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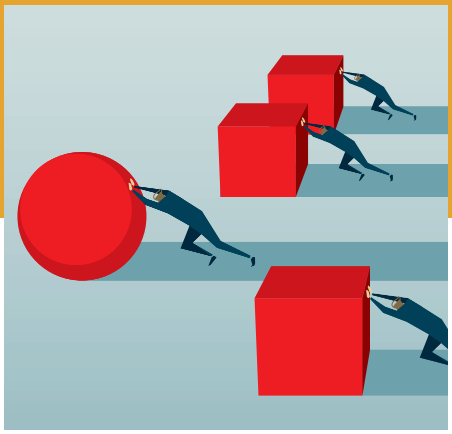


How Your Board Can Propel Organizational Strategy

By Michael Mangum, Lauren Ramsay and Emily Livorsi

How to leverage the power of your board of directors to propel strategy and enhance company growth.

In a recent study of contracting firms, over 70% of industry leaders acknowledge that they have a strategic plan in place that has been fully communicated to the rest of the organization. Despite their prevalence, the quality of such plans can be highly variable. In addition, many firms lack the organizational discipline and accountability necessary to execute the plan, further diminishing its efficacy. Yet we know that organizational health is a function of the depth, quality and execution of its strategies, and not whether an organization has merely "checked the box" of developing the strategic plan.

Similarly, most businesses have a board of directors in place since the law requires all for-profit and nonprofit corporations to utilize a board. However, relatively few businesses utilize their boards for anything more than legal compliance. This leads us to a key question: Can a board of directors play a catalytic role in supporting the successful creation and implementation of strategy?

This article summarizes the common challenges industry organizations face when developing and utilizing boards for strategic planning, how boards can be more effectively developed, and, finally, when maximized, how boards can engage with management to improve strategy.

Common Challenges

Multiple industry factors contribute to the underutilization and relative underdevelopment of boards—hence diminishing their influence on an organization's strategy. The factors include:

- **Common Challenge #1:** The CEO/majority owner chooses to utilize a board to simply fulfill its minimum statutory legal requirements.

  Likely result: The board never officially meets and is composed of "insiders"—either employees or family members—who merely approve meeting minutes to catalog in the corporate records and provide no input to the strategic planning process.

- **Common Challenge #2:** The CEO is concerned that inviting a board to advise on strategic plans will result in his or her losing organizational control and influence.

  Likely result: The board is used primarily to rubber-stamp the strategic plan that is presented by management (rather than offering deep insight, questioning or value).

- **Common Challenge #3:** The CEO and leadership team are emotionally attached to a set of strategic initiatives and not open to feedback, questioning and potential modification.

  Likely result: Leadership shares only carefully chosen content and presents that content to the board in an overly orchestrated fashion that limits the board's depth of engagement.

- **Common Challenge #4:** Board membership is limited to internal directors who also serve as employees of the business. In this scenario, the board strongly resembles a subcommittee of the organization's leadership team.

  Likely result: A lack of external perspective results in little additional value when weighing in on a strategic plan. In this case, the directors lack motivation to ask the hard questions necessary to enhance strategy.

- **Common Challenge #5:** The board digresses into operational issues (especially when dominated by internal directors) rather than focusing at the strategic level.

  Likely result: The board meeting is consumed by "deep dive" tactical concerns, frequently devolving into micromanagement and second-guessing of managerial decisions.

These problems are likely to surface when senior leadership and board members lack a fundamental understanding of how fully developed boards can truly accelerate strategy.

Six Ways to Leverage Your Board to Boost Organizational Strategy

To improve the impact of organizational strategy, firms can start with the following six practical steps to leverage and engage their boards more effectively:

1. **Set up the expectation that strategic planning must include meaningful input from the board. For many organizations, this represents a significant cultural and procedural shift in strategic planning.**
   To put a strong strategic plan in place, senior leaders must embrace strategic collaborative engagement so that the focus will be on the right issues—those that directly support achievement of the organizational vision and a plan that is influenced by diverse perspectives. Chip Andrews, former chairman of FMI, notes, "The No. 1 thing I am looking for is for the board to own strategy… [a great] board takes the strategic recommendations, the strategic analysis that the executive team does, it questions, it debates, it considers and eventually owns that strategy."

