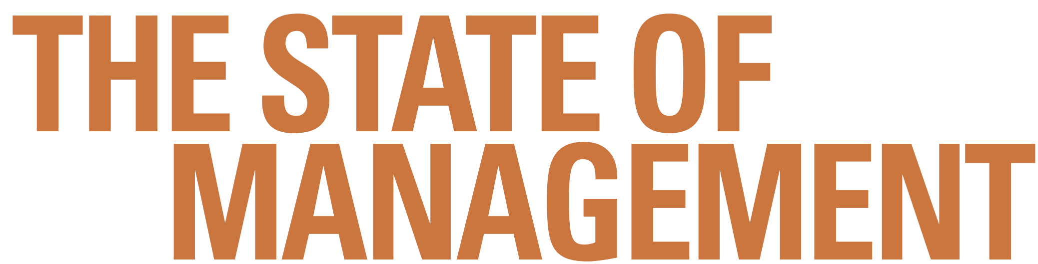



**Not much progress has been made in management over the last 50 years because processes and practices in the areas of strategy, compensation, and talent have not improved.**

# TODAY: AN INTERVIEW WITH ELEANOR BLOXHAM

ELEANOR BLOXHAM, INTERVIEWED BY PAUL SHARMAN

In this wide-ranging interview, Paul Sharman, editor-in-chief of *Cost Management*, asks Eleanor Bloxham why management and strategic processes have been so slow to evolve. Bloxham provides some solutions while also explaining why many organizations can expect implementing the required changes to be challenging.

**Sharman.** Tell me your views on the state of management today.

**Bloxham.** One answer might be frenetic and shortsighted. Another might be uninspired. Of course, those are generalizations. Some managers are calm, have strong visions, and move forward like swans on a lake.

But even though some managers have many of the characteristics we all wish for, overall we've seen little real progress in management practice over the last 50 years. Over the last five decades, practices in the areas of strategy, compensation, and talent haven't really improved.

This lack of progress is directly related to the board of directors. It's a sad reality that, despite everything board members have their fingers in these days, they haven't devoted sufficient mindshare to managerial process improvement. And if we want to dig into the psychology of it, there are multiple reasons for the lack of focus.

One reason is that managers and board members enjoy current management practices. Why? Because those practices are familiar and have worked to give them power. After all, they are the ones on top. It's hard to argue against — much less wish to topple — a process that has made you king. Similarly, they've worked their entire lives for the fruit of power because they want to exercise that rule as those before them had. Why get to the top and then give up your power (or perceived power)? So motivation to make changes is lacking.

Additionally, many managers and board members haven't adopted a regular practice of inquiry into a wide range of approaches and ideas from a variety of sources on any topic. Instead, effi-

ELEANOR BLOXHAM *is CEO of The Value Alliance and Corporate Governance Alliance, a corporate board advisory firm she founded in 1999. A recognized authority on strategy governance and valuation, she is the author of two books and hundreds of published articles.*

ciency is the watchword. *X* will solve this? Check. Everyone else is moving to *Y*? Check. So the quick answer, the expedient solution, is implemented without much thought — despite technological advances and a plethora of other ways to approach business.

In general, managers and board members tend to be doers rather than navel gazers. And that's what many companies reward. But this self-perpetuating system creates a lack of diversity in thinking styles. Current practices work best for certain kinds of people to get ahead. And so, the system is self-reinforcing. After all, why would I search elsewhere for other approaches when this process/practice has worked for me? In addition, many managers haven't explored very deeply to understand themselves either. And because of this, they fail to comprehend how current practices — while pleasurable to them — have been deleterious overall.

Let me talk about this more specifically. As I've said many times before, compensation is a public statement about what is important. But as a general matter, too few boards seem to know what is important, so they pay huge stockpiles to executives based on measures that are easy to manipulate.

Let's take earnings: They're easy to manipulate (even more so now than in the past, with estimates abounding — nay, required), and audit firm errors are at record highs. A Public Company Accounting Oversight Board report in October showed that 25 percent of the time auditors had not done the work necessary to sign off on the financials and ensure the company had the processes in place to produce solid numbers.[1] Toshiba suffered a big accounting scandal in 2015, and Wal-Mart ended the year with its CEO and CFO unable to assure that its financial statements were accurate. (Wal-Mart caught the errors, not its auditor.)

Boards also pay based on earnings per share (EPS), another prevalent measure that allows two forms of manipulation: earnings and number of shares. Buybacks of stock have occurred at record volumes in recent years and at high prices in many instances. Yet those buybacks reduce the number of shares and thus boost EPS and bonuses. We all know this, yet it goes on. And buying back stock uses corporate cash that could be used to create new products and new jobs and pay people a living wage. So this isn't small stuff — these are decisions that affect the economy.

