HIGH PERFORMANCE BOARDS

IN A TIME OF UNPARALLELED CRISIS AND CHANGE, DIRECTORS ARE RELYING ON TIME-WORN FUNDAMENTALS TO GET THEM THROUGH.

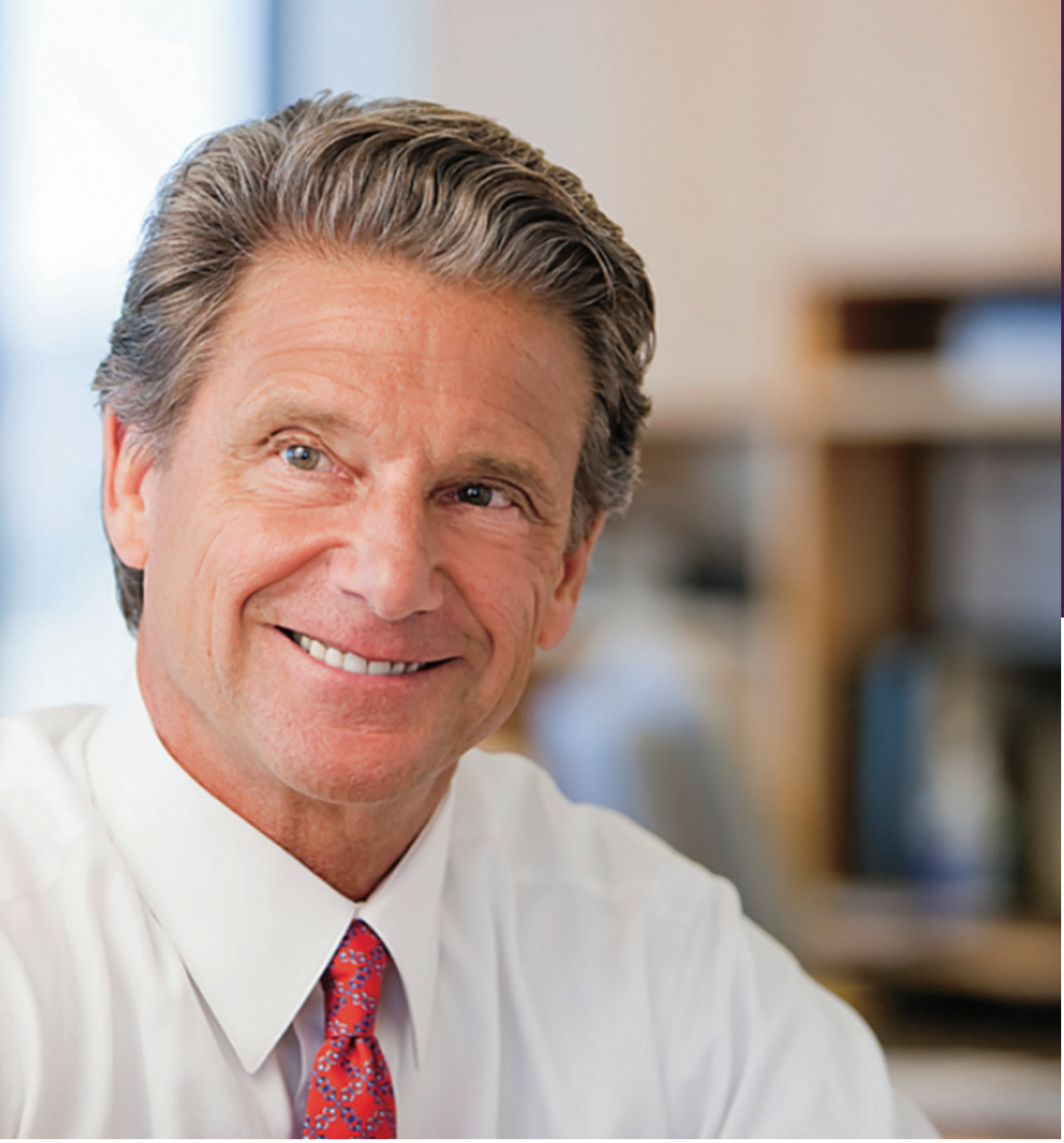
BY C.J. PRINCE

In 2006, Don Knauss became the first outsider to run Clorox in its then-93 years. With the company's 100th birthday coming, Knauss and his management team spent the first six to nine months developing a brand-new centennial strategy for growth amid big changes they saw coming. "We finished that strategy in late summer of '07," he says, "and then, as the expression goes, the proverbial shit hit the fan."

