



## Proxy power

‘Historically, shareholder involvement into boardroom affairs has been reserved for activist investors. But increasingly, we are seeing that the investment community at large wants to have the levers to hold executive leadership accountable for performance and corporate practices.’

*Elizabeth Saunders, Americas Chairman of the Strategic Communications Practice, FTI Consulting*

## Improving board effectiveness

‘At its most fundamental, the board should see their role as defining the purpose of the business, and then ensuring that purpose is fulfilled.’

*Belden Menkus, Director, MenKus & Associates*

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## Feature

# Improving board effectiveness

**Belden Menkus** says that, to become more effective, boards need to move beyond 'comply or explain' to re-think their role and to change the way they work.

There's a general pattern to how boards work – and that pattern isn't working. Here are a few worrying statistics:

- In a recent McKinsey survey<sup>1</sup>, only 21 per cent of board members claimed to have a complete understanding of their company's current strategy, and 22 per cent admitted having limited or no understanding. In the same survey, 44 per cent of board members said their role in strategy was to 'review and approve' the strategy management proposed – rather than develop it with management or develop it, and then have management implement it. If strategy sets the direction, it seems many directors aren't directing.
- In a similar McKinsey survey from 2008<sup>2</sup>, 53 per cent of respondents said they wanted to spend more time on strategy (24 per cent of board meeting time) and 53 per cent also said they wanted to spend more time on talent management (11 per cent of time). Results in the most recent survey: 23 per cent of time spent on strategy, ten per cent on talent management. No change.
- In PWC's Annual Corporate Director Survey<sup>3</sup>, for every year from 2004 to 2011, between 56 per cent and 68 per cent of respondents said they would like their board to spend more time on Strategic Planning. Again, no real change.

These problems have been recognised and suggestions for improvement made (increase diversity, spend more time on strategy). Many of these have been on the table for some time, yet haven't made much difference. Why is that? Given the calibre of most board members, this lack of progress isn't due to a lack of talent, hard work or desire to improve. But, are there opportunities that have been overlooked? I think there are four areas worth exploring.

The first area: the role of the board in defining, strengthening, and renewing the purpose of the business they are directing. Boards too often ignore the question of purpose, or adopt a simplistic and inadequate 'we're here to earn a return for our shareholders' point of view. At one level that is a truthful statement, but at a deeper level it is about as true as the statement that the purpose of a human being is to breathe in and out. One has to breathe. It has to be done; but surely life is about more than that. Similarly for businesses.

Today, it's critical to have a clear, compelling organisational purpose. In the face of increasing complexity, uncertainty, and pace it's ever more important that a large proportion of the employees of a business see what they are doing as more than 'just a job, a way to make money'. Even more so for line managers and senior leadership.

Call it engagement, call it commitment, call it mindfulness. Call it whatever you like – the degree of attention, effort, and courage needed to be successful in today's world will come from employees who see a connection between what they do day to day and a bigger purpose they find compelling. Put differently, the only people who get out of bed in the morning for 'shareholder value' are those with rich stock option plans.

As a result, the question of the purpose of the business is one that should be explicitly considered by the whole board, as the key underpinning for the strategy. At its most fundamental, the board should see their role as defining the purpose of the business, and then ensuring that purpose is fulfilled.

The second area: the stance of the board towards how the strategy gets set. The widespread adoption of ICASA's generally very good guidelines about 'Matters Reserved for the Board' includes 'approve the strategy'. While meant to ensure that management doesn't just head off on its own, in practice it often means that there is insufficient engagement by the board with key strategic issues.

Instead of participating in a meaningful exploration of the strategic situation a business is in – and the options it faces – boards are too often presented with a finished strategy and then have three choices: approve, challenge, or reject. Faced with the somewhat extreme option of outright rejecting a proposed strategy, boards are too often willing to 'approve' what has been served up – with a bit of 'challenge' before doing so. This can lead to 'they asked a few questions, but they'll approve it next time'. The bottom line: what was intended to be a minimum standard has too often become a limitation.