Further, the stockpiles — in other words, paying with stock — puts managers' paychecks at risk based on stock prices, which can distract managers from improving management practices, bold visions, etc.

The question is why should market sentiment rule the day? People will argue that, over time, the stock price is an accurate portrayal of the company's value. But even if you buy that (which I don't), CEOs are paid based on annual stock price. Now, you may say, "Hey, wait a minute, that's not true: Stock has to vest for three years generally." Yes, but that misses what really goes on. With annual tranches of stock-vesting, CEOs are effectively on an annual payment scheme after their first couple of years. And on top of that, some get stock that immediately vests on date of hire.

**THERE ARE POCKETS OF INNOVATION IN MANAGEMENT TODAY, BUT OVERALL THE STATE OF MANAGEMENT RATES A "NEEDS IMPROVEMENT."**

So the state of management? There are pockets of innovation in management today, but overall the state of management rates a "needs improvement." Management today is lagging behind changes in technology and mirroring the past — too much rush and too little thinking. However, some aspects of management today are easier than they have ever been. And with technology, it is possible to virtually manage large groups of people. Whether more companies will do that is an open question.

Large amounts of data are available at manager's fingertips, but changes in management have been slow to adapt to the new realities. Education and experience have not kept up with the needs of management to update their thinking. For far too many firms, the direction from the top remains murky and

drab, and there's too little experimentation to see what might work. To compensate, there's too much management of the day-to-day and following the leader, instead of creating the systems for success.

**Sharman.** How are organizations coping with change?

**Bloxham.** Running faster, but, again, not implementing process changes or explorative possibilities that could really propel them forward. Certainly not all, but many organizations are reacting rather than anticipating and shaping change. The visions are too narrow, and the footprints of the past remain. The language I generally hear from board members is about reacting, not about envisioning something that hasn't been done before. Sure, there are the "Googles" (now Alphabet) of the world, but even for them, management processes haven't evolved that much — nothing fundamentally and profoundly new.

**Sharman.** What is the state of strategic thinking?

**Bloxham.** After the financial crisis, I thought the idea of strategic thinking might be completely dead, and it still seems to be on life support for far too many businesses. Companies and their boards built up huge cash reserves, and almost no one in the boardroom had a clue what to do with it — everyone was afraid. My ideas on the state of management have partly been shaped by that. I saw leaders who — it became even more apparent — had no idea, no concept, and no experience with entrepreneurial risk. They were so far from it, they stood like deer in the headlights. They built up cash but then had no ideas on how to grow the company. So companies bought back their stock. Conveniently, that boosted EPS, which also boosted CEO pay.

In November 2015, Reuters reported:

> Almost 60 percent of the 3,297 publicly traded non-financial U.S. companies Reuters examined have bought back their shares since 2010. In fiscal 2014, spending on buybacks and dividends surpassed the companies' combined net income for the first time outside of a recessionary period, and continued to climb for the 613 companies that have already reported for fiscal 2015.... Among the 1,900 companies that have repurchased their shares since 2010, buybacks and dividends amounted to 113 percent of their capital spending, compared with 60 percent in 2000 and 38 percent in 1990.[2]

Reuters also noted that "among the approximately 1,000 firms that buy back shares and report R&D [research and development] spending, the proportion of net income spent on innovation" has fallen significantly.[3]

Much of this again falls back to the kind of the people who rise to the top in many large organizations. Many of them aren't strategic thinkers; they are people who can execute, not necessarily people who can blue-sky or think differently.

**Sharman.** Is goal-setting relevant?

**Bloxham.** It is — but old rigid systems of goal-setting aren't. Companies continue to have goal-setting exercises around hitting a number, such as a specific level of earnings in a certain amount of time. But that approach fails to consider the multiyear impacts of a particular decision versus a host of alternative options. In part, compensation plans and arbitrary board expectations help to institutionalize this poorly designed approach to setting goals.

Take the rigid annual budget process tied to the calendar or fiscal year. That's not that useful an exercise, particularly the way it's done at most firms. And it takes up a lot of time. True, using a budget process as the central mechanism for setting goals massages the ego of the one saying, "Yes, *you* get resources," or "No, *you* don't," but the processes are flawed. As I mentioned previously, multiyear impacts are too often ignored, an annual look is too infrequent, and the accountability afterward is all wrong. The goals for revenues and expenses don't take into account the varying risks of alternative plans. The returns on investments (ROIs) of major projects are never again reviewed, or, if they are, it's often in isolation from the annual budget.

