The Need to Build a Forward-Looking, Forward-Thinking Board

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How you spend (or invest) your time is an indication of how you think… How you think determines how you act.

Directors, and specifically Chairs and executive committees, should invest a greater share of their time shaping and driving an agenda for the future rather than reviewing the past!

Challenging business models, the current and impending mass retirement of boomer CEOs, regulatory changes pushing directors for greater financial knowledge and accountability, tighter margins, increased competitive pressure, and the massive technological revolution in delivery are all conspiring to require boards to be much more strategic and future oriented, and far less tactical and status-quo oriented in their governance. Over three and a half decades, it has been our experience that boards spend way too much time looking in the rear-view mirror and not enough time looking through the windshield in understanding, scoping and debating the road ahead. In many cases, the bulk of board meeting time is spent on examining how *the horse got out of the barn, instead of building a better barn* (in conjunction with the CEO).

Because of a board's backwards approach to vision, meaning, environments, priorities, metrics, learning, integration, coordination, interaction and empowerment, CEOs and leadership teams are led to reinforce and preserve the present, rather than prepare and change for the future. Instead of spending the bulk of their time on monthly financial reports, audits and compliance reviews, budgets, and policies (where over 75 percent is not atypical), directors should focus on the much more important issues crucial to the future prosperity and direction of the organization and it's membership/customer base. Fortunately, there is a real solution… change how the board invests their time! Develop a dynamic board agenda that explicitly highlights forward-looking activities and ensures that these issues get sufficient time and attention over a 12-month period.

The following graphic copyrighted by Nice Enterprises, Inc. is just one example that illustrates how boards could devote much more of their time, over the course of a year, to the strategic and forward-looking aspects of their monthly agenda.

Using this or a similar format for thinking and agenda design, the annual board calendar should be broken down into the eight areas, as designated in bold above. The items within each area should then be customized to fit an organization's strategic direction, culture, and needs, but the relative timing, focus and balance is important to preserve.

Start with an agenda overhaul, and proceed with adding time and content that fits best. Rather than seeing the job as just supporting the CEO at all times, the directors of these forward thinking organizations actively engage in strategic thinking and discussions, form independent opinions, and work closely (consult) with the CEO and senior executive team to jointly make sure long-term goals are well formulated and subsequently met.

Ask the question, "How can our board better focus on the long term and avoid becoming a prisoner of the present (or past)?"

Good foundations of a forward-looking board

It is impossible to effect this type of positive change without a solid foundation: which includes getting and retaining the right directors, who are knowledgeable about their roles, and able to commit sufficient time and expertise.

Define the board's role clearly

The familiar roles of a well-functioning board—such as setting direction and overarching strategy, monitoring risks, planning succession, and actively weighing in on the talent pipeline—are easy to list. But in practice, things are simple, but never that easy. For example, CEOs and their top teams are often appropriately "touchy" about what they see as board interference. On the "flip side," boards with years of experience and members used to getting their own way, are frequently frustrated because they can't intervene more actively or their advice is ignored or disregarded by management. It's critical to defuse these tensions at the outset by clearly defining the board's and the CEO's role and establishing well-understood boundaries.

Unless roles are clear, the relationship between the CEO and management, on the one hand, and the board, on the other, risks devolving into misunderstandings or hard feelings, loss of trust, and ineffectiveness. Good governance policies, with an annual review or refresher on spelling out everyone's understanding of the roles of each party, is always a productive exercise. This process generates valuable discussions and clarifies roles.

Think three to five years into the future to find top board members

Too often, vacancies on the board are filled under time or regulatory pressure, without an explicit review and deeper consideration of the overall board composition and future needs. An incoming chairman (or nominating committee) should try to imagine what his or her board might look like, ideally, three to five years from now. What kinds of skills and experience not currently in place, will help fulfill the organization's long-term plan and strategy? What is the likelihood of board turnover? What, in other words, is the ideal winning team?

A willingness to look ahead expands the number of candidates with appropriate skills and heightens the likelihood that they will volunteer if and when they become available. However, these quality individuals must be targeted and actively recruited well in advance. Examples could include those with specific kinds of expertise to help the organization adapt and incorporate cutting-edge technologies, and those who have already successfully navigated the ensuing market disruptions that are now showing themselves in the financial services industry.

Get your board to work harder – together

Most board members we know are well meaning and many are hard working. The old saw of investing two hours of “prep” time for every one hour of meeting time represents the bare minimum standard. Most superior boards invest much more time on a monthly basis, with the visible “top of the time iceberg” being at meetings. The bulk of their time (the larger underwater portion of the iceberg) involves thinking, reading, studying, analyzing, and communicating. Boards seeking to play a constructive, forward-looking role must have real knowledge of their organization’s and the competitor’s products, delivery mechanisms, and markets, along with a balanced understanding of business need contrasted with regulatory constraints. Understanding business and progressive business trends is also extremely helpful.

So, the question is always asked, “How can organizations achieve the right degree of volunteer commitment?” In most cases, pay or higher pay is probably not the real answer. Cool tools can help. But, what actually creates the commitment to work harder and invest time, is a board team environment that strongly encourages active participation, deeper strategic thinking, and allows board members to derive meaning, inspiration, and satisfaction from their work, deliberation and decisions. The reward for individuals will be an opportunity to enhance their reputation (resume) for good boardroom oversight, to strengthen their personal networks and knowledge, to participate in and influence meaningful decisions, and to be a part of a winning organization that is making a real difference.