It's often in crisis that boards begin to doubt their CEOs' strategies so, with less than a year under his belt as CEO, Knauss could have hit resistance or anxiety. He didn't though, because he'd been involving the board deeply in strategy development since day one, and they were in alignment. With the board's strong support behind him, Knauss was actually able to grow market share for numerous brands during the recession. "I think when you get into trouble with boards, where boards will flip-flop on you [in a crisis], is when you don't heavily engage them in strategy, which, beyond the hiring of the CEO, is probably the primary responsibility of any board."

Even during an unprecedented pandemic, Knauss says, "the fundamentals don't change. Especially in very difficult times, you've got to double down on those fundamentals, really understand your business model and whether it can be adaptive or flourish in the new environment," he says. "It's like, no matter how sophisticated football gets in terms of offensive and defensive schemes with 400-page playbooks, you still have to block people, tackle people and catch the ball when they throw it to you. If you don't do those things, you won't be successful."

Today, as a director for Target, Kellogg and McKesson, Knauss is doubling down



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—Don Knauss, Target, Kellogg and McKesson

on classic governance tools. Like many successful board members, he believes that adherence to the fundamentals will not only get the company through crisis, but ultimately be a competitive advantage when normalcy returns.

Even for those companies hardest hit by the pandemic, the basics of good governance remain the same, and a great board can make all the difference to the outcome, says Didier Cossin, founder and director of the IMD Global Board Center. "We're in a world now where good governance makes even more difference than [it has] in the past. It's not just that it makes companies more prudent; it's also that well-governed companies will start back faster."

Here are some of the tried-and-true hallmarks of high-performance boards that directors would do well to cleave to in the current moment.

THE RIGHT MIX

The best boards boast a mix of the skills, experience and backgrounds needed to help management with three core processes: operations, to deliver on the current year's targets; future strategy and talent pipeline development. "That, to me, is the key—that you have the relevant skill sets and the diverse skill sets and points of view that will allow for governance over those three core processes," Knauss says.

That means a broad mix of perspectives—gender, racial, cultural, age and even industry experience. While members with direct experience will be an asset on the board of a consumer products goods company, for example, the insights of those with banking, digital or other industry backgrounds can be equally valuable. Having that wide spectrum of experience leads to more robust discussions. Evidence that a heterogenous group does a better job of getting to the right solution than a homogenous group is mounting: share prices of FTSE250 firms with more gender-diverse boards have fared better than counterparts with less diversity during the coronavirus pandemic, according to a recent report by New Street Group.

Despite the disruption of a crisis, boards are increasing their efforts to increase diversity. Asbury Automotive Group's board is currently one-third women and working on expanding gender, racial and ethnic diversity, as well as its mix of tenures, says director Juanita James. "We have good diversity with respect to long-tenured board members like myself, new and relatively new board members and those in between," she says. "It gives us a good balance between experience and continuity, but also refreshing perspectives and ideas."

Achieving diversity in the boardroom means finally letting go of the notion that members must be sitting or former CEOs, says executive coach and Athena Alliance CEO Coco Brown, "The boards that have struggled the most with diversity are the ones who have been in stuck in that idea, and who continue to fish from the same pond of the same white men," she says. "The boards that are most high performing are those that say, 'We need people with go-to-market strategy, we need people who have an understanding of the Asian market,' and so on. When they start to

