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Nose In, Hands In, Too: Optimizing the Board's Talent

By John Rehfeld

Directors' unique capabilities may be wasted if they are not invited to participate in strategic planning.

According to a recent McKinsey survey (*The View From the Boardroom*, March 2005), 75 percent of directors want to spend more board time helping with the company's business strategy, dealing with risks, maximizing opportunities, and growing shareholder value. The same survey cited 20 percent of the directors responding as wanting to spend less time on audit compliance and compensation.

The thought of requiring directors to put their noses into everything the company does but maintain a traditional hands-off posture seems to have run its course. Now more than ever, directors are qualified to take an expanded role in general strategy. Today's directors are often experts in their own right. They are chosen for their competence and experience, not just for their contacts or because they are the chairman's friends. A good board comprises a group of well-informed, experienced, and motivated peers to the CEO. The board is a valuable and often underutilized asset for the CEO and the management team working on formulating a growth strategy.

The challenge is to optimize the board's time and talent in this critical area while still fulfilling the duties of compliance and oversight. By harnessing the board

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About NACD

National Association of Corporate Directors (NACD), an independent not-for-profit organization founded in 1977, is the country's only membership organization devoted exclusively to improving corporate board performance. The NACD conducts educational programs and standard-setting research, and provides information and guidance on a variety of board governance issues and practices. Membership comprises board members from U.S. and overseas companies ranging from large publicly held corporations to small over-the-counter, closely held, and private firms. NACD lists all interested members on The Director's Registry, which is used by member companies and others that seek qualified directors. With chapters in many major cities providing educational programs and networking opportunities, NACD operates at both a national and local level. To educate the corporate community and to provide networking links among NACD members, the NACD holds an annual Corporate Governance Conference, where it presents a Director of the Year Award.

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as a talented, expert resource, every company can improve their formulation, approval, and monitoring of business strategies. Rather than "nose in, hands off," with some foresight, directors can switch to "nose in, helping hands in."

Three Steps to Capitalize on the Board's Experience

Step 1: Participate in formulating the strategic plan

Traditionally, boards are not involved in business strategy formulation. Given the pool of knowledge and experience on so many boards today, ignoring such a resource not only squanders board talent, but also lowers the probability of success.

Management of rapidly emerging software producer Primal Solutions realized that the company's board not only wanted to participate in strategy formulation, but that it had more qualifications in the area than many management teams of companies considerably larger than its $10 million in annual sales. This was welcome news, since the newly formed management team had never worked together on a strategic plan.

Primal Solutions's CEO asked me, as lead director, and an advisory council member to help the management team formulate the company's business strategy. Along with five members of the management team and an outside facilitator, we shaped Primal's business strategies over a single two-day meeting and three subsequent one-day meetings. As directors, our participation filled specific experience gaps recognized by the management team; our intent was to guide, help avoid pitfalls our experience identified, and to empower the CEO and the rest of the team throughout the process. Our role was to stay in the background and support the discussions rather than to dominate them.

After the first strategic planning meeting, the management team had more questions than answers—surely a positive sign. At least they knew the critical information they needed, and what decisions were required. Over the course of the next meetings, the management team created Primal's strategic plan. As board members, our presence added to the sense of urgency and seriousness that the project demanded.

The resulting strategic plan had some teeth in it. Using the plan as a blueprint, management reorganized the company, creating two different business units. The first is focused on community broadband service providers seeking the industry's triple play broadband solution: video, voice, and data. The second targets cable companies and managed service providers with management and measurement systems. They also made some strategic personnel changes, hiring a new general manager for the community broadband division and replacing the VP of sales. These changes would not likely have occurred as quickly as they did had the strategic plan not been treated as a blueprint to be followed by management and monitored by the board.

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Step 2: Tap an advisory board's special talents

Human capital—especially on the board—often tends to be overlooked. Leading companies are turning that tide. Two simple questions can help identify possible shortfalls in the human capital so important to formulating the strategic plan:

1. What essential areas of expertise, technical know-how, and experience does the growth plan require?
2. What inventory of this expertise, technical know-how, and experience does each board member bring to the table?