**MANY ORGANIZATIONS ARE REACTING RATHER THAN ANTICIPATING AND SHAPING CHANGE. THE VISIONS ARE TOO NARROW, AND THE FOOTPRINTS OF THE PAST REMAIN.**

I've been at this for a long time, and still in a group of executives I'll ask: Do you look at the risks when approving major projects? The response is yes. Do you take those risks into consideration in the ROI calculation? In other words, does the ROI reflect the differential risk of one project versus another? The

response is mixed, but usually at least some yeses. Then I ask: Do you use that kind of risk analysis in setting annual and long-term budgets and tracking the forward progress in the company? Do you track both returns and risks together? "No," they tell me. Are the ROIs and risk-based calculations used in setting compensation at all? Again, for the most part, they answer no. So there is the divorce: Companies typically apply one basis for deciding on a project and then use divergent bases for other management processes. Most reporting that the company uses to monitor and track its progress isn't what the company used to decide what they'd be doing in the first place — or in other words, the major initiatives for which ROI calculations were done.

**WITHOUT THE RIGHT CULTURE, NOTHING GOOD HAPPENS. HOW A COMPANY CONDUCTS ITSELF MATTERS, AND CULTURE IS WHAT DRIVES HOW A COMPANY BEHAVES.**

In addition, for most companies, a focus on process goal-setting just isn't there.

Take boards: In 2015, I asked public company board members around the United States what goal-setting their boards did, not for the *company* but for the *board*. They generally didn't do any. Some said that goal-setting for the board was "an intriguing idea," but for the most part, board members insisted they didn't need to set goals. Goal-setting was relevant for the company, but the idea of goal setting "doesn't apply to the board," they told me.

That's curious because public companies that are listed on the New York Stock Exchange or that follow the U.K. governance code are required to conduct board evaluations, and most public companies do them even if they are listed elsewhere and there is no requirement. It's just considered good governance.

So what's the point of evaluation if it is not improvement, if nothing changes, and if no actions are taken? How effective are those evaluations? Are they just checking the box? Often, useful board evaluations, for instance, reveal the need to discuss a certain topic more or improve the succession processes or mergers and acquisitions reviews. Or they may highlight the need for certain members to speak up more (or less), or do their homework, or pay attention during the meetings, or study up on a given subject. So aren't those goals? Of course, they are.

But if boards don't think goals apply to themselves, how likely are they to understand goal-setting for the company?

Relevant goal-setting is about laying out steps that point you in a given direction. A company appropriately zigs and zags, so goals must be flexible.

In too many companies, process goals are often the ones most neglected. You've probably experienced this if you've recently had an issue requiring customer service. The customer service staff at many companies aren't given the information, training, and systems access required to solve problems. We saw this writ large after the financial crisis. While some of the operational errors may have been deliberate, others were part of a pattern of neglecting process goals and controls.

**Sharman.** How important is corporate culture?

**Bloxham.** Very important. Without the right culture, nothing good happens. How a company conducts itself matters, and culture is what drives how a company behaves.

For a company to do good and to do well, culture is not sufficient, but it is necessary. It drives behavior, not just in terms of choosing ethically but when making other choices as well.

The right culture encourages both exploration and execution. It encourages opposites and diversity. It discourages divas and unwarranted obstacles. It provides a code of behavior that allows innovation to flourish and wise choices to be made.

Everyone talks about how important culture is. But as with the state of management, it doesn't get enough serious review. Even though regulators said the largest banks had major culture problems, where was the impetus for change? Certainly not from the outside — and the boards of those companies did not base CEO bonuses on culture.

It is really important for companies to define their culture clearly; it provides so many advantages. It's actually much more efficient. You have a better chance

of attracting the best employees, shareholders, and customers. By clearly defining your aspirations of how people will work together and what will be valued, and then making choices that align with those aspirations, you can build a brand and reputation you can hang your hat on. Will there be missteps? Of course. But you can always return to the cultural values that are the foundation of the organization.

This has to be well thought out. Google has been criticized for their freewheeling culture in light of its "don't be evil" slogan. One notable example was in 2012 when they lifted personal information from residential unsecured networks while driving around to create maps. Or think about the financial crisis. When Goldman Sachs CEO Lloyd Blankfein said the bank was doing God's work, he may have meant it. But was the culture synced with that? Were they doing the work of the company the way God would have them do it? Was *all* the work they did God's work, for the greater good?

