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Balancing Strategy and Oversight: How Boards Can Find More Time for the Long View

By Donley Townsend

Discussions about Sarbanes-Oxley (SOX) compliance, CEO compensation, new exchange requirements, and the PCAOB have chewed up a great deal of board time over the past three years. Across the broad spectrum of corporate governance, emphasis has clearly been placed on oversight rather than support of management. While opinion is divided on whether the emphasis on oversight will prove beneficial in the long term, many chairmen, CEOs, and independent directors are asking how their boards can become sources of strategic advantage. How can they provide the right balance of support and oversight in the shaping and implementing of winning strategies?

Select Board Members Capable of Dealing with Strategic Issues

While some directors may be superb executors of strategy, many good executives do not have a strategic business orientation. Some may be superb on a particular body of knowledge crucial to an organization's success, yet lack the ability to keep their focus at the strategic level.

Whenever possible, you want to keep these people off your board of directors. Look for directors with demonstrated success in strategy development and execution. Do they have broad interests and experiences? Can they frame issues within a larger context? Be sure you assess prospective directors' strategic interests and capabilities during the selection process.

Director Summary: Juggling strategy and oversight is a task incumbent on all boards of directors in the post-Sarbanes-Oxley era, and providing the requisite level of oversight while still functioning on a strategic level can be a difficult task. Directors and executives should consider these seven suggestions for effectively balancing these dual responsibilities.

If you find you already have some board members without a strategic sense, training and mentoring are two successful avenues to improvement. For some board members, a strategic planning seminar may provide them with the knowledge and tools to function comfortably in strategic deliberations. Others will benefit more from coaching by the chair. For some, both training and coaching might be beneficial.

Since selection is crucial, you must ensure that board members, whether insiders or outsiders, are committed to making a contribution to strong, effective governance and are able to devote ample time to their board responsibilities. Nothing will do more to keep board discussions strategic than locating directors with deep experience and an interest in strategy itself.

Emphasize Committee Effectiveness

Not all board work is strategic. There are subjects and situations where directors need to consider tactical details. It is incumbent on directors to give these matters proper attention without bogging down board meetings. One way to do this is through effective, cohesive work by the board's committees.

A positive outcome of the recent scrutiny on corporate governance is that boards have been forced to critically examine their committee structures. Many boards have streamlined their structures by pruning extraneous committees, and most boards have thoroughly examined and defined the responsibilities of each committee. Companies have also budgeted money so that committees have independent access to the expertise needed to fulfill their charters. What remains for many boards, however, is the development of specific work plans and deliverables for each board committee.

When committees do their work thoroughly, the board will maintain a strategic level. Obviously, this entails committees giving the requisite attention to details in their areas of responsibility and the chair and CEO ensuring company information is disseminated in a timely fashion. Committee effectiveness generally stems from:

- Members clearly understanding the committee's responsibilities.
- A committee chair who knows how to guide other directors.
- Committee members with the requisite levels of interest, knowledge, and skill.
- Guidance from the chair of the board on standards, expectations, and scheduling.
- A well-designed agenda for the whole board, such that the work of the various committees receives the appropriate attention from the whole board at the right time.
- Emphasizing committee effectiveness is a means of helping the board work effectively and efficiently. Given the expanded scope of board tasks post-SOX, excellent committee work helps guarantee that the board has meaningful time to devote to strategic matters.

Build a Board Team

Clearly, boards are not teams in any traditional sense; they meet infrequently compared to a management team, and their scope is limited. Historically, though, it has been easier for board members to be open and candid with one another because a rich, complex web of relationships generally exists among members. With a heightening emphasis being placed on importing independent directors, director relationships must be nurtured for boards to thrive. Before there is a real comfort level among all the members of the board, discussion naturally gravitates toward safe subjects that the individual members feel comfortable discussing. To be effective, boards must transcend this level of discourse.

Annual retreats are an increasingly common mechanism for building the relationships and trust needed for effective, strategic governance. Many boards schedule a dinner for the evening before each meeting for directors to learn about each other. One prominent Silicon Valley CEO refers to his company's board retreats and dinners as "the glue and grease" of good board work; glue to provide the right amount of cohesion, and grease to provide the lubrication that makes for the ability to candidly discuss emotionally charged subjects.

Ensure Solid Presentation of Corporate Strategy

Often CEOs unwittingly sabotage the board's ability to work at a strategic level by improperly framing strategic issues to their board of directors. If the directors cannot see where the strategy comes from and what the choices are, they quite naturally begin probing into the details, and a strategic discussion can deteriorate into a debate about minutiae.

Constructively involving the board in strategic initiatives requires effective collaboration between the chair and the CEO.

