Your Board Does Not Run The Company

Directors must remember their role is to supervise, not manage

by Peter Browning

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Boards are witnessing more scrutiny of their oversight practices than ever before, amid the increased influence that institutional investors, proxy advisors and regulators have over corporate governance. These trends have elevated the importance of the annual assessments directors use to review themselves and board practices. And regardless of how confident a board may be about its oversight prowess, it still behooves all directors to embrace two key governance principles today.

It's our belief that these two guidelines, as stated below, should be the underlying foundation for all boards as they navigate a more complicated business environment.

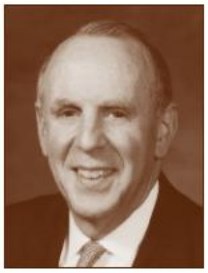
First and foremost, it is always helpful for directors to remind themselves that the board does not run the company. This idea is best described in the phrase "nose in, fingers out."

Regardless of how often the board meets — the average of the S&P 500 is fewer than six formal meetings a year, supplemented by phone calls — the board cannot run the business.

Quite often this confusion manifests itself when directors find it necessary to request more and more data and information, prolonging committee meetings and digging into levels of detail that are not necessary. Needless to say, there are circumstances and matters that do require a deep dive, and it is important that the board take its time and perform its due diligence when necessary. On the other hand, it's easy to confuse these matters with the role of the board as supervisors, not managers.

A second guiding principle is to appreciate and understand that no two boards are the same — or, to paraphrase, "If you've seen one board, you've seen one board." A corollary to this notion is the reality that there is no single set of best practices, but there are many good practices.

The culture and practices of a board are determined by the unique mix of individuals making up the board, the culture of the company and the style and personality of the CEO. Many processes work perfectly well when fully supported by all of the board members of one company but may not fit at all with the personality, style and character of another board.


Peter Browning

Examples include when and how the independent directors meet in executive session, how the feedback is given to the CEO from such sessions, how the annual assessments of the board and CEO are affected and whether, in fact, there are board member peer reviews.

It is useful, constructive and helpful to keep an open mind about board practices that might improve the way a board has been functioning. This review can cover everything from the board schedule to the number of committees, the committee schedules and getting out of the boardroom to visit the real world of the business and the people who actually make the money.

For example, a number of boards have "a committee for the whole" for either the governance/nominating committee or the compensation committee.

The boards that follow this practice find it comfortable and fitting with their style; however, in recommending it for another board, it would be unusual to encounter "Why should we try that here?"

Keeping these ideas in mind, we are led to a final set of principles. As the board cannot run the company, it is paramount that any and all boards understand their responsibility to address three basic questions: Do we have the right CEO? Do we agree on a short-term successor while assuring the company of a robust succession plan? And do we have the right strategy, and is it effectively implemented?

Clearly, there are also fiduciary duties of the board, including responsibilities relating to the audit committee, compensation committee, enterprise risk management and the like.

However, in order to ensure that the enterprise is ultimately able to satisfy shareholder and stakeholder expectations, the board must be able to answer these three questions, while adhering to the main principles of effective strategic governance. ■

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chairman, CEO and president at **Foot Locker**, tells *Agenda* in an e-mail. "They are the ones who allocate the resources and people and set the priorities for growth. Someone other than the CEO does not have control over all the resources. We see using our business leaders as chief growth officers and not using a separate position."

John F. Lundgren, chairman and CEO of **Stanley Black & Decker**, agrees. "There are surely organizations where a CGO could play a meaningful role," Lundgren writes in an e-mail response to questions. He adds that the responsibility for a company's growth "must start at the top with the CEO and be driven downward throughout the entire organization."

Kellogg declined to make its new growth officer, **Paul Norman**, available for an interview, but his promotion appears to be a move related specifically to a number of conditions at the food company.

Norman, who was president for Kellogg International, is moving into the new job at the same time that the president of Kellogg North America is retiring. That job will be eliminated.

Also, the company is dedicated to continuing its pursuit of innovative products. According to research firm **Morningstar**, 15% of Kellogg's sales come from its shelf of new products less than three years old. In addition, Kellogg needs to capitalize on last year's $2.7 billion acquisition of the Pringles snack foods brand. According to Morningstar equity analyst **Erin Lash**, Pringles's growth had been neglected at **Procter & Gamble** due to P&G's lack of capacity and a sales force that concentrated more on pushing their non-food brands.

Only a handful of other major corporations currently seem to employ chief growth officers, according to results from **SEC** Edgar documents and online searches. References to CGOs have been appearing in SEC filings since at least 1998. The first company to mention the title in such documents seems to have been **Quest Diagnostics**, the clinical labs group.

Since then, CGOs have served at companies including **H.J. Heinz**, **Interpublic Group**, **JC Penney** and **Colgate-Palmolive**. The CGO of **Hershey Foods** held the role for eight years until becoming president of its North American operations. In her old role, company reports said, **Michele Buck** had been "responsible for driving world-class marketing and transformational growth platforms across Hershey Foods and [led] its efforts in the areas of consumer insights, portfolio strategy and innovation ... marketing excellence and corporate social responsibility."

Irene Chang Britt, formerly chief strategy officer at **Campbell Soup** says she has observed that in practice, companies often define the CGO job as a chief of global sales. In other cases, the role is akin to a chief of strategy or innovation, which can sometimes be a drawback.

"There is no line accountability either for chief of strategy or chief of growth," says Britt, referring to their typically staff-job reporting structure. "You can certainly stretch the organization to think broader so these officers can be catalysts for more expansive thinking. But you still don't have the task to get it done. [Meanwhile], the business unit leaders have the pressure of daily, weekly and monthly delivery."

That, however, could be why a CGO is an asset, says **Jose Carlos Gonzalez-Hurtado**, formerly the chief commercial officer for retail giant **Carrefour Group**.

"Especially in large, complex, multinational, multi-business companies it is advisable to have someone in the executive board [who is] responsible to think strategy, innovation and growth," Gonzalez-Hurtado writes in an e-mail response to questions.

While he concedes that CEOs are ultimately responsible for corporate growth, he says they are also responsible for financial performance, yet every company uses a CFO.

"Many times day-to-day operations and short-term issues suck the CEO's time and energy. Hence the need for [the CGO] role," he writes, adding that this is especially true at complex or troubled companies.

Robbie Jamieson, chairman at privately held **Richelieu Foods**, says the important issue for companies considering adding a CGO is for the board to define the authority and accountability of the position.

"I can see the job having some use, but also creating some confusion if its responsibilities are not well defined," he says. "If the company creates a strategic plan, and then beats the plan, who gets rewarded? All of that depends upon how they design the CGO's role and its exact responsibilities."

Jamieson also recommends that the board and CEO figure out whether the CGO is an advisor to the CEO — for instance, someone to filter which projects the company invests in — or a line manager to whom other line employees such as sales or regional heads report. In either case, the trick is to not create an unnecessary new layer of management. ■

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