

Directorship

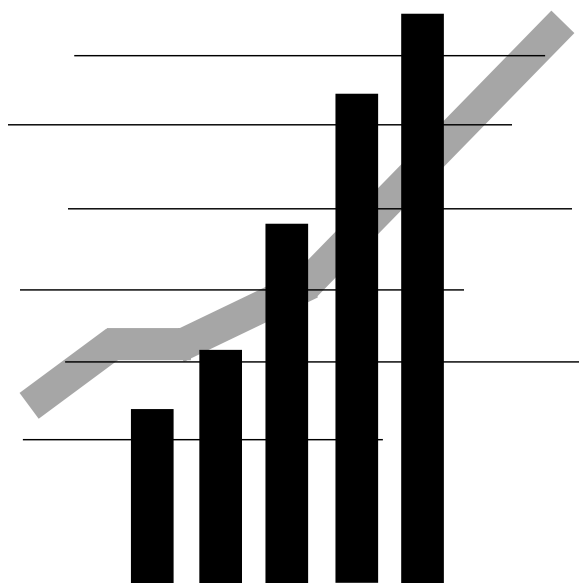
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How boards can ensure success for new strategies

*by Michael Connor
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Now that Bill Clinton's no longer president, undoubtedly he will be invited to take a seat on more than one corporate board. For a popular ex-president, such a position may indeed be a most satisfying place to be. For the rest of us, however, holding a place at the boardroom table may not be as appealing as it once was. There are many reasons for my "stormy" forecast, among them:

- Signs suggest the economy is about to get tough. With stock prices down and likely to stay down, the cost of capital is going up. Only the very best-managed companies will do well.
- Shareholders today are both knowledgeable and aggressive. Thus boards are increasingly pressured to replace top executives who shareholders no longer believe are maximizing shareholder returns. Two-thirds of firms responding to a recent survey reported replacing their chief executives in the past five years.
- Increasingly the "boss" is an institution. A Conference Board report indicated recently that institutional investors now control nearly 50 percent of US public company equity. State and local pension funds, for example, devote

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69 percent of their current total assets to equities, nearly double the figure only ten years ago.

- New standards of board activism are being set each quarter. Korn/Ferry International’s *27th Annual Board of Directors Study* noted last year that 64 percent of directors participating in its study cited “a willingness to challenge management when necessary” as the most important factor in determining an effective director.

Altogether, the picture becomes one of board members’ jobs shifting dramatically. For many boards this means they must somehow become more effective than they have been expected to be before. This raises another dilemma: How can a board *know* when it’s being as effective as it needs to be?

While directors generally adhere to the notion that their chief role is to, as Peter Crist, Vice Chairman of Korn/Ferry International, has noted, “challenge strategy and policy decisions and, by doing so, (exercise) their responsibility to represent the interest of shareholders,” the devil is in the details. Even so-called “winning” strategies fail when poorly executed. So boards need to rethink their strategy role, perhaps far beyond the traditional view of merely overseeing the setting of strategy (*Directorship*, October 2000).

While I would never contend that a board should actually be running the company—that, after all, is what a CEO is hired to do—what about the middle ground between setting strategy and full-scale implementation? I’m speaking now of “ensuring that the implementation is successful.” After all, aren’t directors guardians of shareholder interest, and thus of shareholders’ capital? Since most projects within their purview will be capital-intensive, shouldn’t fiduciary responsibility extend to these projects?

So many projects, so few results

By definition strategy defines how a business will break

its “business as usual” mode in order to achieve higher objectives. A revenue strategy may entail the launch of customer and product initiatives designed to increase market penetration and garner increased share.

A cost strategy may entail the reworking of existing processes and the automation of manual tasks. In all such cases, initiatives and projects emerge from the original strategic initiative.

However, here’s the rub: Most strategic projects fail. Consulting firm Copernicus Marketing, for example, has found that fewer than 10 percent of all new products/services produce sufficient return on the company’s investment to survive past the third year. Business process re-engineering’s rate of success is estimated by its own practitioners at no better than half, with some estimates diving deeper to below 20 percent. Worse still, The Standish Group’s CHAOS Report states that 31 percent of all software development projects get canceled before completion.

Most of the reasons for these failings stem from an unwillingness (and/or an inability) on the part of top managements to manage change. Throughout 20,000-plus interviews we have conducted for clients for the purpose of gauging project “implementation risk,”—i.e., the risk that a strategic project will not achieve its return on investment objectives—again and again I have found employees unwilling to change simply because they didn’t feel they had to. Few, if any, penalties had been set in place for employees failing to advance, or outright undermining, even the most vital strategic initiative.

