THE COMPANY DIRECTOR'S ROLE IN COMPANY GROWTH

The attention of boards of directors is swinging away from oversight back to where it should be, focusing on company growth.

BY JOHN REHFELD

With implementation of the Sarbanes-Oxley controls now in place at most publicly held companies, many boards of directors are shifting attention to issues that are more likely to grow revenues and profits. A McKinsey survey ("The View From the Boardroom") supports this shift in concluding that one-third of the company directors surveyed want to spend significantly less time on audit and compensation issues.

Many directors have expressed a desire to become more involved with their company's strategic growth planning. The McKinsey study found that 75 percent of the directors surveyed want to spend at least a quarter of their board time dealing with the company's business strategy, its risks, and maximizing growth opportunities.

Though just one survey, these conclusions support what many of us see in the boardroom every day: The pendulum of topics commanding directors' attention is swinging from oversight and compliance back to where it should be focused on the company's growth plans. Boards do their jobs best when challenging the CEO to grow revenue, asking questions, and vetting the strategic plan. That's how directors increase shareholder value.

CHANGING THE BOARD'S TRADITIONAL ROLE

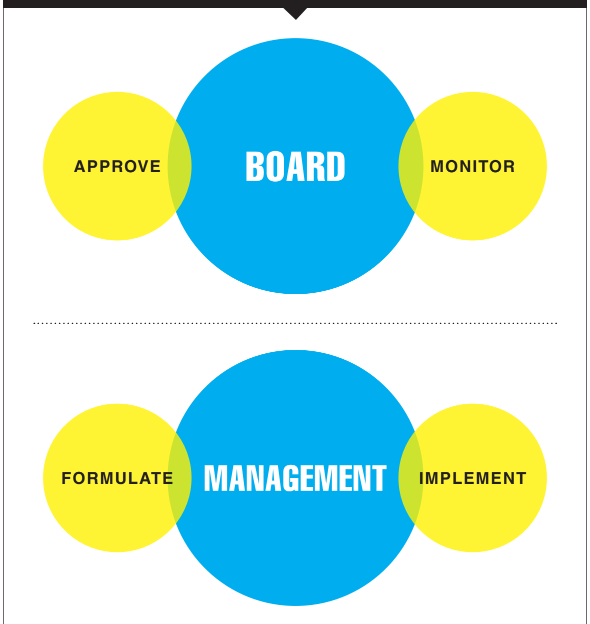
The following chart illustrates what traditional boards viewed as their role. Notice that the board stayed at approving and monitoring the company's business strategy rather than helping to formulate and implement.

THE BOARD OF DIRECTORS' TRADITIONAL ROLE IN STRATEGY

However, if directors truly wish to become more involved in their company's growth strategies, as shown in the McKinsey survey cited above, the simplest way to engage the board is to put the growth plan first on the agenda. This keeps oversight, regulatory compliance, and general governance activities from monopolizing the entire schedule, thereby giving priority to the discussion of strategy formulation and implementation.

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 company's growth plan is to talk about it in bite-size segments throughout the planning cycle. Such quick, intense exchanges between the board and management strengthen overall strategy and ensure that the resulting growth plan is grounded in reality.

DIRECTORS' TRADITIONAL STRATEGY ROLE



GETTING BOARDS OF DIRECTORS INVOLVED: CASE STUDY ADVANCED MEDICAL OPTICS

Most directors of Advanced Medical Optics (AMO) of Santa Ana, California, are intensely involved with specific senior executives through AMO's director/executive mentoring program. This program matches each of several senior executives with particular directors in that executive's area of concentration and provides a forum for their regular interaction. The purpose is to mentor the executives and to get the company's board of directors more closely involved. As a result, key board members of AMO are involved with strategy formulation.

CEO Jim Mazzo keeps AMO's entire board informed throughout the planning process. Each discussion of the growth plan is short, concise, and informative. The directors learn what the growth strategies team is considering. Directors get to offer opinions and ask questions, thereby taking co-ownership of the process with management. The primary benefit is that by the time AMO's strategic plan is completed, it drills into the smallest, most critical details needed to make the plan successful. It answers the critical question, "How will this strategy make more money than the plan costs to implement?"

RECRUITING BOARD TALENT

The days of the CEO's buddies populating boards are past. Today's directors are often experts in their own right. They are chosen for their experience and capabilities. With this background, board members who insist on being treated as talented, expert resources improve the formulation, approval, and monitoring of business strategies while leaving implementation of strategy to the management team. Today's skilled directors now drive the strategic growth plan by drilling down on the link between employees' skills and competent management.

GROWTH THE KEY STRATEGY

Most companies have as a strategic objective to grow faster than the overall market. To do this, they must unseat market share from competitors or identify niche areas of faster growth within the overall market. Not only must the strategic plan clearly identify how this growth will occur, but regular board discussions should also track progress toward achieving this objective.

MID-COURSE CORRECTIONS

But what if things go south? Directors don't want a growth plan that assumes the company is like a truck driving through a town where every traffic light is green. They want a plan that shows what happens when specific contingencies occur. Often scenarios planning "if this happens, then we do X, and here's the impact," provide all the insight necessary. Certainly, directors need the business and industry background to know what critical questions to ask and how to accurately interpret the responses. Such questions frequently facilitate healthy board discussion.

They often take the following forms:

- What are the potential upside and downside of specific contingencies?
- What is the probability of each?
- What events must happen for the upside or downside contingency to occur?
- Can the board of directors control any of the contingencies?
- What are some alternatives and options for dealing with contingencies, assuming the best case and worst case scenarios?

