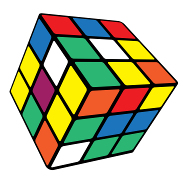
BOARDS MUST UP STRATEGY PLAY

As company strategies are evolving fast in sync with a fast-paced economy, new-age boards need to evaluate these for effectiveness and governance issues.



By M. Muneer and Ralph Ward

Illustration by Raj Verma

BOARD MEMBERS of Indian enterprises often ask us how they can focus more on corporate strategies instead of merely complying with newer recommendations of regulatory bodies. This is particularly significant as most of the boards do not have a process in place to oversee such strategies and stay aligned with these to help companies achieve their goals. Shifting a board's role to aiding and governing strategy from its current vague responsibilities demands some doing. But making strategy governance part of board competency is possible if the exercise is done step by step.

If there is a well-defined strategy, the board should know its salient features. Quite a few companies have policies which, at best, cover only specific areas while many have no strategy statement to their credit. Even with a solid strategy, directors themselves may be the problem. Management consulting firm McKinsey has carried out surveys that show fewer than 25 per cent directors know what a company's strategy is and around 50 per cent cannot name the top four-five strategic initiatives going on at any given time. Very often, not much work is done to develop such a strategy or reach a consensus on the same. Instead, the CEO and his team proceed with

free-floating, one-off decisions that may (or may not) work.

How overseeing strategy is 'housed' within the board also plays a significant role. A typical approach is to make the strategy review a whole-board responsibility. The best practice is to hold an annual board retreat targeting strategy review, with updates on key metrics at several board meetings across the year. We find that a biannual strategic testing and adaptation review is ideal for driving board alignment, especially in businesses where tech disruption is high, although some experts believe this might work better with quarterly sessions.

Other structural approaches to board strategy review include adding the exercise to the audit committee portfolio or even forming a dedicated strategy committee. It will have many positives. A committee assures that a board item will be somebody's business, and allows committees to specialise. But the downside is that the entire board will have to approve the strategy, resulting in a time-consuming procedure. A broader consensus is always better when it comes to strategic issues.

Corporate strategy is more than a statement of general goals; otherwise, you could draft a mission statement and go with it. The board will be required to set solid metrics of progress and results, and these need custom crafting for each company. Sales per store, acquisitions, customer value, net promoter score, employee turnover, conversion rate, and quality – the potential measures of strategy are endless although all must be placed in context. For a low-cost airline, a crucial piece of company strategy could be hedging fuel prices, but for a full-service carrier, it could be a policy to reduce customer churn rate.

While a regular review of these strategic measures is essential, evaluating their effectiveness also matters. The shelf life of a strategy has diminished incredibly over the past five years. IT companies have annual plans. And a leading petroleum company from West Asia, which used to have five-year plans, has moved to a two-year system.

What should be the board's role in shaping a company's strategy? There are two general approaches. The board and the management can get together to develop a strategy. Or the management can craft a plan and then go to the board for its advice and endorsement. But it is crucial to get the board up as an active partner in monitoring strategy. Examples of boards failing to understand the strategy part are amazingly many. In the classic case of Enron, even the famed management thinker Gary Hamel went wrong. As mentioned before, not many directors understand strategy in the context of the business and the management is often playing them. Unable to comprehend how the management assembled the house of cards and too reticent to admit it, the Enron board was in no position to prevent the disaster. And the same must have been the case with other disasters we have seen, be it Kingfisher, Religare, Fortis, Woolworths, Arthur Andersen, Borders, Blockbuster, WorldCom, Lehman Brothers, Kodak, Educomp or Bhushan Steel.

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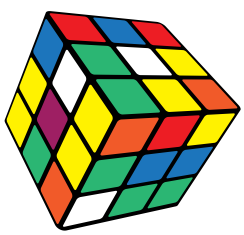

How It Works

Developing and reviewing corporate strategy, measuring its effectiveness and having directors oversee the entire process are essential for strategic success. However, aligning boards with management strategies and getting board members to fulfil their responsibilities would require a collaborative approach that combines enterprise strategy map and scorecard, board scorecard and executive scorecards.

The corporate office defines strategic guidelines and the board – representing the shareholders – reviews, approves and monitors the same. The board will have a greater understanding of organisational goals if it looks at enterprise and strategic business unit scorecards as the central source of information. Next comes the board's scorecard, which lists its objectives for shareholders, investors and the community, and the critical processes used to identify the information, skills and culture required to drive those objectives. This mechanism will enable board members to gather relevant information for decision-making when it comes to board reporting, disclosure, future direction and other policies. Consequently, board meetings will focus more on enterprise strategy, fiduciary aspects, value proposition and risk factors. In brief, the board scorecard will cover the board's decisions regarding its composition, processes, deliberations and evaluation. Additionally, there will be executive scorecards reflecting the board's methods for selection, evaluation and succession plans.

In this new framework, getting the strategy map right is crucial as the same will be continuously reviewed and governed by the board and all short-term fixes will merge with long-term aspects. Once enabled, the mechanism will help measure the value addition done by the board and sub-committees, and also bring out information gaps. Moreover, due to the collaborative approach, both parties will have a mutual commitment and similar process orientation. All these will be good for companies as a board in sync with the executive team's strategic initiatives is twice more likely to fulfil its key duties than those working in isolation. **BT**

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