation, or one that's cash-strapped or under attack — the board might need to have that discussion more frequently and in more depth.

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Is a strategy committee a solution?

No, I actually don't like strategy committees because I think the entire board needs to be involved in the strategy discussion.

Lee Roberts, CEO of BlueWater Consulting and board director of Compuware Corporation, QAD and Unisys Corporation

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When you think of the companies that were most successful at anticipating and responding to business model threats versus those that weren't, what do you think was the difference?

Typically, companies that are most successful are outwardly focused. They have a sharp eye on their business strategy and the markets they are involved in. They are attuned to their customers and their attendant business needs and react quickly. Management teams are usually highly market-oriented and very responsive and capable to make the tough business decisions required to adjust to changing business conditions. Being adaptive and willing to change and adjust is critical. This, coupled with a forward-looking vision and strong business leadership, marks the difference between companies that can adapt and grow and those that stall and die.

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Talk about the tension you have seen between the independent directors and management in the area of strategy and transformation. How do directors want to be involved? What do directors want and expect from management?

It's critical for boards and senior management to understand each other's roles and obligations and work together in the best interest of the shareholders. Healthy tension is a good thing as long as it does not go so far as to be destructive. Boards have a responsibility to ensure that the correct senior management team is in place, that the company has the correct business strategy, that it executes effectively and that it is well-run and operates consistently within the laws and regulatory requirements set for it. Boards have become more proactive in recent years, although I think effective boards have largely always operated in such a manner.

Boards must get more data, have more access to senior management, understand the company's business strategy and markets, and be insightful enough to ask tough questions. Management will obviously be sensitive to greater questions and the board raising the bar on performance, and want to feel that they are responsible for the operations of the company. It is important for the board to be involved, be assertive, step in when required, but not usurp or intrude upon the operating responsibilities of the CEO or executive team. It's a system of checks and balances and must be grounded in common trust and a belief that everyone is focused on shared objectives as well as a compensation model that aligns with what will deliver the greatest long-term return for shareholders.

What does the CEO and management team want from non-executive directors?

They want to feel that they can manage the business with minimal intrusion from the board. They understand and respect the board's responsibilities and seek advice and counsel. They accept an increased level of healthy tension, more in-depth probing and, in some cases, outright challenges to the company's performance and business strategy. The issue is one of finding the right tone and balance. There should not be a lot of confrontation between the board and management. If changes need to be made, they should be done professionally and with clear reason and rationale.

In regards to strategy, what do you think is the appropriate role for the board? What specific activities should the board take the lead in, and which should they leave to the management team?

It is the CEO's responsibility to define the business strategy, culture and run the company — not the board's. The board needs to maintain a long-term and strategic view and only intrude on operational issues when warranted. The board must, however, be deeply involved in the strategy of the company, more so than perhaps it has been in the past. This requires significantly more time and information exchange and a willingness on the part of the CEO and senior management team to have the board's involvement. It also requires that the board be composed of individuals who understand the business, the industry, the markets, the competition and the global dynamics of the company and can offer meaningful and sanguine input. I firmly believe more time needs to be spent at a board level toward understanding and helping shape the long-term corporate strategy and then in monitoring how the company does in managing against it.

To what extent is the board responsible for challenging fundamental strategic assumptions and management's thinking about the effect of emerging developments on the strategy? When should these discussions occur?

The board has an absolute responsibility to understand the strategy, challenge the underlying tenets of that strategy and positively challenge every aspect of it. The company's success is to a great extent determined by its ability to develop an effective, adaptive long-term strategy and execute against it. Strategy formulation is an ongoing process with constant monitoring and refinement, requiring occasionally big adjustments to adapt to changing economic or market forces. In my view, there should be at least one in-depth and detailed board meeting a year focused on the strategy, performance against it and discussion of potential changes or modifications. Then, this topic should be on every board meeting agenda for follow-up discussion. Business strategy is not an annual process, and then something you put in a binder on a shelf. It is the road map for the company's growth and highlights many critical business investment trade-offs and decisions. As such, it should be front and center in the CEO and board's minds.

Directors often express frustration that board meeting time is largely devoted to governance and reporting issues. What are some of the best ideas you have seen for making sure the board makes time for strategic discussions and related transformational issues?

I agree with this. The "must-have governance and reporting issues" are critical and in recent years the demand on these elements has increased. Having said that, the board has other and perhaps more important responsibilities: focusing on the long-term strategy, growth and health of the company. You cannot diminish the governance and reporting issues and these require vigilance and keen oversight, but must be tightly managed.

Perhaps more board meetings need to be added or meetings lengthened to accommodate the board's need to be more deeply aware and involved. There is probably no one simple cookie-cutter answer, but I firmly believe that board meetings need to provide sufficient time for broad-ranging discussion and involvement. The independent board members need to exercise more control over board agendas and demand more information. It is simply too important to gloss over critical issues like the company's strategic direction. The world has changed and the responsibilities of boards are increasing and, consequently, I see no other solution than to add more time and greater focus to critical areas like this.

Is a strategy committee a solution?

It can be, and in my view would be a healthy committee to add to many boards. It's important, however, for the full board together with the CEO to focus on and discuss this. Everyone on the board needs to be equally involved and focused on this. A strategy committee could be useful, but only in conjunction with more time dedicated during full board meetings for discussion and monitoring of this topic.

What preventative measures can boards and CEOs take to make sure their organizations avoid falling prey to a business model threat?

Vigilence, avoidance of complacency, ensuring the company is customer- and outwardly focused. Ensure that the company does not overbalance to protect its current interests at the expense of future growth and success. Change is difficult. It's easier to be the new force with the new ideas, with nothing to protect. It's very challenging to adapt a large business that's entrenched with customers, established products, revenue streams to protect, but it's imperative that tough decisions be made and made early, based on a keen market perspective.