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BOARDROOM INTELLIGENCE

# Engaging the board in the strategic dialogue – six rules for success

BY THOMAS DOORLEY

Recent governance reforms intensify the role of the board of directors, mandating increased involvement and contribution. Coupled with the sharp rise in merger and acquisition activity, directors are drawn deeply into the strategic dialogue. In times past, chief executives eschewed an active dialogue on strategic issues, preferring to present a well-crafted set of slides with little opportunity for the board to do other than approve a decision which was ready to be executed. However, our research with chief executives has uncovered a marked shift in attitude. As one chief executive put it, "I want my board involved. I've got them on board because they are experienced. But, how to leverage their talent; that's the question." The chief executive is correct. Since it is only recently that the board as been drawn into the dialogue, these are largely uncharted waters. Thankfully, some boards have overcome this dilemma. The program management utilised to engage boards represents leading practice. Such practices can be summarised in the following six rules:

**What the board should do – understanding its purpose; the rational for engagement**

Before developing a programme, the board and management must agree the basic purpose. All else follows. Three rules define the overarching charter given to the board. These rules provide the rationale for the board to be engaged in the strategic dialogue.

*1. Accept that the board has a dual role, namely:* to ensure that the enterprise is trustworthy; that the information it provides is honest, timely and understandable – this is the *compliance* role born out of the drastic loss of trust engendered by well-publicised acts of malfeasance; and, to make the enterprise better – this is the *performance* role; each director should bring an expertise to the table that can assist, tangibly, to improve the value of the enterprise.

As a first principle, the leadership team and its board must concur that both aspects are critical. While the most effective boards accept the latter role, many others shy away from this charter. Without embracing the performance element, directors are mere placeholders at the table.

*2. Develop a mission statement to guide behaviour.* Mission statements, done well, provide a meaningful guide to day-day behaviour. Boards and their management should agree a specific mission. The best we have seen comes from the published corporate guidelines of a global, listed telecom company. It says, simply "…the Board is empowered by the shareholders to protect and enhance the value of the enterprise."

Understanding the mission (especially the performance element), agreeing to its implications, and then monitoring follow through sets the enterprise on the path toward an effective board and strong performance. It demands a set of directors engaged in and contributing to strategy.

*3. Redefine strategy; focus on the 'big things', not everything.* The interaction between a board and its leaders is complex. Both need to balance the tendency to micro-manage (a typical chief executive's complaint) versus not having adequate information to render an informed decision (a typical director's complaint). As one chairman commented, "We spend nearly as much time debating whether an issue is strategic and requiring our involvement as we do actually discussing issues." To clarify the board's role another chairman says, "I want the board involved in the big things; whatever effects results substantially." This redefinition of terms simplifies and lifts the dialogue. If an event or initiative could affect results materially then the board must be engaged. The board participates in the dialogue which identifies the 'big things' as precursor to monitoring the relevant actions and impacts.

Armed with these three rules, the board can understand its purpose and move to considering how to deliver.

**How the board can deliver – engaging in the strategic dialogue effectively**

With a fresh understanding of its purpose, management and directors develop a new program. Again three rules shape the course:

*4. Re-set goals – become a decision-ready board.* If the board is going to exercise its performance role it must be ready to render an informed decision on the 'big things' on its agenda. Thus, the board must be capable and knowledgeable. This implies that individually, and for the board as a whole, core competencies and experiences must conform tightly to the strategic needs of the enterprise. Further, the directors require sufficient, relevant information. Finally, to stay current with the enterprise, its strategy, operations and financial health (the 'big things' categories) the directors must commit time and effort. For a large cap company this can mean 300-400 hours per year.

