

# Boards and Transformation Initiatives: Strategy Is Just the Beginning

By Annie Adams and Raed Masoud

Company transformation initiatives take many forms and can include a variety of efforts related to mergers and acquisitions (M&A), restructuring, divestitures, and workforce redesigns. While these project categories have differing goals and time spans, they can affect large swaths of a company's operations and result in organization-wide change. Regardless of form, the board plays a critical role throughout the life cycle of any transformation initiative, from setting strategy, to monitoring execution, and finally to evaluating results.

In recent years, geopolitical and macroeconomic instability have highlighted the value of board involvement in organizational transformation projects. But in practice, how often do directors have a high level of involvement in these kinds of high-importance and large-scale initiatives? According to a 2021 survey on M&A involvement by boards by Deloitte and NACD, a high level of engagement may not be the norm. The vast bulk of respondents (95%) said directors were involved in early, pre-deal M&A strategy, for example, but just 23 percent indicated board participation in an M&A project's later phases.

## The Illustrative Case of Margin Improvement

Margin improvement programs are a type of transformation initiative that may become urgent given current economic pressures.

Margin improvement is the strategic use of growth, liquidity, cost, and talent value levers to generate sustainable cost savings to improve organizational agility. Of course, like any type of transformation initiative, the exact details and scale of any margin improvement program vary across industry.

In a recent survey about margin improvement published by Deloitte, nearly 300 executives cited talent shortages (48%), inflation (46%), and supply chain constraints (38%) as barriers for this category of transformation strategy. To overcome such challenges, respondents said tracking and reporting (72%), data availability (62%), and leadership (46%) were vital to success. While monitoring systems are clearly important for operations, they may also serve as a type of communication channel for both management and board leadership.

Responding to barriers faced by margin improvement programs may require a high level of agility. Although rates of success vary depending on the project's scope, in the above survey on margin improvement 70% of companies did not meet their goals. Even a carefully planned and well-thought-out strategy can be felled by supplier troubles, rising prices, and talent shortages. By reviewing ongoing data on transformation initiatives, a board may be better

## Drivers for Success in Margin Improvement Programs



### Tracking Systems

Most frequently cited success factor (72%) for companies with successful margin improvement strategies.



### Importance of Data

Almost all (91%) said a comprehensive data strategy was needed to overcome project barriers.



### Leadership & Governance

Many (46%) said leadership was important for success, but few (28%) had considered expanding governance bodies.

SOURCE: DELOITTE 2023 MARGINPLUS SURVEY

## Benefits and Potential Barriers to Board Participation

### Setting Strategy

- Boards tend to have high involvement in strategy for transformative initiatives.
- However, some boards are less involved in the later stages of these projects.

### Data & Tracking

- Tracking and monitoring systems for these projects may already exist.
- But the information they provide may not always flow upwards to boards.

### Adjusting Course

- Involvement throughout a project's life cycle can help strategy pivots, if needed.
- But to act quickly, a board's processes for monitoring should be formalized.

equipped to expeditiously make strategy pivots if needed. As circumstances change, being proactive in this area may present an opportunity to reassess goal feasibility.

### The Board's Role in Monitoring Transformative Projects

In many cases, Deloitte's research suggests that systems for data collection and monitoring for transformation projects already exist. What may not exist is a formalized process for reporting that information upstream to the board. Such systems could have utility in facilitating or encouraging further board involvement in transformation initiatives. To be sure, norms for communication between executives and the board are different for each company. But when possible, providing directors with the information already available may be advantageous and help companies become more agile.

### Some Considerations for Boards

Getting boards involved throughout the life cycle of these large-scale projects (i.e., beyond the initial strategy setting) could be another way to help build organizational resiliency. For boards concerned about being in "set it and forget it" mode, there may be value in assessing existing processes for monitoring transformation

initiatives. And for those boards that already have a broad process in place, it could still be worth reviewing this topic to see if updates are needed. Do the board's current oversight and monitoring activities help pinpoint when disruptions might impact ongoing transformation initiatives? If they do, is the monitoring quick enough to allow for a quick strategy pivot (or goal adjustment) when needed? If such processes don't exist, it may be worth a discussion about formalizing them in any upcoming projects involving large-scale organizational change. **D**



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