Under the Buzz

Commentary on Strategy & Management Issues for
Executives & Professionals in Enterprise Systems & Software Companies

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Under the Buzz is an electronic "viewsletter" authored by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps to *catalyze* the strategy and transformation efforts of its enterprise systems and software clients. This journal is published each month and delivered free to subscribers via email. It is also posted on the TCG Advisors website at: http://www.tcg-advisors.com/Library/utb/utb.htm. Back issues are available at the same address.

In this month's issue:

Making Board Meetings Work

As boards once again become composed of seasoned and independently-minded executives driven by a sense of duty to the company's shareholders as well as to the community in general, instead of being populated by members of the CEO's personal network, it is time to redefine their purpose and role in order to maximize the value they can bring to growing and managing the business. In particular, board meetings need to be reconceived, in order to better serve the interests of shareholders.

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Making Board Meetings Work

Alongside the need to focus on governance – partly to comply with the demands of the Sarbanes-Oxley legislation, and partly to avoid repeating the absurdities of the past five to 10 years of corporate excess – companies urgently need to redefine the raison d'etre of the board of directors. And at board meetings, instead of parading the executive team in front of directors in a presentation-based ritual that fails to address key issues in an appropriate manner, CEOs and chairmen (hopefully, soon to become once again two separate individuals!) need to find a better way to get value out of the single most important activity that any board participates in – the monthly (or quarterly) board meeting.

During the past decade or so, board meetings in most public and private technology companies have become among the most demanding but least productive activities on every tech company's calendar. On one hand, they have come to dominate the monthly or quarterly agenda of executives teams to the extent of relegating customers and other constituencies to a lower level of importance in day-to-day affairs; on the other hand, while intended to help the main protagonists – directors and executives – deal with important company issues, they often turn out to be purgatory for both sides. Thus, they come close to being useless in protecting the real interests of shareholders, which is to ensure that the company is operating in optimal fashion.

One knowledgeable and experienced board member whom I know well puts it this way: "Board meetings are fundamentally a passive-aggressive parent/teenager ritual, in which the board's only resort is to censure and/or fire someone. The supportive role that many board members are ready to step up to gets all mixed up with whether or not to grant the kids their allowance or not. Worst of all, this dynamic generates compliance, not empowerment, and in this way problems are concealed until they have become critical, and the company's (read 'family's') well-being is consequently put at risk." Although this metaphor of parents and children may be more applicable to private companies that often need to keep their largest investors happy while returning to the well for new rounds of funding, this dynamic of one side being driven by the need to seek approval from the other also applies, in my experience, to young and – in some cases – mature public companies.

Anyone who understands one tenth or less of what there is to know about transactional analysis – and that group probably includes me – knows that whenever one party acts like a parent, the other will tend to react like a child, and vice versa, and this applies as much to people in a business setting as anywhere else. Outside of true interpersonal family relationships, in which parents actually need to address their offspring like children from time to time, such behavior almost always causes suboptimal results. In business, one is generally expected to operate as an adult, i.e., adopting a rational approach to problems, treating people in a reasonable manner, and so on. Of course, we all recognize how emotional business really can be but, even so, we are expected to control our emotions and focus on resolving conflicts by reasoning with people, listening to each other's point of view, and debating proposed solutions calmly.

So, how does all this affect the productivity level of an activity such as the board meeting, which as I've already mentioned is the one forum for a board to operate in? And, where did this time-tested process first start to get off track? More importantly, what can be done to revert the situation?

My impression is that board meetings got really off track in the past seven to 10 years, when venture capital, followed by increasing numbers of investment-bank and corporate investors unaccustomed to dealing with the volatility of technology markets, began to vie for the lion's share of board seats, particularly in private and recently-public companies. At the same time, tech began to be treated by capital-markets investors as a 'mainstream' glamour industry (which in my view is a status that this industry is still not ready to live up to), and securities analysts became disproportionately important in swaying the investment decisions of institutional and individual investors alike. At a certain point, many CEOs, perhaps feeling a need to reset the balance of hostile and friendly forces, began to mimic the regrettable tactics of chief executives in other industries. While some accumulated the role of chairman and COO – thus effectively loading the dice in board meetings – others made sure to nominate their buddies and personal mentors to help defend themselves against the sometimes excruciating pressure from warring VC and other investors on the board.

Then, somewhere along the way, PowerPoint began to take hold as the management-review tool of choice (it was, as I recall, originally intended only as a sales-presentation platform), and – presto! – by extension it soon became the dominant presentation medium in board meetings. Of course, as we all know from family debates over the years about the ills of watching too much television, a workman cannot blame their tools for producing poor results. In any case there's nothing wrong with Microsoft's now-ubiquitous presentation toolkit (at least nothing that's germane to the topic of this article). What happened, though, in this case is that one-way presentations became the default language of board meetings, and worse, they took on the high-pressure characteristics of a sales pitch. Hence, instead of having an opportunity to exchange ideas and patiently debate solutions to problems, board members found themselves being talked at by the company's executives, with few opportunities to consider sensitive topics in any depth.

