HARCOURT BOARDROOM RESOURCES

DEFINING THE RIGHT STRATEGY PROCESS

The board has a key role in the definition of a company's strategy. Importantly the board cannot simply approve a strategy presented by management, but must also "own the strategy" by contributing to what is presented by management, and making it its own. See "Role of the Board in the Definition of Strategy" (Harcourt IGN, December 2015).

The question is how to define a process that enables the contribution of all parties involved at board and management level. The ultimate objective of a strategy process is to ensure buy-in from everybody, such that both board and management consider that they have full ownership of the strategy plan. There is no standard process that suits all companies. The optimal process will depend on the individuals involved at board and management, the expertise of the board, the nature of the challenges facing the company, the culture of the organization, etc.

It is quite clear that the (now) traditional "Annual Strategy Retreat" is not in itself sufficient. It may have been 10 or 15 years ago, when the board responsibilities were still somewhat ill defined. But since the financial crisis, an "Annual Strategy Retreat" is considered "degree 0" of a mature strategy process.

Here are a few common themes that may help define the right process:

1.

The first priority is to ensure that all parties have a common understanding of the strength and weaknesses of the company, of its competitive position, of the competitors and technology environment, etc. This assumes that directors be given a large amount of data, at least once a year. The "Annual Retreat" is now often the right forum for this "data dump" to happen in an effective way.

Needless to say, an annual update is barely sufficient of most sectors. Efficient boards find ways to get updated on specific aspects (competition, technology, product development, etc.) multiple times during the year at, or around, regular board sessions.

2.

A strategy discussion requires some degree of “brain-storming”. It cannot take place only around a management presentation that ends on a recommendation and a set of mid-term targets. The chairman needs to plan the board agendas, during the “Annual Retreat” and during regular sessions, to allow for an open discussion.

Efficient boards often break the discussion down into pieces: a general discussion at the “Annual Retreat,” followed by two or three board sessions where certain aspects are discussed, then a final presentation of the strategy that incorporates the input from the previous three or four sessions.

Board diners, with an open agenda and more (relaxed) time for discussion are increasingly used to discuss strategy or certain aspects of the strategy plan.

3.

Efficient boards use many different opportunities to revisit and assess certain aspects of the strategy plan, whether during an audit committee when discussing results or risk management, or a remuneration committee when discussing staffing of certain strategic initiatives or bonuses tied to achievement of strategic objectives.

Reviewing specific acquisition targets is also a very effective way of focusing the board and management’s attention on the right strategic questions, risks and opportunities.

Strategy and risk are intimately linked. There cannot be a successful strategy plan that does not include a thorough analysis of the risks. The risk sessions at committee or board level are therefore additional opportunities to review and assess the strategy.

4.

An inclusive strategy discussion with the board is a difficult exercise for a CEO. He/she must show openness to new ideas, to criticism and to challenge – all in front of the rest of the management team. The CEO must be clear about where he/she want to go, but be willing to receive input. The two extremes that must be avoided at all cost are for the CEO and the management team to present (1) a strategy plan that is so directive that it leaves not room to discussion and additional contributions, or (2) a plan that is so open for discussion that the board will worry that the management does not know where it is going or what it wants to do.

A strategy discussion is not easy either for a director. He/she will generally be worried about not being sufficiently competent on the sector or on the company – and if knowledgeable, of not being sufficiently up-to-date. In other words, of not being able to add value. This will lead him/her to refrain from contributing, thereby defeating the purpose of the strategy discussion.

The chairman's job is not any easier, as he/she will be ultimately held responsible for a failed and frustrating strategy discussion. If he/she intervenes too much, directors and CEO will get the feeling that the discussion is pre-empted. If he/she leaves too much room for discussion, agreement on a strategy plan never emerges.

5.

The use of external advisors (strategy, financial, etc.) is, as always, a "double-edged sword". They can be useful, sometimes indispensable, for the provision of data on competitors, benchmarks, market and technology trends, etc. They might even have good insights on aspects of a strategy plan.

But leaving the definition of the strategy to the external advisers – which unfortunately happens all too often - is the worst of all possible worlds. The strategy plan is neither the board's nor the management's. As a result the role of the external advisers must be clearly circumscribed, and their input monitored carefully. The presentations they make to the full board must be carefully vetted.

In summary, experienced boards, led by experienced chairmen who have a good relationship with the CEO, know how to manage these pitfalls. But the definition of the right strategy process is never easy, nor is it permanent. Board composition will change, as will the management team, external circumstances will affect the process in a variety of ways. The strategy process needs to be thought through on a regular basis. It is one of the key responsibilities of the chairman or the "lead-director".

Harcourt IGN, December 2015