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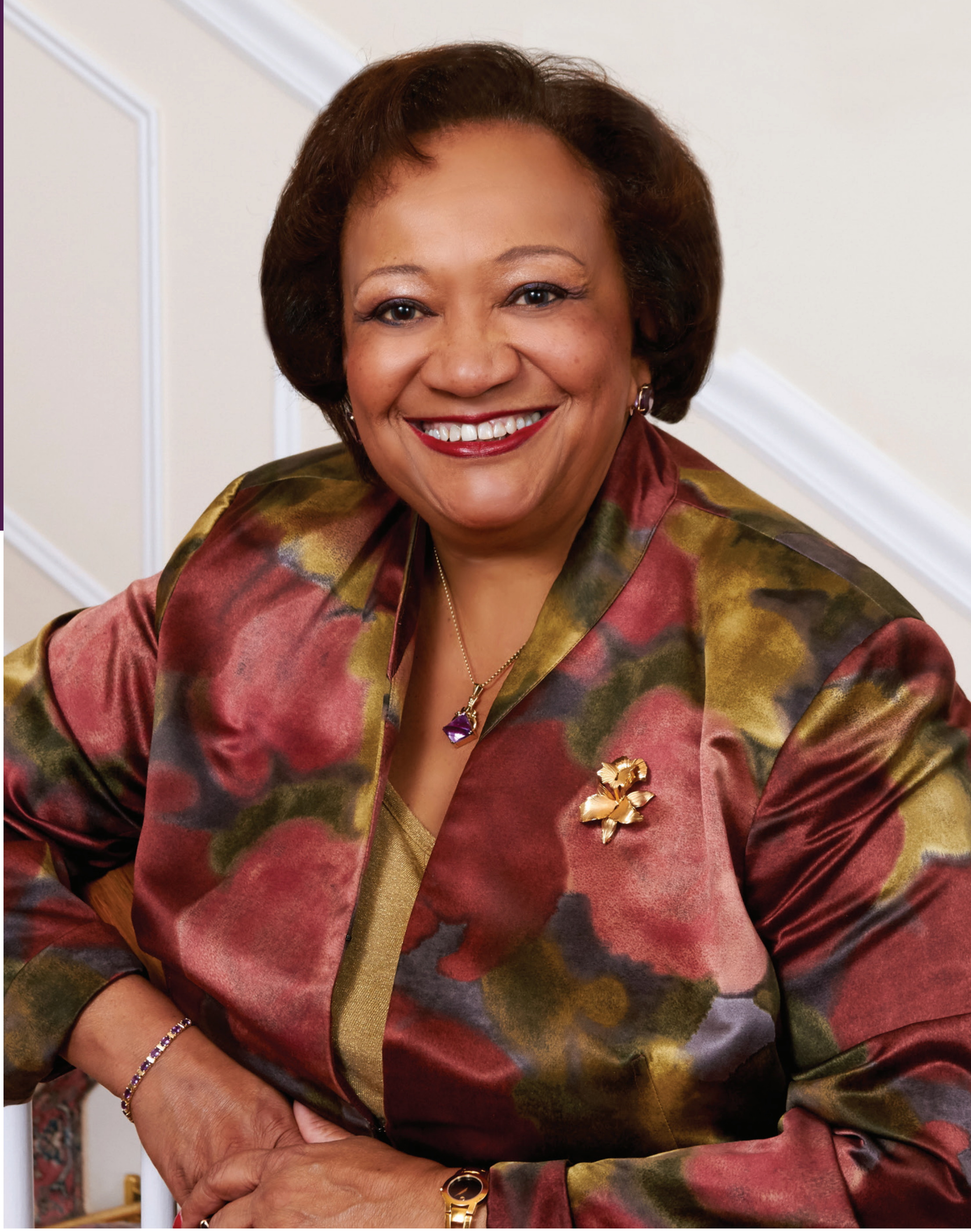

look at the collective of what the board really needs to be a steward to the company, they open the aperture for where they can find those individuals."

James attributes Asbury's successful weathering of the recent crises—its share price has fully rebounded to pre-pandemic levels, and net income in June was higher than December 2019—at least in part to the "breadth and depth of experience in multiple sectors" and "the diversity of experience and perspectives" on the board. "We don't have that groupthink," she says.

