

WHEN DIRECTORS SWEAT

THE SMALL STUFF



BY RAM CHARAN

RAM CHARAN is co-author of *Execution* and other books. From *Owning Up: The 14 Questions Every Board Member Needs to Ask* (Jossey-Bass). ©2009

MICROMANAGEMENT IN THE BOARDROOM.

For the most part, CEOs accept the board as their boss and as a valuable sounding board and source of input. But they don't always get what they're looking for from their boards. A common complaint among chief executives is that directors get into the weeds, digging into operational details that have little strategic value. "I have to be polite and respect them," said one CEO. "But it's very time-consuming, and nobody gets anything out of it. Sometimes one director consumes a lot of airtime right at the start of a four-hour board meeting, and for the rest of the meeting the discussion never lifts to a higher altitude."

In one board meeting for a services company, during a quarterly company performance review, a division head mentioned a number of new contracts they had signed, including one for a project in the northern part of China. That caught the attention of one director, who happened to be knowledgeable and interested in that geographic area,

and he started asking about the specifics of the contract: Are you delivering this contract alone or are you

partnering with someone? What has been the history of the partnership? Another director joined in. There was nothing unusual about the contract from a business perspective; it didn't entail a lot of risk, and at \$3 million in a \$2 billion company, it was not particularly large. Management answered all the directors' questions, but it took thirty minutes for the line of inquiry to run its course. Meanwhile, the questioning was of no interest to the other board members, who started checking their BlackBerries. The meeting lost energy, and the questioning went nowhere.

It's a common pattern for one director to raise a question and then for one or two other directors to pile on. Before long, a handful of directors are getting into minutiae, and the whole board dynamic is derailed. The danger, of course, is that it takes the focus off more serious issues such as strategy, perception of external trends, succession, and enterprise risk.

Such micromanaging also puts CEOs on the defensive and makes them less effective. In today's corporate-governance environment, CEOs are often reluctant to push back. One director asked his CEO to conduct a study on how the cost of capital was calculated in related industries. The CEO obliged, but it distracted the management team and probably cost a couple hundred thousand dollars to research. In the end, nothing changed.

Micromanaging simply cannot be tolerated. Boards must understand what it is and what it does to their effectiveness, and each and every director must take part in controlling it. I've seen directors roll their eyes when their peers start in, but rarely do they intervene, even as

they complain that the board spends too little time on the things that matter. Directors must take responsibility for managing the board's time. As much as management complains about the problem of micromanaging, they may be contributing to it by providing too many slides and unnecessary details. The CEO and the senior team have a role to play in shaping the nature of the board's output and the altitude of the discussion.

The difference between micromanaging and appropriate questioning is not always a bright line. What really defines micromanaging is not whether a director is digging into details. It's really a question of which details, and for what purpose. Is the director making a small point, like nitpicking expenses? Or is the director drilling down into details that help reveal a higher-level issue—detecting a structural change, getting at the root cause of a problem, or questioning the effectiveness of a process?

Asking questions of an operating nature is not in itself micromanaging, as long as the questions lead to insights about issues such as strategy, performance, major investment decisions, key personnel, the choice of goals, or risk assessment. Probing a decline in gross margins, for example, can easily be seen as nitpicky in some circumstances. But in industries such as office supplies or personal computers, where gross margins have taken a beating over the last ten years, directors might be trying to discern whether the decline is symptomatic of a fundamental shift in the industry and therefore whether the strategy has become obsolete. The key lies in the analytics of working backward to link the operating details with strategic issues.

For a mobile-phone operator, subscriber churn rate is an operating detail with very strategic importance. The board of a telecommunications company that approves a multibillion-dollar project to lay new cable has a stake in knowing how the implementation is going. The project's success may depend heavily on assumptions that management made about attracting and retaining targeted high-revenue customers. The board will want to dig into details about how many

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customers are willing to pay a premium for voice, video, and text combined. Are a sufficient number of customers coming on line on schedule? What percentage is staying with the company? What is the monthly churn, or turnover, in customers, and what is the average customer bill? These operational details are an important lens for tracking the execution of the strategy and gauging whether it is working. These items materially affect the business going forward.

When a director picks up on a small point and challenges it for the sake of showing who is right or what could have been done differently—or when a director attempts to make a decision about operations, or individual people—it's fair to say that person is micromanaging. This typically happens in the area of the director's expertise and is driven by a personal need to demonstrate superior subject knowledge.

How a line of questioning is worded can also indicate whether a director is

micromanaging. The difference lies in how the CEO could respond. Does the inquiry put the CEO in a box, as opposed to shedding light on a subject and opening the door for a richer discussion?

Let me give you an example. In the middle of 2007, most boards across the globe were keen to learn how management was responding to the steep rise in commodity prices and the impact on margins. Many boards debated the potential impact on margins and what could or could not be passed on to customers. That was a vital discussion to have. Directors who have had to increase prices at some point in their careers know how difficult it is to sit face to face with a customer when the management had not increased prices for ten years.

A micromanaging director might initiate the discussion of pricing by lecturing on her personal experience in dealing with a price increase, implying that the CEO lacks the courage to address the issue and that he should do exactly as the director did. The implication is that management can do it if it has the will.

A different approach to the topic is to say, "I'm curious about several aspects of inflation and our pricing strategy. What is our process of adjusting prices as inflationary conditions change? How are decisions initiated? Who gets involved and with what tools?

What training is being given to peo-

ple who are looking at pricing and to the sales force that brings it all home? Are the regional sales managers buying into it?" This lets management explain what the company is doing and what alternatives it has considered, an explanation that might include things the director didn't think of, such as issuing a press release.

The director could then ask, "What benchmarking are you doing to improve pricing processes and reduce our exposure to margin compression? Are there any strategic implications that the board needs to learn about?" In that way, the director opens the door to several possibilities without insisting on his pet course of action. This kind of questioning becomes an imperative when the company is highly leveraged and commodities prices increase several times in a year. It gives directors insight into whether the company has the organizational mechanisms to move and is not awaiting orders from the top.

The difference in approach has a profound impact on the boardroom dynamic. Asking questions at the right altitude, with the right tone, and about the right things refocuses management's attention while respecting the CEO's decision-making authority. It is, after all, management's job—not the board's—to deal with the margin compression and decide on its pricing practices. The board is there to make sure management has a plan and that it is executing that plan. ■

