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The crisis: Mobilizing boards for change

To meet the challenges of the economic crisis, corporate boards must change the way they work.

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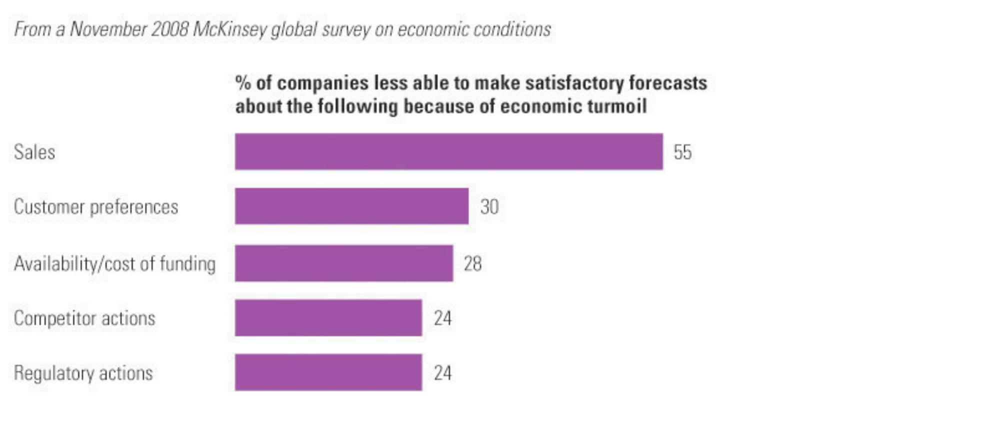
Conversation Starter: *This short essay is one of a series of invited opinions on topical issues. Read what the authors have to say, then let us know what you think.*

As companies grapple with uncertainty of a magnitude that few have experienced before, their boards should begin by questioning fundamental strategic assumptions: Is our view of the market realistic? Does our financing strategy take into account the new conditions? Should we reset the incentive scheme or abandon any approach based on share prices? Can we exploit the current glut of talent? How can we take advantage of the pain our competitors are experiencing?

Unfortunately, most corporate directors are likely to assume that radical change is unnecessary and that "normal service" will soon resume. Their experiences during less severe crises—such as those in 1990, 1997, or 2001—will lull them into a false sense of complacency; few will adjust their strategies and policies sufficiently. This behavior is the result of a clinically observed human trait of being overly influenced by past experiences and judgments. Experts on decision making call it *anchoring*. The problem is made worse by the natural rhythms that characterize how many boards are used to working—rhythms that tend to reinforce rather than challenge anchored thinking. We therefore argue that board chairmen need to play a special role in the coming months by challenging their boards to think things through afresh.

EXHIBIT

How uncertain are companies



Source: Nov 2008 McKinsey global survey on economic conditions, previously unpublished data

This is not an easy task. Board procedures are anchored too. Meetings, agendas, and timetables typically follow a preset annual pattern. Advisers are scheduled to appear before audit and compensation committees. Attempts to make changes are often resisted—in part because of habit and in part because those involved have busy calendars. Even if there is energy for fresh, substantive work, the diary may defeat the best intentions. Granted, most boards have an annual offsite day when members talk strategy, but there is an understanding that major change is not expected. New ideas generated from the offsite are viewed as creative input rather than part of a fundamental review of strategy.

Mobilizing the board to tackle the economic crisis requires a fundamental overhaul of how its members interact. The only solution is to force change. The chairman needs to underline the gravity and urgency of the situation by summoning the board to extraordinary "credit crunch" meetings, "survival" meetings, "does our plan still make sense" meetings, and "how can we turn this pain into an opportunity" meetings. Without disrupting the rhythm, anchored thinking will continue to dominate.

The style of interaction can be another obstacle. Boards tend to establish patterns of behavior; for example, seating can become regularized, and some members may be expected to say little. Moreover, most boards have a default operating mode. Some place a premium on running smoothly—no disagreements, no late papers, no fluffed presentations, and no late finishes. Some are preoccupied with the formal aspects of governance: process dominates and content gets less attention. Some are financially oriented, with board members peering at their responsibilities through the numbers. But amidst all this heterogeneity lies, in our experience, one simple theme—there tends to be relatively little scope for genuine free thinking or for any fundamental reexamination of the premise of the company.

The solution is to explicitly change the way the board interacts. The chairman should insist that members articulate what they have thought but have not had the confidence to express. These conversations will often be more conceptual than rote, and participants will have to take the risk of "saying something stupid." Chairmen will need to muster up the courage to drive relentlessly the discussions that will take most boards into deep and frightening waters. Long-cherished assumptions, existing plans, or defined ambitions may go down the drain.

One board we are familiar with used the Edward de Bono "six thinking hats" technique to force members into new conversations. The technique defines different styles of approaching a problem (for example, one concerned with facts and figures, another with creativity and new ideas) and asks members to signal which hat they are wearing. This encourages an improved climate of communication and creativity and helps the chairman spot when one or more hats are being over- or underused.

Many boards use outsiders either to facilitate a change in style or to challenge the thinking of their members. In one board, the work involved identifying the six to ten premises of the company's plan for 2009. The outsider then interviewed each director and asked them to offer their opinions on each premise confidentially. When shown to the group, the results demonstrated that most of the board no longer believed the premises were valid.

Different kinds of meetings and a different style of interaction won't be enough, however. To meet today's challenges, boards need open discussion as well as stronger follow-through than is normal: fresh thinking needs to lead to changes in plans and budgets. One board we know has followed up new thinking with weekly calls to confirm the new direction and check whether the flood of new data and news about the credit crunch requires further recalibration by the board.

Of course, the measures we have described will achieve little if board members are not tangibly in touch with what's going on in the economy. So there is one additional job for the chairman. It may mean encouraging the board to attend gatherings of bankers, visit customers or distributors, or interview managers in another country to understand how the country has been hit by the crisis. It may mean encouraging corporate directors to talk with middle managers to understand the impact of a share incentive scheme that is underwater. What is important is that directors have new, visceral experiences that trigger their thinking and help them to let go of past anchors.

Without dramatic leadership from chairmen, many companies will wander into 2009 focused more on survival than revitalization, hoping that their past view of the world will be restored. As a result, they will find themselves struggling to withstand tough conditions and badly positioned in the new environment. By shaking up the natural rhythms of the board and challenging corporate directors to reexamine their thinking, chairmen can ensure that their companies are ready to meet the challenges of the coming year. Q

About the Authors

Andrew Campbell is a director of London's Ashridge Strategic Management Centre and has written more than ten books based on his research. The latest, *Think Again: Why Good Leaders Make Bad Decisions and How to Keep it From Happening to You*, is coauthored with Sydney Finkelstein and Jo Whitehead (Harvard Business Press, 2009). **Stuart Sinclair** is chairman and nonexecutive director of several companies in the United Kingdom and Eastern Europe and was previously the CEO of Tesco Personal Finance and GE Capital China. The opinions he expresses here are purely his own.

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