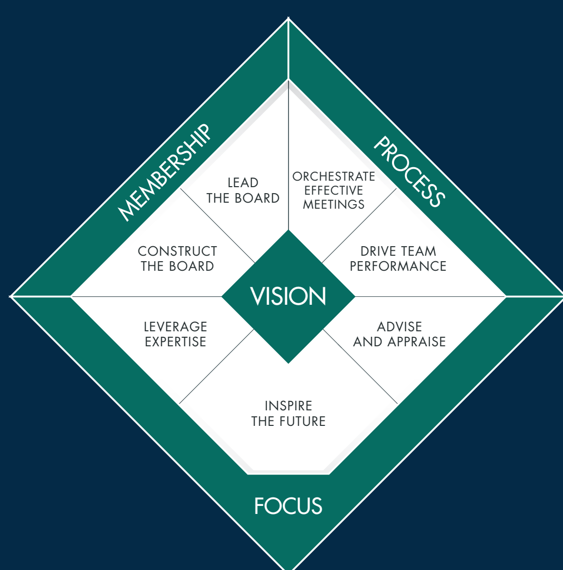
   This process may be uncomfortable for CEOs who seek to be celebrated for their successes, but a true leader is open to feedback and willing to commit to a participative, dynamic, strategy-centered engagement with the board. To get a board involved in the strategy conversation, set expectations for both the directors and the organizational leadership regarding this direction. For board members, this means clear directions around strategy involvement in the onboarding process and reinforcement during any subsequent training. In addition, meetings must be managed in a way that carves out time to dive deep into strategy.

2. **Synthesize data from a variety of sources relative to market dynamics, buyer behavior, competitor analysis and external trends in pursuit of the optimal strategy approach.** Board members need to think critically about strategy and, specifically, about what information sources are utilized to develop their underlying assumptions and conclusions. To what extent does management tap into external resources? Does the research involve accessing publicly available information only, or is it original research to more deeply understand key markets, construction services buyers and/or influencers? Or, alternately, does the business's senior leadership rely primarily upon on its collective experiences and anecdotal knowledge of the market to craft the strategic plan?

Improving a Board's Effectiveness

A board of directors can, and should, be deeply involved in strategy. By focusing on the organization's strategic direction, the board has an opportunity to drive and refine a company's strategy. And yet, to offer real value in this process, the board must have the appropriate focus. Related to strategy, FMI has found that high-performing boards, alternately called "Peak Boards," primarily focus in the key areas shown in the following Exhibit:

Exhibit 1. FMI's Peak Boards Model



Source: Model is based on in-depth industry research.

A board culture that promotes learning and development will support the insightful analysis of trends and issues facing the firm. Establishing and reinforcing this culture is key. A growth-oriented culture welcomes new and potentially conflicting ideas, while a more insular culture feels threatened over the prospect of a different way of viewing the marketplace.

3. **Encourage board diversity to bring new perspectives, ask questions and debate.** We know that outside directors working actively together to influence the company generate great value for the business. One board-related study found that in family-held businesses, directors external to the organization created higher shareholder value as well as greater EBITDA. Conversely, companies where the founding family overwhelmed outside directors achieved significantly lower returns.

   Creating a balanced board that includes both external and internal members, and one that brings together expertise from different sectors, will support the breadth and depth of debate through integrating different perspectives. Andrews notes on board membership, "I'm looking for diversity." Strategic plan quality is a function of diverse perspectives and critical debate. Thus, the more diverse the board, the better-equipped it is to add real value to an organization's strategic plans.

   A diverse Peak Board will include directors of many "shapes and sizes." While some may have spent a career in the engineering and construction industry, others may be outsiders who bring a fresh (and very different) perspective. To wit, I (Michael Mangum) serve on a board of directors of a company far removed from construction. However, my expertise in early-stage board development plus family business generational transitions provides unique perspectives to help a firm living through both challenges for the first time.

   To learn more about board composition, read FMI's earlier article, "Four Fundamentals of Highly Effective Boards."

4. **Ask hard questions and bring a "what are we missing?" mentality to the boardroom.** Hugh Rice, senior chairman at FMI, says the main role of outside directors is to "force people to think about things they do not normally think about." The board—and especially outside directors—is uniquely positioned to challenge convictions, business proposals and strategic plans, and should bring diverse perspectives and expertise to do so effectively. One recent industry CEO recalls an interaction with his board of directors early on in his executive tenure:

   > I recall pitching an acquisition idea to my board. At the time I was thrilled by the potential of a new venture, investing in an innovative technology start-up with tremendous upside. My intuition, careful study of the organization and years of following small tech start-ups told me this would be a fantastic investment. One of my outside directors immediately fired a series of questions at me. The first was whether our management team had considered doing this as a separate legal entity (versus inside the legacy construction company). Sheepishly, I admitted we did not consider that option. After the board meeting, our plan was reshaped; a new limited liability company was later formed that separated the start-up from the legacy business. This drastically reduced the operational and financial risks in pursuing

this new venture. With this approach, we protected shareholder value and created potential to attract external capital. In this instance, a single, hard question from an outside director changed the course of two businesses for the better.