Non-executives should insist on being substantially involved in strategy development. In today's highly unpredictable and rapidly changing world, it's somewhere between difficult and impossible to make reliable predictions. It's therefore equally

difficult to determine the 'best' strategy purely by an analytical approach. Instead, what is needed is a combination of logic, experience, intuition, creativity, and judgement. One would hope that the management team has that in abundance. But, surely the directors bring a large portion too. They can limit themselves to 'approval' or they can demand a strategy development process that gives them adequate and appropriate scope to make a meaningful contribution well before the strategy is complete.

The third area: the rhythm and content of board meetings. Many boards have a roughly monthly rhythm of meetings, with perhaps an annual strategy away day. It's not surprising that so much board time gets devoted to execution and performance management issues, and so little to strategy and longer-term talent development. Every month there's lots of new information to discuss about operational topics, but perhaps not that much about strategic issues.

Yet, in today's world, looking at things like strategy and talent only once a year can be a bit too infrequent. Paradoxically, even though there might not be all that much new information of strategic importance each month, it is often subtle and ambiguous, where the external perspective (and potentially more objective view) of NEDs can be invaluable.

Perhaps what's needed is one board meeting every quarter (maybe over two or even three days), to consider important developments and fine-tune strategic priorities, with an extended meeting annually to allow for a complete refresh of the strategy. In between each board session, management would have about 13 weeks to get things done – and could provide the board with information weekly on key financial results or other topics that need to be monitored by the board more often than quarterly.

The fourth, and perhaps most important, area: the nature of the interaction between NEDs and the executive (board and non-board). It tends to have a (politely) adversarial feel. Executives could look to their board members as a source of support and guidance, as well as way to test their thinking and plans: reducing risk and improving decision-making. While many executives might like to have this sort of relationship, they generally don't.

Executives too often view NEDs as at best a minor annoyance, at worst an obstacle. 'We have to get their approval, but make sure they don't delay or derail things.' In order to achieve

this, executives often engage with non-executives in a formal, 'bullet-proofed', almost ritualised way: they carefully present facts, analysis, options and plans so as to make it hard for non-executives to challenge. As a result, NEDs too often struggle to fully contribute their depth of experience and their disinterested and alternative points of view. That can mean important issues don't get discussed until they have become unavoidable – in other words, too late.

NED behaviour does have an impact on this – and many effective non-executives take the time to ensure they have contact with the business and with executives outside the boardroom. However, a different place to look for improvement is to change the nature of board meetings: to make them less formal, to replace the 'board table', to move away from an item by item cycle of 'presentation, Q&A, discussion, decision', and to use different meeting facilitation techniques that foster more open dialogue and real debate.

For each of these four areas, many boards are making or have made improvements. There might even be some patterns across various firms that could be called out as 'best practice'. But, what's mostly needed isn't yet more guidelines and more codes. What's needed is for boards, and particularly non-executives, to insist on a higher standard of meaningful engagement – and then to find specific ways to make that work for them.

While some of the suggested changes may seem a bit uncomfortable at first, they are worth trying as a way to prepare a board for the increasing challenges ahead. The combination of alignment around a clear and compelling purpose for the business, a much more engaged NED role in strategy creation, more time to consider subtle strategic topics, and a new context for board conversations should allow a board to be much more effective in guiding and directing their business towards success.

*Belden Menkus is Director of MenKus & Associates. He works with boards and executive teams to create clarity, alignment and action in complex organisations that want to improve, innovate and grow. He can be contacted at belden@menkus.net.*

<sup>1</sup> <http://bit.ly/LcmYtE>

<sup>2</sup> <http://bit.ly/jWcfnS>

<sup>3</sup> <http://pwc.to/sSj6hZ>



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companies will be forced to follow suit. However, what is really required is an adherence to substance over form, ensuring that spirit is maintained and practices are not looked at in an isolated way.

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