**Sharman.** What do companies need to do to get all parts of the organization aligned with strategy?

**Bloxham.** Make sure the strategy is relevant, of course. And that there is a cohesive articulated vision.

And culture is very important here. You can have a great strategy, but people aren't aligned because everyone is separated into fiefdoms. People fight what others are doing because "it's fun" — there are no consequences, it's a way to get ahead. In other cultures, people seek to support each other.

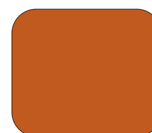
To get all of the parts of the organization aligned, people have to know what the strategy is. Transparency is key. In some companies, not even the board knows what the strategy is. That's less likely these days, but boards sometimes don't understand important aspects of the strategy — or the implications of it. Probing and demanding information is key for boards to have full insight.

The strategy also needs, of course, to be communicated to all stakeholders clearly. By this I mean to employees — as well as shareholders, customers, regulators, and the public. If the company does not do a good job of that, it is going to suffer. Employees may be aligned, but other forces will cause unwelcome disruption.

To communicate well, the strategy has to be tested to make sure it will stand up to scrutiny. Getting employees involved in kicking the tires not only aligns them, but it also improves the strategy. Employees can then help craft the rationale behind the strategy so that the messages can be honed and described in clear, understandable English (or whatever other languages are appropriate).

Sometimes a strategy for part of the business is not that well formed. But there are still ways to communicate well too. Look at what Google did with Alphabet: They said, "Here's our cash cow — our search business, Google — and then separately we have this experimental unit. Some of what goes on there may not go anywhere, but our strategy in this unit is to try things out."

Compensation, again, is important. It's required to enforce the culture you want, a culture in which both healthy debate and alignment are valued, but obstructionism is not.



**TO GET ALL OF THE PARTS OF THE ORGANIZATION ALIGNED, PEOPLE HAVE TO KNOW WHAT THE STRATEGY IS. TRANSPARENCY IS KEY.**

**Sharman.** What is the board's role in all of this?

**Bloxham.** Boards have to step up to the fact that the buck stops with them. They have ultimate responsibility for the state of management, for the organization's resilience and its ability to respond to change creatively and positively, for the level of strategic thinking, for the relevance and kind of goal-setting the organization undertakes, for corporate culture, and for alignment with strategy. And until they accept that responsibility as their own, everyone else in the organization will take the signal that shrugging off their responsibilities in each of these areas is okay.

The board has to realize that they must address the state of their own management. A simple example: Does it make any sense for them to be managed by the person they hire and fire? No. So they need an upgrade there; the CEO can't be the chair. Of course, it goes way beyond that. I mentioned a lack of goal-setting. Without some goals, they don't hold themselves

accountable. That is no way to model the culture you want.

Boards need to ensure that they deserve the positions they occupy. They need to recognize their own power, own it, and exercise it responsibly. It is important that they themselves model a learning orientation. They need to develop their own criteria for their own resilience. How many times has a company dragged on with the wrong CEO and/or the wrong strategy and the board did nothing until forced to take action by a shareholder or some other force from the outside? Too often. As I mentioned, board members were like deer in the headlights when the financial crisis hit.

It's very interesting when we talk about alignment with strategy. We usually think that alignment is all about getting all the employees to understand the strategy and pointed in the right direction, moving together. And, sure, that is part of it. But too often *board members* aren't really aligned on the strategy. Sometimes the dissension is out in the open. Other times it is hidden: A couple of board members disagree but carry on until their differences later erupt. Often, there is no sense of dissention at all. The board members *think* they all agree. They think they all know what the strategy is and that they all have the same idea of what the strategy is. But if you probe, you find out that they each have their own version of the strategy in their heads. There are areas of disagreement, but they haven't had a thorough enough conversation to find that out.

So those are some of the dynamics boards have to wrestle with to up their game.

**Sharman.** Why haven't we seen more progress?

**Bloxham.** Humans are humans, and the systems they build and control are self-reinforcing. Technology can change rapidly. Humans, not so much. ■

**NOTES**

[1] "PCAOB report encourages auditors to take action in response to risk assessment deficiencies identified in inspections," PCAOB (Oct 15, 2015). Available at: https://pcaobus.org/News/Releases/Pages/2015-risk-assessment-standards-inspection-report.aspx.

[2] Brettell, K., Gaffen, D., and Rohde, D., How the cult of shareholder value has reshaped corporate America: The cannibalized company, *Reuters* (Nov 16, 2015). Available at: http://www.reuters.com/investigates/special-report/usa-buybacks-cannibalized/.

[3] *Ibid.*