Getting the answers requires a bit of *competency assessment*, either by the board itself or by the strategic planning team. Along with their technical qualifications, recruiting directors to help formulate the strategic growth plan includes evaluation of their attitude, values, time constraints, ability to work cooperatively, and their desire to contribute to the team's success rather than to be the brightest shining star. Once these traits are identified, it's simply a matter of matching needs with the special resources that already exist on the board.

But what if the board doesn't have the necessary qualifications to help with the strategic growth plan? It is difficult to quickly change the composition of the statutory board. However, a company can swiftly create and put to good use an advisory board with relevant experience and industry contacts. A good example of this is Sonic Foundry (SoFo), whose technology captures audio, video, PowerPoint data, and any other media desired, turns it into high-

Director Summary: The traditional "nose in, hands out" philosophy fails to utilize directors' talents. Directors should be sure to participate in formulating their companies' strategic plans, encourage their companies to assemble advisory boards, and ensure that their board agenda is well managed.

To help formulate the strategic growth plan, directors should desire to contribute to the team's success rather than to be the brightest shining star.

quality content, then makes it available for a large audience to see via removable CDs or over the Internet.

SoFo's growth strategy requires them to *cross the chasm* by moving sales from strictly early adopters into the mainstream market. Being a small company, the business strategies team consisted solely of the CEO and head of sales and marketing. Owing to the company's prior business and rapid evolution, the statutory board didn't have the distance learning and distribution experience needed to help management create the strategic plan. Worse, the small window of opportunity didn't allow time to recruit statutory board members with the right backgrounds. Instead, they quickly formed a stellar advisory board that meets twice a year, with smaller, specialized committees that meet considerably more often.

SoFo's use of committee members from the advisory board expanded the team's depth and experience. Members were pleased to help since they didn't have the legal liability of statutory board members, and appreciated the involvement of bringing new technology to market. Like Primal Solutions's board, SoFo's advisory board members aren't interested in dominating the discussion. Rather, their purpose is to add expertise and empower the CEO.

Step 3: Manage the agenda

Board meetings are busy affairs. Adding one more thing to an already crowded agenda can be disruptive. If that additional thing is something so critical to the company's future value as business growth strategies, then the board must create a new paradigm to manage its agenda.

Some boards that want more involvement in formulating company growth strategies create a strategic planning committee. This facilitates drawing out the board's expertise, but doesn't take huge chunks of board time since the committee meets off-line, often with key members of the management team.

It appears that many directors wish for more time to discuss the company's business strategy. The simplest way to begin this process is to put the topic of growth strategies in front of everything else on the board meeting agenda. This keeps the regulatory compliance and general governance activities from monopolizing the entire schedule.

Since the board chair cannot allow a single topic—no matter how important—to occupy the entire agenda, the smartest way to accomplish the goal of a full and complete discussion of the plan is to discuss it in bite-sized segments throughout the planning cycle. That's what Advanced Medical Optics (AMO) has achieved. Most of AMO's senior executives are intensely involved with specific directors through their director/executive-mentoring program. Involvement in strategies formulation by key board members came naturally, as a result of a preexisting familiarity with the strategic planning team. Being a leading medical optics manufacturer, AMO needs to maintain its new products pipeline. Certainly, its research and development (R&D) effort and the resulting product roadmap is one of the most critical components of the strategic plan. They created a strategic planning cycle that lasts about four months. It begins in February when they form teams to evaluate new products and areas for possible R&D investment.

From this, the company derives its specific growth strategies. Throughout the four-month planning cycle, the full board is kept informed of progress and direction at each board meeting and interim teleconference. Each discussion is relatively short, concise, and informative, and is designed to engage the directors and allow them to make their opinions and questions known. By May, AMO's strategies formulation team has completed its work. It generates a document containing the company's vision, specific strategic imperatives critical to growth, the critical things the company must do to accomplish the strategic imperatives, and assignment of accountability to specific individuals for achieving targeted results. This document is not a look-down from 50,000 feet. Rather, it drills into the smallest, most critical details needed to make the plan successful.

Conclusion

As directors' backgrounds and experiences continue evolving with the new board-controlled selection process, the board's talent pool available to help with the company's growth strategies will also improve. Over the next decade, we will likely see the old notion of nose in, hands off, replaced by one of nose in, helping hands in. ■

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