Putting the board’s best foot forward

The best boards act as effective coaches, consultants and “positive sparring partners” for the CEO and the top team. The challenge is to build processes that help organizations tap the accumulated expertise of the board as they chart the way ahead. Here are five ways to think about and encourage a forward-looking mind-set.

Require the board to study the external landscape

As a starting point, consider inviting in renowned experts and professionals from both inside and outside the industry in various fields such as board development, technology, planning, marketing, sales, and economics to board meetings to discuss specific topics the Board is interested in. Also, consider having the board visit those professionals as part of a tour of their progressive company, business, or client base.

Consider holding some board meetings in different locations where directors can be exposed to new technologies and market developments relevant to an organization’s desired direction and strategy. In order to appropriately challenge management with critical questions, an organization’s directors should regularly compare internal performance metrics with those of their competitors across a range of targeted key indicators. With this information, board’s can seek outside/independent advice to get a fresh view on their organization’s strategy and new potential development areas.

Make planning and strategy part of the board's ongoing culture

The central role of the board is to co-create and ultimately agree on the organization's direction, plans and strategy. In many organizations the CEO presents their strategic vision once a year, the directors discuss and tweak it at a single meeting, and the plan is then subsequently adopted. The board's input is minimal, and there's not enough time for debate or enough in-depth research or information to think about, discuss and fully understand and properly consider the alternatives. This is not the ideal long term model, although it does provide a good starting point.

What's optimal is a much more fluid strategy-thinking development process spread over many board meetings. In this model management continually prepares a menu of options that commit varying levels of resources and risks around an agreed upon central strategy and vision of the future. In this way, board and management jointly define a broad strategic framework, and management defines, researches and considers options for board review. Finally, during a special strategy/offsite experience, the board and management ought to debate, refine, and agree on a final plan.

In this optimal model, at the beginning of the annual planning process, the board's role is to help management broaden the number of strategy options. During the middle of the process, it is to discuss strategic alternatives and help select the preferred route. Then, at the end of the year, the board makes the final decision based on specific resource allocation and expected metric targets to properly implement the plan.

A well developed strategy always provides the context for proposed acquisitions or stand-alone investments. Without reference to long-term goals, stand-alone investment proposals do not make much sense. Strategy and policy go hand in hand. Policy is not only among the most powerful tools an organization can use to propel its culture and employee behavior in new directions, but policy can also contribute significantly to the effective implementation of strategy. Unfortunately, most boards are unaware of either the full set of organizational policies, or their content.

Anticipate and be more comfortable with risk

Every organization has to take significant risks… that goes with the territory of being in business. But while it has long been understood that overall responsibility for risk management lies with boards (from a regulatory standpoint), boards often overlook the longer term strategic risks. These are harder to grasp, given the current regulatory environment, and yet harm organizations to a far greater extent than the more readily identifiable business risks normally associated with the annual audit and regulatory reviews.

Beyond just discussing competitive and market risks, boards should consider putting in place a well-functioning crisis-management system for cybercrime or cataclysmic market changes. The boards of financial organizations should demand that management supply annual reports (probably through the supervisory or audit committee) on the observance of, not just safety and risk areas, but for quality and ethical standards, and then hold (and reward) management to account.

Recognize that even the best systems will not identify or mitigate all the risks, and boards and management must somehow try to grasp and discuss the unthinkable. This exercises the board's higher thinking and better prepares them for the unknown. As such, boards have a duty (through the CEO) to ensure that management teams pursue bottom-up reviews, (through reporting systems and confidential questionnaires, for instance), identify key risk areas, and act on the results.

Unleash the full power of your director's expertise

Forward-looking boards are powerfully positioned to focus on long-term talent-development efforts (succession) because they understand the strategy and can override some of the personal ties or potential politics that could cloud decision making over appointments. Everyone knows that the right people energize and successfully implement the strategy. Consider how many forward-looking boards hold annual reviews of their top talent, always with an eye on those who might eventually be suitable for key executive roles. Does your board do this?

Think about the ways your organization can coach and develop talented people. What personal and professional development opportunities might help broaden an individual's experience? What are the potential next career steps for key individuals? In addition, during organizational projects, board presentations, industry gatherings, and conferences, directors should take an opportunity to meet and informally assess upcoming senior executives and fast trackers.

The key is that the board must agree with management on a sensible approach to reviewing senior executive talent. Appointing a board member with a successful people-leadership track record to lead the effort is one way of boosting its impact. Another is seeking out industry professionals who can bring in experience, strategic thinking, measurements and processes to aid the board in their people development role.

Properly assess director results

Forward-looking boards must remain vigilant and energetic, always being wary of their own bad habits. An objective and confidential 360-degree review, built on third party collected feedback, is generally a much better option than the simple self-evaluation alternative. Winning boards will be those that work in the spirit of continuous improvement at every meeting, while always keeping long-term strategies top of mind. Only by creating a more forward-looking board can your organization avoid the challenges that the next financial meltdown, technology transformation, economic recession, or change in senior leadership presents.