The CEO shoulders the bulk of the responsibility for keeping discourse on the strategic level. He or she can do this by:

- Defining and implementing a first-rate strategic planning process and informing the board of the what, when, and how of management's strategic work.
- Providing a broad context for strategy discussion. Often the CEO who combines deep industry expertise with ongoing immersion in strategy matters can forget that the directors (particularly independent outsiders) aren't familiar with the industry or market forces that shape the CEO's thinking.
- Making strategy work a process rather than an event. This does not mean reviewing the strategy at every board meeting. Rather, it entails the CEO apprising the board of his or her thinking on strategic matters through regular communications. Often, it also means collaborating closely with the chair (if the roles are split) to schedule board discussions of strategic issues over the course of several meetings culminating, perhaps, in a major review/ approval session at an annual board retreat.

Involve Board Members in One or More Strategic Initiatives

CEOs often feel board members do nothing so well as identifying mistakes discovered by another director or admitted by management. From the CEO's perspective, directors are far keener in exercising their oversight responsibilities than in a supporting role. Certainly Sarbanes-Oxley and new exchange requirements have pressured directors to heighten their oversight responsibilities. Directors and CEOs are both conscious of the need to keep directors from becoming managers, but recent events in the corporate world and the almost daily drumbeat of the business press points directors toward oversight, oversight, oversight.

However, involving directors in a small number of strategic initiatives is essential. This makes use of their considerable talents, develops their interest in and understanding of the company's strategic direction, and advances the initiatives themselves. Director involvement can cover a wide variety of tasks, from making contacts

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to mentoring executives. For venture capital-backed companies or start-ups, it is both a natural and necessary option. For larger, established enterprises, the chair and CEO may need to collaborate actively to find appropriate, meaningful ways for directors to contribute to strategic initiatives.

At one major engineering and construction firm, for example, the directors focused for a year on helping launch a strategic initiative to increase the firm's revenues from the federal government sector. Because management's knowledge and expertise were scant in the beginning, the board assisted with strategy formulation and action planning. Then each director took on individual tasks based on their respective expertise. One helped management understand the role of lobbyists and how to work effectively with them; another director helped revise the firm's bid response process to support the federal market initiative; a third introduced the responsible line manager to key officials in the executive branch and coached the line manager on how to tailor his approach to suit prospective clients.

At their annual retreat, the board, the CEO, and two other key executives reviewed the initiative's findings. Revenue results surpassed expectations. Managers credited the directors with playing key support roles. Outside directors were enthusiastic about their involvement, and everyone agreed the process had been a success.

Involving the board constructively in strategic initiatives requires effective collaboration between the chair and the CEO. However, the time and effort pays off with better execution of the initiatives, and a more knowledgeable, strategic board of directors.

Emphasize the Chair's Leadership of the Board of Directors

Everyone who has taken the chair of a board of directors knows that it is a demanding task requiring a myriad of skills. The quality of a chair's abilities manifests itself in the board's achievements: balancing oversight and support; strategic and tactical deliberation; well-timed, thorough committee work; and deep collaboration with the CEO (when the roles are separate) in weaving together the threads of the board's work into a strong, supple cord.

Chairs can most effectively help their boards develop a strategic focus through their stewardship of the board's agenda. Close collaboration with the CEO (when the roles are separate) can ensure the board receives regular updates on strategy formulation and execution. For the chair who is also CEO, this may often entail overcoming his or her own defensiveness about management prerogatives. When the roles are separate, good chairs often devote some time and attention to diplomatically reminding the CEO to be forthcoming to the whole board about strategic decisions.

Focus on Fiduciary Duty

Many of the ideas presented above are rooted in the day-to-day realities of board and committee meetings. Taken separately or together, these ideas can help boards effectively balance oversight and support and maintain a strategic level of discourse. These ideas also provide mechanisms for companies to mine the knowledge, skills, and abilities of their directors without moving them into the realm of management.

Beyond these ideas, directors must focus on their bedrock duty of acting in the best interests of shareholders. This means ensuring that the company's strategy and operations point to a sustainable, competitive return on investment. Sometimes the easiest way to keep the board's deliberations at the right level is to focus on the directors' duties of care, loyalty, and good faith. Laws change, exchange requirements change, and ideas about best practices evolve, but the director's responsibility to do his or her best to act in the interest of shareholders is an immutable duty.

While these seven actions will go a long way toward strategic board deliberations, it's important to keep in mind that building a well-functioning board takes time. Balancing strategy work and oversight is an ongoing challenge because the balance changes with changing circumstances. What does not change is the need to deliberately carve out meaningful time for the strategic work of the board. If boards fail to perform the suggested actions, tactical oversight work will push strategic work to the periphery, to the company's long-term detriment. ■

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