HARCOURT BOARDROOM RESOURCES

ROLE OF THE BOARD IN THE DEFINITION OF STRATEGY

Overseeing the company's strategy is one of the board's most important duties. But what does "overseeing" mean? Is it to "approve", to "define", to "contribute to ", to "support", to "decide on" etc.? There is a lot of ambiguity and confusion around this topic. Relatively few boards consider that they do a good job in that respect, and every board would like to spend more time on strategy.

So what is the problem, and why is it so difficult to get it right?

1.

One approach is to consider that management defines the strategy, and that the board's only responsibility is to approve it. Management has the information, the detailed and up-to-date knowledge and the internal staff to define a strategy plan. It is of course in charge of implementing it. So this may be the easiest approach. Unfortunately, this is not the right answer.

If a board is not committed to a strategy, even though it has approved it, it might be tempted to consider that it is simply "management's strategy" and to drop it at the slightest sign of difficulty or resistance from shareholders.

The implementation of a strategy rarely, if ever, goes smoothly throughout the strategy plan. There are always "road bumps" on the way. If a board drops a strategy, or the CEO in charge of executing it, at the first indication of difficulties ahead, the company may be rudderless quickly. This is always a recipe for trouble.

2.

At the other extreme, a board might be temped to consider that the strategy is its exclusive responsibility, and that management is just there to execute it. Companies where the founder is the chairman might be pone to this type of approach.

However, this would be wrong also, for at least two reasons. First, in spite of hard work and sometimes in-depth knowledge of the company and its sector, the board rarely has the time, resources, detailed and up-to-date knowledge, to define a strategy and its execution plan. It may have a clear view of the direction, but this is a far cry from a strategy. Second, a management that is merely asked to execute something it has not contributed to defining will not be very committed in the face of inevitable adversity. It will give up, execute badly, or find excuses.

The board will have no other option but to replace the CEO, and then the next one - in other words, a little too often for the good of the company and its shareholders.

3.

A third problem is that directors and managers rarely agree on what strategy is, despite innumerable articles and director trainings on the subject.

Some consider a “budget” or a “product plan” to be strategy – far from it. Others confuse strategy and “vision” or “direction” – again a common mistake. Sometimes, directors and managers all have different approaches, the purpose of the strategy discussion is lost, and it becomes hugely frustrating for all. Strategy seminars or retreats fail and everybody complains.

A strategy is neither a budget (12 months) nor a product plan (12 to 24 months). It is not a vision, which can spans decade and has no accountability. A strategy is a series of measurable steps, over a 3 to 5 year period, the purpose of which is to maintain or enhance the company’s competitive position. A strategy is therefore (1) a series of steps or initiatives (a “plan”), (2) over a 3 to 5 year period, (3) to maintain or enhance the company’s competitive position, and (4) which must be measurable. All the literature on strategy can be summarized in these 4 simple characteristics.

4.

Once board and management agree on what they mean by strategy, the only way for a company to devise a robust strategy is for both board and management to contribute to the definition of the strategy plan. The difficulty is to define the process that achieves the involvement of all parties.

This is the purpose of the “strategy process”. The objective is to achieve not only a common agreement on the strategy and the plan, but to ensure that both board and management consider these to be their own – that all parties “own the strategy”.

There is no standard process to ensure buy-in from all constituencies – each company has to come up with the methodology that best suits the purpose. See “Defining the Right Strategy Process”

5.

The board and the management obviously have different responsibilities regarding the strategy plan, once defined and agreed.

Management’s main task is to execute the plan, and ensure that it is regularly updated and adjusted with the appropriate market information. It can suggest changes to the plan targets, but must be made to deliver on them.

The Board's role is more complex, as it must hold management to the plan commitments, measure progress and implementation, but also keep its "eyes wide open" for necessary modifications to the strategy plan in the event of changed circumstances (competition, technology, macro-economic factors, internal leaders, financial situation, market sentiment, etc.)

6.

The board's role and responsibilities in strategy has profound implications for the composition and the functioning of a board.

It is one of the reasons why boards need to pay attention to the expertise of its directors. For example, diversity can be very useful, but not at the expense of having a sufficient number of directors knowledgeable about the sector. It is also why the chairman or "lead director" must ensure that the board's agenda, information and discussion give enough importance to strategy.

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