Supporting Long-Term Performance In an Economic Downturn

By Pamela S. Harper

Director Summary: In the current economic climate, directors can play a leadership role by keeping management focused on the company's long-term performance. Three experienced directors from diverse industries share strategies that helped their respective companies stay focused on the long term and fortified the relationship between the board and management.

In the 2007 statement "Built to Last: Focusing Corporations on Long-Term Performance," the Committee for Economic Development, an independent research organization, called upon directors to "support management's development of comprehensive strategic plans with appropriate long-term objectives." The challenge to do so is amplified during an economic downturn when rapidly changing markets, skyrocketing costs, reorganizations, and stakeholder anxiety can drive companies into hard times.

The board plays a crucial role in reinforcing management's ability to stay committed to their long-term strategy, despite adverse conditions. This partnership can yield high returns when the economic cycle inevitably swings up again, providing your company with a sustainable competitive edge and increasing shareholder value in bad times, as well as good.

In this article, I provide guidelines that directors can immediately apply to help management stay focused on achieving long-term performance objectives. The guidelines are illustrated by examples and observations from three corporate directors representing a broad range of companies and industries.

Strengthen Board-Management Alignment

The greater the degree of alignment that exists between the board and management on their commitment to long-term performance objectives, values, strategy, and the acceptable level of risk tolerance, the faster and more effectively the entire organization can respond to rapidly changing conditions. To increase alignment, many strategy meetings include both directors and the entire executive team, and allow more time for relationship building.

Eileen Rudden, a director of companies in the high-technology industry, noted that the annual company strategy meeting was instrumental for gaining new insights. "Observing operations and having dialogues with executives about the issues they face in achieving long-term performance objectives was critical to understanding and supporting management's strategy," she said.

To open the lines of communication, it's important to hold the strategy meeting in a relaxed environment where everyone can step out of their daily routines. Broadening participation in meetings is especially important if there is an "us-them" dynamic between directors and executives, which creates a strong barrier to alignment. Frequently, the source of a conflict can be traced back to mistaken assumptions, different perspectives, or miscommunication. Resolving these issues as soon as possible can make a significant difference in minimizing risks and leveraging opportunities.

As directors and management strengthen their relationships and increase their alignment, the entire organization can more readily respond to unexpected events, yet remain focused on achieving long-term performance objectives.

Find New Ways to Preserve Long-Term Performance Objectives

Because directors usually don't have day-in, day-out contact with their companies, they are ideally suited to take on coaching and advisory roles to help CEOs and management consider how economic conditions could impact their strategy, and to explore alternatives that address the problems while preserving long-term performance objectives.

Ed Pendergast, who sits on the boards of companies ranging from retail to high technology, described a scenario where management in one company was faced with the rapidly escalating cost of a product that was essential to their

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operations. When directors and management explored options to address the problem, they realized they could significantly reduce these costs by leveraging their strong cash position to acquire rights to produce the product themselves, with a three-year return on investment. The supplier needed the cash and was glad to make the deal, which led to beneficial outcomes for both companies. The board's role in challenging assumptions about the problem was critical in developing this innovative solution.

Narrowly defining an issue and its underlying causes frequently restricts the range of solutions that are considered. Directors can stimulate more creative thinking by ensuring that management seeks input from a broad range of stakeholders, including employees, customers, suppliers, outsource providers, and others who impact or are impacted by the situation. The additional viewpoints and suggestions gained from this diverse feedback frequently leads to unexpected, more productive solutions.

While tactical issues may need to take a higher priority over strategy when a company is going through hard times, directors and management can remain committed to achieving long-term performance objectives. They can balance these perspectives to make more creative decisions so that both short term as well as long-term choices cause minimum disruption and risk to progress.

Foster a Culture of Long-Term Performance

Especially in an economic downturn, fostering a culture of long-term performance can make the difference between an organization focused on short-term survival and an organization that is committed to creating lasting value.

David Price has been a director for several banks, one of which is two and a half years old. Despite the tough economy, the board and management agreed to a series of policies and practices to foster a culture that supports long-term value creation, including an employee stock ownership plan. Price emphasized the importance of spreading ownership as broadly as possible across the company: "When employees have a stake in the ownership, they tend to stay with the company longer and become more productive. We want people to know that we're here for the long haul."

Even when policies and practices are in place that support long-term performance, keep in mind that if your company is negatively impacted by the economy, employees are still likely to be anxious about their jobs and less productive due to ever-present speculation and rumors from the media, websites, and the office grapevine. Under these circumstances, it's especially important for the board to ensure that management has a plan in place to address employees' questions and concerns about layoffs, reorganizations, budget cuts, and other changes that may be taking place.

Price noted that being as transparent as possible in communications, as well as frankly discussing the challenges the company is facing and the actions that management will take to address them, shows respect for employees and other stakeholders, and will help win their trust and support both during the hard times and when the situation improves.

The more that boards and management understand and address all of the elements that go into building a culture that encourages long-term thinking and resiliency, the more likely it is that employee morale, commitment, and productivity will remain high regardless of the economy.

The Common Denominator: Credible Communication

The guidelines I've discussed all hinge upon directors' ability to communicate credibly with management as well as with other stakeholders, including employees, shareholders, analysts, customers, suppliers, the media, and others about their commitment to long- term performance, strategy, value drivers, sustainability, and risks.

To maximize credibility, it's critical to tailor two-way communication to meet the needs of each stakeholder group. This includes considering the type of information they need and how frequently they need to be in contact with the board. Although developing a proactive approach to communication takes more time on the front end, it actually increases productivity by reducing the time spent fixing damage from the spread of rumors and misinformation.

One way to address diverse communication needs while minimizing time demands is by taking advantage of technology. For example, with websites, podcasts, teleconferences, and other forms of technology available for individual shareholder concerns or routine questions, annual meetings can take place with fewer distractions and become more focused on supporting management's strategy for achieving long-term performance objectives.

Even more important than frequency and method of communication is the extent to which verbal and written words consistently reflect what others can readily observe. All three directors mentioned that setting metrics and milestones has been particularly valuable for objectively evaluating and communicating about progress.

Pendergast explained that each of the boards he sits on has established different types of metrics depending upon the company's stage of growth, objectives, and unique circumstances, and that "no one-size fits all. Smaller companies generally start out with basic metrics to quantify aligning compensation and goals with strategy. As the company grows, metrics often include evaluating the board's own performance and how its meeting its mission." he said.

Problems can still occur when a stakeholder group sets their own expectations and metrics for evaluating progress based upon their different needs and perceptions. One way to reconcile any differences is to ask the following: Which metrics and milestones will each stakeholder group use to assess progress? How are they different from the metrics that we're using? What can we do to close any gaps between their expectations and perceptions and ours?

Obviously, it's not always possible to overcome every gap in communication. However, staying attuned to stakeholders' shifting needs and perceptions, and communicating with them in a way that they perceive as credible, reduces the risk of getting blindsided by unexpected problems. It also increases the likelihood that directors and management can address these issues as effectively and efficiently as possible.

Long-Term Focus in a Short-Term World

In an economic downturn, every company must be prepared to deal with adverse conditions. However, going through hard times does not mean that it's necessary to sacrifice support for management's strategies to achieve long-term performance objectives.

Directors can strengthen their relationships with management to increase alignment, encourage them to solve problems with the long term in mind, and foster a culture that rewards long-term performance. Applying these principles by communicating credibly with stakeholders on a proactive basis will prevent problems from occurring, increase resiliency, and enable your organization to create lasting value regardless of the economic twists and turns. ■

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