Despite a push by investors and the national zeitgeist toward diversity both on boards and in C-Suites, not all directors buy that it's essential for good governance. In PwC's most recent survey of corporate directors, 63 percent said investors "devote too much attention" to gender diversity on boards, up from 35 percent in 2018, and 58 percent said the same about racial/ethnic diversity, up from 33 percent. Cossin says the problem is that the issue has been seen as a moral one, rather than a matter of efficiency or creativity. "But it's not a moral value. It brings creativity, it overcomes blind spots, it helps strengthen the connection to stakeholders."

However directors feel about it though, the trend is clearly moving in the direction of greater diversity, according to the 2019 U.S. Spencer Stuart Board Index. Of the total incoming class of 432 independent directors (the highest number since 2004), 59 percent were women and minority men, up from 50 percent the year prior.

Of course, having the right people from a skillset and experience perspective won't help if they don't have the bandwidth to contribute, and the demands of the recent crisis have raised anew the issue of overboarding. James says she is only on one Fortune 500 board at the moment to ensure she can devote time to both to her directorship and her position as CEO of Fairfield County's Community Foundation. It's critical, she adds, that all directors come to meetings fully prepared and engaged. "You really need people willing to commit the time and do the work."

HEALTHY CULTURE

While cultivating diverse perspectives in the boardroom is an important first step, many boards have learned that returns fall short if the culture doesn't allow for an open exchange of ideas and healthy debate. All directors need to have a voice at the table. Yet, there will always be some directors who have more seniority, and they can tend to dominate a boardroom. It's the job of the lead director or chairman to ensure that doesn't happen.

As lead director at Kellogg, Knauss makes it a point to go around the table—

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—Coco Brown, Athena Alliance

whether real or virtual—at every board meeting to give each director an opportunity to be heard. “If you don’t have routines in place that ensure that every director has a chance to be heard, then you run the risk of creating cliques and subgroups,” he says.

He also makes sure to have one-on-one “check-in” calls with directors during the year to make sure they’re feeling engaged, that their opinions are valued and to make sure the chemistry is working. If, for example, the board meets in January and is scheduled to meet again in April, he will check in with directors individually in late February. “And I have a standing offer to any director who wants to talk about any issue to give me a call.”

These routines “are even more important during these kinds of times,” Knauss adds. “I haven’t been in a live boardroom in months, so all of this is based on Zoom calls and telephone calls, everything is remote.”

It’s also critical that the board have a relationship with the CEO based on honesty and mutual trust. Darden Restaurants, which owns a variety of popular brands, including Olive Garden, LongHorn Steakhouse and The Capital Grille, had to make quick decisions on how to handle the lockdown. Fortunately, the board had a culture of open debate and an open, trusting relationship with CEO Eugene “Gene” Lee, so he was able to give them the tough news straight, says director Margaret Shan Atkins. “That’s really, really important and kind of the foundation for everything else that happens,” she says.

When Lee made the decision to shut all of Darden’s dining rooms across the country, though it wasn’t mandated in all states, the board asked a lot of questions to ensure it was the right move, but ultimately trusted his judgement because of his track record of honest communication.

“He was on the balls of his feet with this, and that’s where you want to be, not on your heels,” says Atkins, who adds that one best practice for growing healthy board culture is creating time for unstructured conversation. “If everything is just a parade of executives giving you a PowerPoint, then a small amount of time to ask the presenter some focus questions and then you move on and everyone runs to the airport—at least, back when we were running for airports—you don’t have those moments together when that conversation can unfold.”

Unfortunately, that unstructured catch-up time has been a casualty of the pandemic, she says. “There’s some chit-chat while waiting for the full group to come online, but much less of that than would take place in person. And those kinds of informal conversations, either socially or around business subjects that aren’t presentation items, just don’t happen, either at all, or at best, to a much lesser degree. That’s one reason I’m hoping all my boards will resume meeting in person at least some of the time.”

Brown notes that unhealthy alliances between individual board members and between board members and various executives can spring up. If those offline conversations are not managed, they can easily lead to misalignment and unhealthy dynamics. “The boards that perform really well have really good norms around that behavior,” she says. “For example, we don’t use a back channel to talk behind each other’s back. We might use a back channel to clarify understanding and get to know each other and play out ideas, but nothing that needs to be communicated with an individual or board as a whole stays in the back channel. Those are all norms of behavior—how do we honor each other, how do we respect each other, how do we have conversations offline that we then bring back online, etc.”