“We’re not really good at penalizing anyone for not being a team player,” one aerospace company executive admitted to me. “In fact we’re very tolerant of people who resist change.” An engineer at a chemical company engaged in implementing an expensive ERP solution confessed something similar: “It is a badge of courage around here to say, ‘I stopped the project,’” she observed.

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Portrait of a strategically effective board

While managements permit their people to get away with subverting projects in this way, boards too allow projects to fail by not properly monitoring their managements. But there are ways to break the pattern and begin ensuring your company’s strategies routinely get successfully implemented. Here are a few ideas that truly effective boards have employed to get results:

- **Decide as a board where to focus.** Each board meeting should include a review of all strategic projects and a collective decision about which projects should continue to require their scrutiny and support. Coca-Cola’s board, for example, recently halted Coke’s bid for Quaker Oats at the eleventh hour, a dramatic example of a board picking its shots.
- **Ask questions that underpin success.** Avaya’s Pam Pagano suggests that boards ask their CEOs three questions at the start of every project.
 - 1 **Does the project have clear boundaries?** If the CEO has set the project’s scope in a manner fully supported by the project’s sponsor, project team and the business, the answer is “yes.”
 - 2 **Are accountabilities and expectations realistic?** The CEO may answer “yes” only if the project’s sponsor, project team and the business understand clearly what will be achieved, by when, and at what cost.
 - 3 **Will the project lead to measurable, business-focused impact on the bottom line?** “Yes” means that the CEO has created a realistic business case, managed the project scope to ensure that benefits will be delivered and developed needed metrics to prove results have occurred.
- **Hold the line on “scope creep.”** Once a project’s scope has been set, and measurable business benefits ascribed, it’s the board’s job to prevent the scope and benefits from expanding or wandering far afield, i.e., creeping away. Often proposed new project parameters diminish, dilute or distract from initial business benefits, reducing the likelihood that such benefits will result at all. Beware of departing from a project’s original objectives or plans.
- **Don’t let your company quit.** The license to resist even the most obviously valuable strategic initiative lives in the heart of almost every company—even at the top. Sometimes a board needs to step in and revoke this license. A services company, for example, once required an overhaul of its operations and technology in order to position itself for significant growth. An ambitious improvement project was started on a Monday. On Tuesday it was canceled by the CEO. The organization was crushed. Widespread discontent created a business risk greater than the risks the CEO had feared from the overhaul project. Fortunately, the board stepped in and evaluated the situation, allowing the overhaul to proceed.
- **See to it that company projects add up.** A continuum of special projects and initiatives is vital to the successful implementation of competitive strategies. It is a board’s job to manage this continuum, ensuring bridges are built from one project to the next. You must ensure that there is consistency in the way projects are developed and managed, that the organization leverages today’s experience to benefit the selection, planning and implementation of future projects, and that there is a clear logic woven throughout all strategic projects and initiatives. Attain this, and your company’s primary strategic projects will produce cumulatively incremental revenues that equal or exceed your strategic targets.

Expand—but within limits

Today's boards need to reach deeper into their businesses than ever before if competitive strategies are to actually deliver. But exactly how deep a reach will vary from board to board. With little precedent to guide your decisions, your board might start by focusing first on the most important company revenue and cost initiatives, expanding, over time, the breadth of your stewardship. Smart boards also make it increasingly clear to both CEOs and shareholders exactly how they see their role vis-à-vis the

implementation of business strategy. And should they decide to expand or contract their role, they communicate this as well, so that all parties understand vividly where everyone stands in the effectiveness equation. **D**

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An Excerpt from *Prime Meridian*, Q4 2000

Here's an extraordinary statistic: Information costs exceed capital costs for the first time. Until recently, capital was the scarce commodity. Now companies pay more to create, manage, and use information than they return to stockholders and bondholders for the use of their capital.

The shift in expenditures from things to ideas has implications and ramifications that none of us can ignore. From this point forward, differentiation derives from the intensity, creativity, and productivity of your people.

At Meridian we believe that the most powerful driver of future value is the ability to optimize the way people work. We believe that the fundamental challenge for business and technology managers is to help their organizations optimize the way people work and the way processes operate. We've organized our entire practice to help organizations build business value under these new realities and rules of operations.

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