Thus began the ritual parading of the executive team, and even directors and managers, through increasingly overcrowded and ceremonial sessions, as CEOs – in many cases responding to the desire of VC board members to interact directly with members of the executive team ("we've hired a seasoned team, so let's see how they handle themselves under interrogation in a board meeting") – temporarily became presentation orchestrators instead of senior business managers. Frequently, the underlying message to the board members was: "We're doing great, so how about committing to the next round of funding, or letting us expand our presence in Asia or acquire our closest competitor, per our recommendation?", or alternatively, "We're doing great, so leave us the hell alone!"

On a human level, and without thinking about how much better interactions with the board could be if we rethought their purpose and potential value, I certainly empathize with how beleaguered CEOs and COOs may feel, especially during the past three years (yes, three years!) of abject misery for so many companies. If today's sales pitch were at least benefiting one or other constituency, it might not be so bad. But, the worst thing is, almost everyone leaves these board meetings feeling either a bit cheated, not very fulfilled, or just plain drained.

On a number of occasions in different board meetings, I've seen board members squirming in their seats as they listen to the VP of marketing insisting that the latest product positioning is finally gaining 'traction' with the analyst community; or hear the VP of sales saying that the abnormal number of deals with buying decisions deferred at the end of the last quarter was just a blip. They know in their gut that someone is trying to pull the wool over their eyes! And, meanwhile the CEO might be attempting to support their subordinate's assertions by saying that the worst is over and the problem is essentially solved. The difficulty with this approach isn't necessarily that they aren't telling the truth; it's that the approach feels all wrong to the listeners; they feel like they're being sold to, so their trust for the executive team – and often this means for the CEO – goes down.

What about another activity that costs a lot in terms of time and resources but just doesn't make much sense? I'm talking about the considerable efforts involved in producing the "Board Meeting Binder"? It's not uncommon to see a dozen or more people, including executives and their staffs, working late nights for several days prior to the climactic day, all frenziedly putting finishing touches to the package that needs to be overnighted to six or eight board members so that they can review the materials ahead of the meeting. Whatever preparation they do on the flight or ride over to the meeting, they're still going to have sit through four to six hours of presentation hell! I have nothing against sending briefing materials ahead to board members. But, instead of preparing and presenting 100+ slides worth of content, why not limit the scope and detail to key specifics (see section below for suggested topics), and require that each director reads the materials and prepare their comments or questions ahead of time. That way, everyone can focus on what's really important, and not try to plow through every aspect of each business topic or functional area.

Recipe for Productive Board Meetings

OK, so what's the formula for making these important sessions mean something positive? Well, it begins with the concept of (a) what purpose the board should serve, (b) what we, i.e., management and the board, need to accomplish in such events, (c) who needs to participate, (d) what a typical agenda should look like, how best to address the key topics, and how to act on the resolutions reached in the meeting in order to set up the next meeting, and (e) the ideal duration of normal board meetings.

(a) Purpose of Board of Directors:

- Monitor ongoing effectiveness of the company, and provide perspective to help CEO and team to address critical challenges.
- Ensure functional governance of the company in compliance with government regulations.

(b) Goals and Objectives of Board Meetings:

- Take the temperature of the business, and help the CEO/COO/CFO to deal with key challenges facing the company.
- Make sure that there are no dark governance clouds on the horizon.

(c) Participants in Board Meetings:

- Should be board members, CEO/COO/CFO, and occasional special guests to discuss key topics – no observers or managers in most cases. No more than six to 12 people at any time, assuming a board composed of six to eight directors.

(d) Agenda of Routine Board Meetings:

- "Highlights & Lowlights": Brief chalk talk by CEO on recent achievements in the business, alongside the three strategic and tactical issues that are keeping the CEO awake at night.

- Specific talk or presentation on a topic requiring detailed discussion and considered input from the board.
- Contextual topics: Talk led by COO and/or CFO on operational or compliance-related topics.
- Round-the-table discussion of one to two topics on the mind of each board member.
- AOB.

Note: Formal presentations should ideally be kept to an absolute minimum. Any formal review materials should be circulated a few days ahead of time, and each board member should be required to do their prereading.

(e) Duration of Board Meetings:

- Two to four hours in most cases, four to six hours only on exceptional basis (decision on key acquisition, serious governance issues requiring emergency action, etc.).

Having pointed out the fact that many boards leave a lot to be desired in the way they are managed, I feel it is important to counterbalance this by remembering that not all boards operate suboptimally; the ones I know that get a lot done and keep everyone's sense of purpose intact, almost invariably use some measure of the approach outlined above. However, I can confidently state that those companies whose board meetings continually operate below par tend to experience substandard results in their business operations.

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