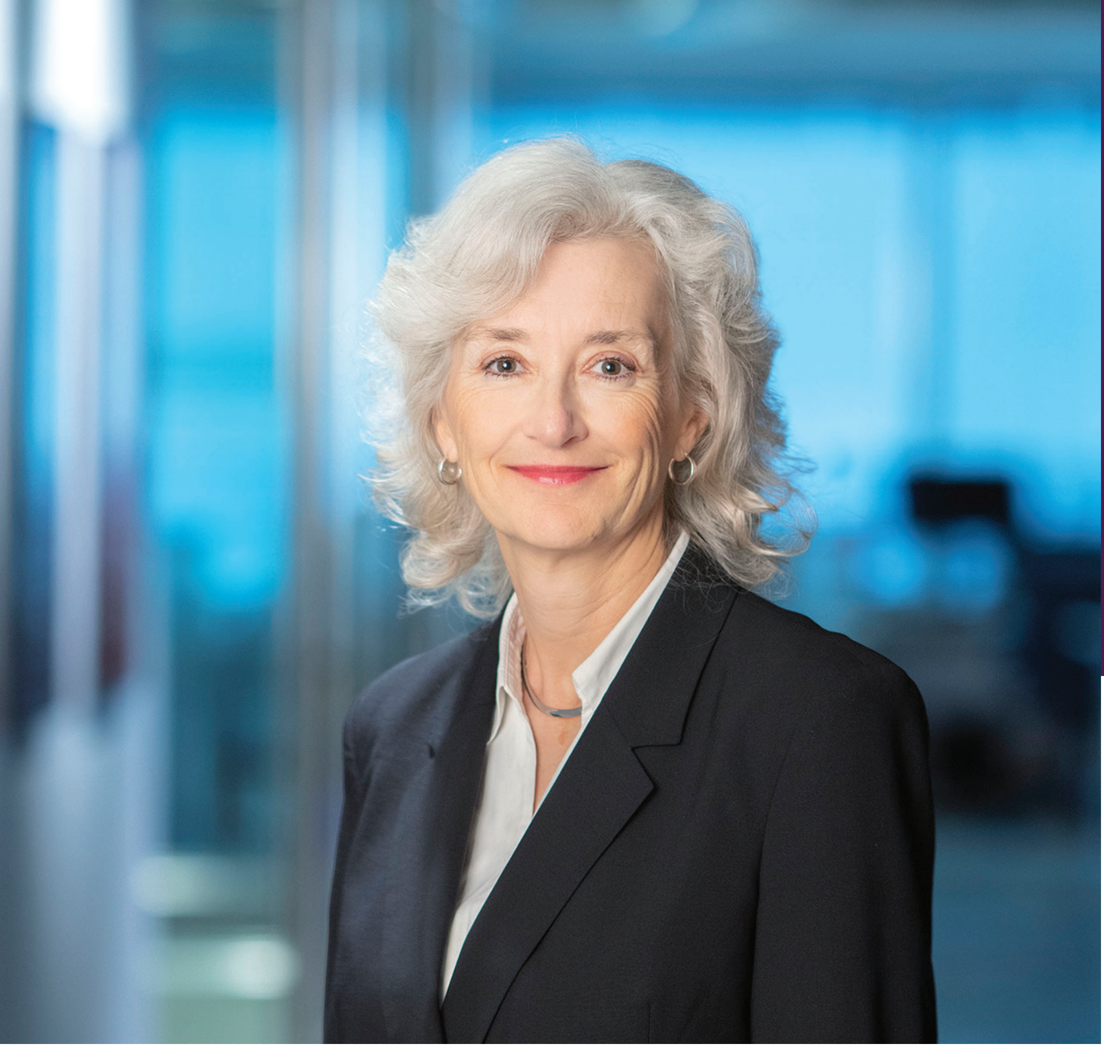
DON’T NEGLECT PROCESS

In a period of crisis, it’s easy to get off task or wander into the weeds—and that’s when it’s even more important to get back to basics and be intentional about process. “High-performing boards spend time thinking and talking about what they’re going to focus on at each board meeting, how they’re going to structure conversations so they’re forward looking and don’t just [have a] hindsight view,” says Brown.