The board that tackles the hard questions shines a light on executive blind spots. Whether asking hard questions about potential opportunities (i.e., new ventures or geographic expansion) or challenging the feasibility of a strategy, a Peak Board ultimately increases the likelihood of a CEO and management team being well-informed in their decision-making and improves the odds of success.

5. **Establish and monitor performance metrics that are consistent with strategic direction.**
   Peak Boards ensure that progress metrics are measured and tracked appropriately when strategies are in place. For example, an organization that wants to differentiate itself in the market through customer satisfaction should be considering these metrics:

   - Existing customer satisfaction
   - On-time and/or within-budget project completion
   - Communication and engagement by staff
   - Speed of resolution of customer-related problems
   - Client lifetime value
   - Percent of annual client "spend" captured
   - Year-on-year revenue growth of existing clients
   - New client acquisition
   - Net promoter score
   - Social media efficacy (e.g., Twitter, LinkedIn, Facebook)

   Using these metrics, leadership can, and should, actively inform boards on strategic priority progress.

6. **Make strategic matters the core of the agenda.**
   While it is easy for the board to become mired in operational details, it must also be able to step back and maintain its focus on strategic monitoring of the company. To maintain strategic engagement, consider the cadence of board meetings as well as the agendas for those meetings. Annual review is not often enough. Ensure that strategy issues are consistently raised, and that there is time for deep discussion as well as ample follow-up. A great board spends 60% of its meeting time on matters directly related to the strategy of the business; any lower than that points to a board drifting into the realm of management. Board committees are often used to keep things moving on targeted strategy initiatives between meetings of the full board.

Collaborative Engagement

A Peak Board is expected to collaboratively engage with the company on a full range of strategy issues. Board members synthesize a broad array of data, leverage the breadth and depth of the team for meaningful debate, and ask hard questions of the company leadership to assess whether wise choices are made.

A high-performing board develops measures of strategic success and keeps strategy at the forefront of its agenda, thus transforming a company for the better. And a business that keeps its board deeply involved in strategy will likely accelerate that transformation and ultimately support the business in achieving its strategic objectives.

Michael Mangum is a principal with FMI's Center for Strategic Leadership. He brings over 35 years of construction industry experience to help drive organizational growth and personal transformation. He can be reached at *mmangum@fminet.com*.

Emily Livorsi, Ph.D., is a consultant with FMI's Center for Strategic Leadership. Emily brings a solid understanding of leadership research and the latest talent development thinking to best serve a diverse group of firms in the construction industry. She can be reached at *elivorsi@fminet.com*.

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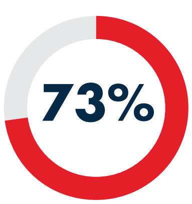
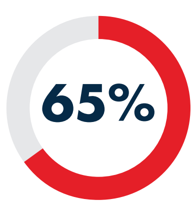
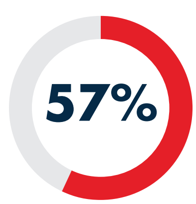


of the ENR **Top-400** LARGEST CONTRACTORS



of the ENR **Top-200** SPECIALTY CONTRACTORS



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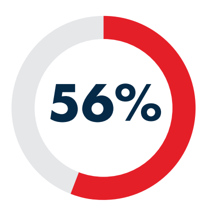

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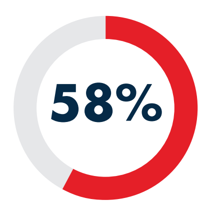

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Denver
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Suite 800
Denver, CO 80206
303.377.4740

Houston
1301 McKinney Street
Suite 2000
Houston, TX 77010
713.936.5400

Phoenix
7639 East Pinnacle Peak Road
Suite 100
Scottsdale, AZ 85255
602.381.8108

Raleigh (headquarters)
5171 Glenwood Avenue
Suite 200
Raleigh, NC 27612
919.787.8400

Tampa
308 South Boulevard
Tampa, FL 33606
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