

NACD Event Highlights

December 14, 2010 Breakfast Event

Being Competitive: The Role of the Board in Setting Strategy

Approving long-term strategy is a key board function and an integral part of a board member's role as an advisor to the executive team. But in today's economy, the pressure to set effective strategy often makes it difficult for directors to resist crossing the line between "advising" and "managing" the effort. The panelists at NACD New England's December 14, 2010 Breakfast Event brought a range of opinions to questions related to striking the right balance between governance and management in developing corporate strategy:

- How should strategy be formulated in today's economic environment? And, how frequently should strategy reassessments occur?
- Should the CEO and management take the lead in setting strategy, or should they collaborate with the board?
- How can CEOs and boards together foster productive and open dialogue on strategic direction-setting?

Moderating the panel discussion and questions from the floor was NACD New England Chapter President Bill Earon. Each of the three panelists brought extensive C-Level and board experience to the conversation.

Marc Casper was named president and CEO of Thermo Fisher Scientific in October 2009. He previously served as the company's chief operating officer and, prior to that, as president, CEO and a director of Kendro Laboratory Products. Casper is a director of Zimmer Holdings and the Massachusetts Math and Science Initiative, and is a member of the Business Roundtable.

Paul Deninger is a director at Iron Mountain and vice chairman at Jefferies & Company, and will join Evercore Partners Inc. as senior managing director in January 2011. He previously served as chairman and CEO of investment banking firm Broadview and a director of Netegrity. Deninger is a member of the World Economic Forum and serves on the boards of the Boston Symphony Orchestra, Big Brother Big Sister of Massachusetts Bay, and The MATCH School.

George L. Davis, Jr., is a global managing partner for Egon Zehnder International and co-leader of the firm's Global Board/CEO Practice Group. Specializing in board succession planning and director appraisals and searches, his representative New England clients include: Biogen Idec, Boston Private Financial Holdings, Hasbro, Novell, Staples, and State Street Corporation. He also serves on the board of an international venture capital fund.

Following are selected excerpts from the discussion.

Formulating corporate strategy in a challenging economy

“Over the past two years, the recession and regulatory changes have profoundly affected board priorities. Directors are asking two key questions – are we focused on the right things, and is our board composed of the right people?” *George Davis*

“Given the limited time available on most board agendas, it’s useful to talk less about business performance and more about strategy. Management has clear short-term performance objectives and it’s not difficult to determine whether those goals are being met. The key focus for the board is creating shareholder value for the longer term by having the right strategy.” *Marc Casper*

“Discussions about strategy are usually more effective when they take place in a more social environment, such as during dinner the evening before a board meeting. It’s important to make sure directors have those opportunities. Not at a single session devoted to strategy at the annual offsite at Newport in July, but as a continuing strategic dialogue through the year.” *Paul Deninger*

Balancing the roles of directors and management in setting strategy

“On the one hand, you want to be productive, helpful and insightful, but management still needs to own the strategy. The appropriate role for the board member is to serve as a sounding board – staying above the day-to-day fray of running the company and helping management differentiate between issues that are operational and those that are truly strategic.” *Paul Deninger*

“The CEO and other senior executives have far greater knowledge about the business than an external board member. The key question is, how do you bridge that gap and get to the heart of the issues? The solution I’ve found most effective is a total transparency model. Sharing a dashboard that tells us, here’s what’s going well and here’s what’s not going so well, and creating an open, comfortable dialogue – as opposed to a management dog-and-pony show.” *Marc Casper*

“At smaller, younger companies in particular, veteran independent board members who have far more experience than the CEO sometimes find it difficult to fully contribute without alienating the management team. This is why it’s so important to have processes in place that fosters open, honest dialogue.” *George Davis*

Cementing board-management relationships

“Market conditions change so fast that few VC-backed companies ultimately succeed at what their business plans initially set out to do. Their CEOs are typically first-time CEOs, and so a board that understands how to mentor young executives is incredibly important in helping them think through the strategic bobbing and weaving they have to do to make the company successful over time.” *Paul Deninger*

“Board-management relationships are typically not as strong as board members think they are. The strength of the dialogue determines the strength of the strategy, so it’s important for external directors to regularly discuss the quality of their relationships with management . It’s primarily a matter of style and approach. If you’re transparent about everything, it works. If you’re selective in your transparency, it doesn’t work.” *Marc Casper*

“The line between governance and management is a line that gets crossed all the time – both ways. It’s imperative for board members to understand what their role is, as directors, and what the role of the board is, in setting strategy. Although it’s primarily management’s responsibility, the board can’t just sit back and listen as management reports out, because that doesn’t contribute to shareholder value. The goal is to achieve balance. Boards should think seriously about this as they assess their own performance – and do so in ways that are more than just checking the box.” *George Davis*

NACD New England Chapter President Bill Earon adjourned the December 14^h program with a reminder about the next Breakfast Event on Tuesday, January 11, 2011: *Boardroom Issues of 2011*. The event will be held at the Newton Marriott Hotel.