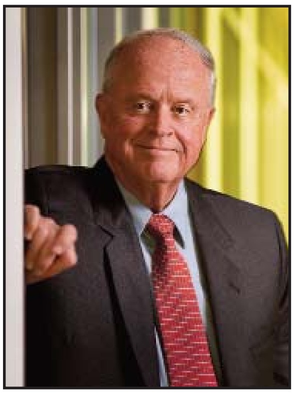
AGENDA

November 23, 2009

Board Attention Turns to Corporate Strategy: Survey

by Tony Chapelle



Roger Kenny
Vice Chairman, CTPartners

Twice as many directors as last year now say that playing a role in corporate strategy is an important part of their jobs, according to a yearly survey of S&P 500 board members.

That finding dramatically points up the tumultuous change in corporate governance that's taken place in just one year. Whereas in 2008, some board members and even shareholders still believed that boards should merely review the course set by managers, today the preponderance of directors agree that strategy is too critical not to be a joint effort.

"The recent economic changes have presented many companies with market situations that they have not faced before," says Paula Cholmondeley, a director who specializes in audit committees for manufacturing companies.

"There will be a rebound, [but] the lack of visibility over the form and timing of that rebound has made robust strategic planning more important," she adds.

Cholmondeley says it's critical for boards to consider multiple strategic options in order for their companies to prosper. She's a strategic planning consultant with her own firm, the Sorrel Group. Cholmondeley sits on the boards of Terex, Dentsply International, Albany International, Ultralife Batteriesand Mineral Technologies.

Two thirds of respondents to the Spencer Stuart Board Index for 2009 cited corporate strategy as an issue that requires significant focus by boards. Last year, that number was just one third. Spencer Stuart, a national executive search firm, releases the report every year.

Dale Jones, a director at Kohl's and a vice chairman of the board practice at recruitment firm Heidrick & Struggles, says, "Boards are not charged with setting the strategy. [But] they sure need to know and approve the strategy of the organization where they are exercising due care."

What are specific areas of strategic concern for directors?

One of them is access to credit. Most corporate strategic plans that were drawn up in 2007 or 2008 didn't project a widespread loss of credit for both companies and their customers. That will particularly hurt public or private companies that have to either retire or renew debt, says Kevin Melia, a former CFO of Sun Microsystems.

About $395 billion of investment-grade corporate bonds are due to be repaid in 2010, and that jumps to more than $412 billion the year after, according to a May report from fixed-income research analysts at Standard & Poor's.

Another strategic challenge for boards in 2010 is trying to decipher the policies and laws that are coming out of Washington.

Melia, who is a director at Analogic and Greatbatch, says he and his peers will need to navigate regulations ranging from health care to tax policy to cap-and-trade, to name a few.

For instance, Melia says that the Administration may soon tax foreign earnings. (Currently earnings are not taxed at the corporate rate unless they're repatriated.) So one way for companies to respond to this policy would be to keep foreign earnings abroad and invest them in infrastructure to build a company globally. He fears that the current uncertainty about policy is causing managers to "freeze" on their decisions. The remedy in 2010, he says, will be to encourage managers to look beyond the immediate future to seek opportunity and take risk. "We are [close to] evolving into a very risk-averse environment and culture," Melia warns.

There's also the strategic question of how much cost-cutting to undertake. One director who buys, sells and invests in tech companies says companies shouldn't overdo it.

"Directors should focus on [strategies that] will [create] sustained shareholder value and not only those that improve costs and earnings," recommends Ajay Shah, the chairman of Smart Modular Technologies and a member of its strategy committee. He's also the founder of the Silver Lake Sumeru private equity fund.

Yet the head of an executive recruitment firm for boards says that many managers don't believe that some directors know enough about their particular businesses to help set strategy effectively.

"*Unfortunately, this is a shortcoming of many boards because of inadequate on-boarding of new directors," says Roger Kenny, vice chairman of CTPartners Board Consultants. "One or two days of visiting facilities are not enough for them. The overview from the corporate secretary is not enough."*

So Kenny has a slightly counterintuitive recommendation to bolster the board's input on strategy: upgrading the person who runs human resources. A C-level personnel director could be in charge of an on-boarding training process.

"Let's face it; many directors don't look at the leaders of HR as peers. So we need heavyweight HR people."

Kenny says this HR person should report only to the CEO and board. That would ensure that the personnel chief could communicate directly enough to carry out the company strategy on matters such as succession planning, compensation and, especially, on-boarding of directors.