*5. Manage the strategic dialogue from concept to impact.* Once the 'big things' are identified, the directors must know who is responsible for taking action, and must set up metrics to judge the effectiveness of follow through. To do so, the best organise the agenda of the board around a 'governance cycle', that is, four sequential categories intended to chart the course from early decision-making to results:

- Direction-setting – the board gets involved in the earliest stages of a new initiative; during formulation, not just reacting to a pre-packaged proposal. To quote a director of a listed company, "We learn the most and contribute the best when we're brought into a potential decision early!"
- Navigation – once a direction is set it takes time before results are evident. The board needs a set of markers to gauge whether an initiative is on track or requires a mid-course adjustment;
- Execution – as results become apparent, the Board monitors performance versus expectations;
- Validation – one the results are complete the best boards look back at the initiative over the full sweep of the effort and determine (i) whether it delivered the targeted results, and (ii) what lessons can be gained to guide future initiatives. The board is well-suited to lead this task since it is removed from the day-day and can adopt a longer term strategic view. Learning from each initiative differentiates the successful companies from the losers.

*6. Evaluate board performance – against its purpose and its actions*. Companies listed on the NYSE are required to undertake an evaluation of board effectiveness; the NASDAQ does not require it, but strongly supports assessments of performance. These two governing bodies send a clear message of importance. But no standards are in place to give the process structure. The leading practice is to customise an evaluation process based on the rules defined above. Thus, the evaluation needs a *purpose* component to ensure the board has a common understanding of its charter and level of engagement in the strategic dialogue. For example, does the board accept its responsibility to make the enterprise better? Secondly, there is an *action* component to test whether or not behaviour follows suit. For example, do the directors know the metrics in place to monitor an initiative's progress? Evaluation processes require trust. By basing the analysis on the leadings practices of effective boards, the entire process can be undertaken with an increased level of objectivity. The goal is to lift the level of performance to a standard of excellence, not just uncover shortcomings.

In our observation, the most effective boards actively contribute to the strategic dialogue. These boards, working shoulder to shoulder with the leadership team, describe the path to higher levels of performance. ■

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Tom is the Founder and CEO of Sage Partners, LLC, a Strategy and Corporate Governance advisory firm (www.sagepartners.net). Sage teams operate globally with partners located in the US and Europe. The firm is sharply focused on assisting its clients achieve and sustain Value-Creating Growth. Sage has developed a special competency helping leadership teams and their Boards to work together to accomplish their two primary goals: 1) restoring trust; and 2) enhancing performance. Tom and his partners bring hands-on experience by serving on Boards themselves, thus bridging the theory-practice gap.

Key to success for management is building a Board that is Decision-Ready; that is, knowledgeable enough, and capable enough, to contribute to decision making quickly if required and effectively at all times. A fundamental element of doing so is the role the leadership team plays to set the tone for a productive working relationship, and to provide information to the Board at an effective level of detail and frequency in order to maintain a high level of knowledge and currency on the part of the Board members.

As co-founder of Braxton Associates (now embedded in Deloitte Consulting as its strategy practice; it grew to $500 Million in Revenues and 1,000+ professionals under his guidance) Tom is an experienced leader and builder of an enterprise, as well an effective advisor to the leadership teams of clients, globally.

Tom's current Board assignments include: Natrol—vitamin & fitness products (NASDAQ; Lead Director, Chair of the Compensation Committee), StratBridge –software (US; Chair of Strategy & Growth), and Advanced Ticketing Systems—retailer of tickets to sold out events (UK). He was the inaugural Chair of the World Economic Forum's Technology Pioneers, and its not-for-profit Technology Empowerment Network, and currently serves on the Dean's Advisory Board of Penn State's College of Engineering, where he has served as the Chair of the Chemical Engineering Committee.

Tom's work over the years has led to the publication of several books (the most recent Value-Creating Growth, Jossey Bass), articles (e.g. the Wall Street Journal, the Harvard Business Review), and speaking engagements (e.g. The Conference Board, The World Economic Forum). Clients such as General Electric and Northrop, Grumman have incorporated Tom and his ideas into their own leadership development programs.

He holds an MBA in Marketing with Highest Honors from Columbia University where he won the American Marketing Association's Outstanding Graduate Award; a BS Chemical Engineering and a BA in Arts & Sciences from Penn State (the first such dual degree awarded). In 2004 he was named an Outstanding Engineering Alumnus by Penn State.