They also have to make sure they’re helping to put out current fires and simultaneously keeping an eye on future strategy—all while remembering to keep fingers out. “This is one of those areas where you clearly have to walk and chew gum at the same time,” says Knauss, who recalls his Clorox board helping him to think through the future implications of his immediate decisions during the Great Recession. “They helped make sure the company, while dealing with an unusual present, didn’t lose focus on the future. And how does this unusual circumstance and the present shape the future—or does it really shape the future? Is it a one-off situation or something that is going to have sustained impact on the ability of the company to compete into the future?”

Being able to focus on the future is one of the “luxuries of being a director vs. a CEO,” says Atkins. “Because we’re not mired in the details in the same way. We get to remember what the next two- or three-year horizon should be versus the crisis of the moment or the crisis of the current fiscal year. To the extent that current events are sort of taking up all the bandwidth, the board can be helpful in keeping at least some part of a conversation around what will happen when this is over.”

To ensure the board culture and processes are working—and that every director is pulling his or her weight, boards have to maintain robust evaluation tools. Asbury’s board does multiple assessments—of the board meetings, the content and preparation materials, the transparency of what the various committees are doing, self-assessment and evaluation of one another. “So, it’s almost like a 360-type of formal evaluation process, looking at the board performance as a whole, the effectiveness



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—Shan Atkins, Darden Restaurants

of different committees and effectiveness of each individual on the board,” says James.

The evaluations of directors by their peers “can be a little sensitive,” James adds, but the survey comes into the governance chair anonymously and is then given to an external party to summarize. The chair then gives each director feedback based on the report. “I remember in my earlier days, one of the comments was that my contributions are valuable, but I’m too quiet and I should asset myself more in terms of adding to the discussion. I took that feedback very seriously.”

When things are not working, or when strategy has changed, requiring new skills or increased diversity, high-performance boards do what’s necessary: they refresh. Though refreshment has improved in recent years, it’s an area investors say still needs work. “The average tenure of a board member is eight and a half years—I think that’s longer than most American marriages,” says Brown. “It’s hard because it becomes so emotional. It requires self-reflection and willingness to say, ‘Hey, it’s time for me to go or you to go.’” She points to Bank of America, iRobot and Forrester as examples of boards that made progress on gender diversity by turning over board seats.

To take some of the emotion out of it, she says, boards need to think about it purely in terms of skills and strategy. Cossin says the chairman of one of the largest pharmaceuticals in the country told him he has a goal of having one or two directors depart each year. “He is enforcing meritocracy in the boardroom…and saying, we need a refreshment of skills.”

Recognizing that certain skills that were once critical are no longer essential as the company evolves and grows, boards “need to be intentional, having conversations about the business model of the future, the market of the future and the strategy needed to get there. Then look at what we need in terms of capabilities and experience, and what that then tells us about our skills matrix. It has to be more intentional that just, ‘Do we have financial acumen? Check.’”

Axxon, for example, had to transform its board when it shifted from being a taser hardware manufacturer to a cloud-based analytics company that makes wearable cameras. “It’s a totally different branding strategy—truth and transparency and social justice as opposed to non-lethal weapon. It’s a different business model,” says Brown.

Now, more than ever, companies are throwing out playbooks and developing new models. “Every board I’m on has been pressing the management team to be thinking about what happens on the other side of this—not just how do we get to the other side, but how could the other side be even better if we take the opportunity to rethink our business model right now, while we kind of have permission to do just about anything that is non-incremental, because the whole situation is so extraordinary,” says Atkins. “It’s like, all bets are off.”

Darden’s management team has been talking about the business models of the different restaurants, their operating cost models and which part of those can change in ways that may even enhance the guest experience and that have economic value in terms of the flow-through is to the bottom line, says Atkins. “It’s about recognizing an opportunity to do something much more significant that could have long-term value and seizing the moment to do it.” **CBM**