HARNESSING BOARD TALENTS: CASE STUDY PRIMAL SOLUTIONS

Getting the board involved in formulating, approving, and monitoring the company's strategy engages directors' often ignored capabilities. A good example is the management of VoIP software producer, Primal Solutions. Management quickly realized that the board not only wanted to participate in strategy formulation, but that its members also had more experience in formulating business strategy than did many management teams of companies considerably larger than Primal Solutions with its $10 million in sales.

Primal Solutions' CEO asked the lead director and one advisory council member to work with the management team to formulate the company's business strategy. Together, they filled specific experience gaps. As directors, their intent was to guide, help avoid pitfalls, and empower the CEO throughout the process. Their role was to stay in the background and support the discussions rather than to dominate them.

Five members of the management team, a member of the board of directors and an outside facilitator shaped Primal's business strategies and the plan to achieve them over one two-day meeting and three subsequent one-day meetings. The board member's presence added to the sense of urgency and seriousness that the project demanded.

The resulting strategic plan reorganized the company into two different business units. The plan also recommended some strategic personnel changes needed to implement the plan. These changes would not likely have occurred as quickly had the strategic plan not been treated as a blueprint to be followed by management and monitored by the board.

Primal Solutions' approach succeeded because they followed these important rules:

- Schedule significant time — several full days in this case — to hold meaningful conversations.
- Create an atmosphere that makes the strategic planning team feel like it's okay to challenge and question assumptions, and it's okay not to know the answer, because we're all working toward a common goal: to increase shareholder value.
- Review the broad competitive landscape and alternative market scenarios.
- Hold subsequent meetings to review and approve each stage of the strategic growth plan.
- Devise a scheme to measure specific metrics used to track plan implementation and performance.
- Reserve significant parts of each board meeting to devote to the company's growth strategy.
- Benchmark and monitor the company's market position compared to that of its competitors.
- Identify and track the two or three capabilities that are critical to achieving success.

TAPPING THE BOARD OF DIRECTORS' SPECIAL TALENTS

Two simple questions that are very important to formulating the company's strategic plan can help identify possible shortfalls in the board's capabilities:

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 to these questions may require a competency assessment either by the board itself or by the strategic planning team. Along with board members who have technical qualifications, directors recruited to help formulate the strategic growth plan must be evaluated regarding their attitudes, values, time constraints, abilities to work cooperatively, and desire to contribute to the team's success.

USING AN ADVISORY BOARD: CASE STUDY SONIC FOUNDRY

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 enable an advisory board with relevant experience and industry contacts.

A good example of this is Sonic Foundry (SoFo), a company that created a real-time multimedia presentation recorder and web communications system. SoFo's growth strategy requires them to cross the chasm by moving sales from customers who are strictly early adopters to customers who are in the mainstream market. Since SoFo is a small company, the business strategies team consisted solely of the CEO and the head of sales and marketing. Owing to the company's prior business and rapid evolution, the statutory board lacked the distance learning and distribution experience needed to help management create the strategic plan. Even worse, SoFo's small window of opportunity to stay competitive didn't allow time to recruit statutory board members who had the right backgrounds. Instead, they quickly formed an advisory board. The full 10-person advisory board meets twice a year. However, the smaller, specialized committees such as the growth strategies committee meet considerably more often.

SoFo's use of committee members from the advisory board expanded the growth strategy team's depth and experience. SoFo's strategic planning process resulted in a number of key decisions being made, such as unbundling the products to make them easier to use and moving the purchase decision from their customers' IT departments to the end users. SoFo also raised prices and began charging for features that they had once just given away. Profit margins rose.

Today, SoFo has a formalized strategic planning process that holds three one-day meetings annually and involves the management team and the advisory board. The management team reports back to the advisory board on lessons learned and actions taken. Like Primal Solutions' board, SoFo's advisory board members participating in formulating the company's growth strategies are not interested in dominating the discussions. Rather, their mission is to add expertise to planning deliberations and to empowering the CEO.

MANAGING THE BOARD'S 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.

Boards that want more involvement in formulating company growth strategies create a strategic review committee. This committee draws 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. The strategic review committee saves the board time by communicating and prompting board discussion on strategic direction, identifying and monitoring business drivers, keeping an eye on and responding to major strategic issues, and understanding the company's competitive position all of which are among the board's responsibilities in providing strategic oversight.

PROVIDING DIRECTORS THE INFORMATION THEY NEED

Engaged directors often first want to understand the market. They need independent information showing market size and market share for both the company and for competitors. They want to see sales trends in the market place and to identify where new customers are entering the market while the old standbys may be exiting from it. Savvy directors make the connection between those market segments and niches that are expanding and those that are contracting. They link that information with key points in the strategic growth plan and then reach their conclusions.

CONCLUSION

With some advance attention to likely concerns and questions, members of boards of directors gain greater confidence that the planning team has looked into all the areas that hold potential opportunity or threat for the company. Such oversight often requires individual members of the board and outside advisors with specific expertise to become involved in the strategic planning process. The board of directors empowers the CEO to lead the company's planning process and provides a sometimes necessary assist to create the final plan. With this higher level of involvement, the board of directors has all the information it needs to thoroughly discuss the growth plan and to approve its implementation.

Look for boards of the future to become increasingly involved, not only in approving and monitoring their company's business strategies, but also in offering concrete advice to the management team in strategic formulation and implementation. Because directors are more qualified now than ever before, expect them to use their vast experience to help grow revenues and profits.