THE BUSINESS TIMES BTINVEST

Published on Monday, 4 May 2015

Strategy: More Than a Board Game

By Wilson Chew

Failing to plan, as the adage goes, is planning to fail. That is why it is essential for a company to have a solid strategy for success.

Yet the 2013 McKinsey Global Survey on Governance revealed that a mere 34 per cent of 772 directors understood their companies' strategies. This may not seem alarming as boards generally spend most of their time on compliance matters rather than strategy.

However, the board is ultimately responsible for the company's long-term success. Section 157A of the Companies Act states that "the business of the company shall be managed by or under the direction of the directors". It is therefore important for the board to understand and influence the company's strategy.

There are many different definitions of strategy and many more approaches to the strategic development process.

In my view, the essence of strategy is a structured process for deciding the handful of key decisions that the organisation must get right in order to competitively thrive over a given period of time. Get it right and the organisation is strengthened towards better long-term performance.

The key step in strategy formulation is to comprehensively understand a company's twin components for competitive success: distinctive competency (inside the firm) and competition (outside of the firm).

A distinctive competency is a unique or superior capability of the company. This capability allows it to offer a unique or superior value proposition to customers and thus an unassailable competitive advantage. Professor Michael Porter's competitive forces of established rivalry, customers, suppliers, substitutes and new entrants articulate the competitive environment which needs to be understood for competitive manoeuvring.

Put simply, good strategy is about differentiation. Take Trek 2000 for example. Most consumers would immediately associate the brand with portable storage devices. Building a

brand that is synonymous with a product or service category akin to what Trek 2000 has successfully done is a powerful differentiator.

Most boards meet (as a board) four to eight times a year and are often hard pressed to get beyond compliance-related topics to secure the breathing space needed for developing strategy. It underlines the need for the board's position on strategy to be well-defined and established.

A further challenge is for boards to strike the right balance with management on strategy. How should the board and management arrive at an appropriate separation between their respective roles?

In a recent SID's Board Chairmen's Conversation, Bain & Co highlighted key practices that have worked for effective boards.

The starting point for greater strategy impact, according to Bain, is in agenda-setting. The board and management should identify the few topics that can drive 80 to 90 per cent of the enterprise value up or down, and allocate time in its annual board schedule and agenda to review these topics.

Management clearly has the job of developing and implementing the detailed strategic plan and the board the job of reviewing and approving it.

However, what does not work is for management to present the "answers" without the board's involvement. The non-executive directors of a board do not usually want to be presented with a "fully baked cake". Instead, they wish to understand, to challenge the thinking and to contribute to a more well-formed strategy and plan.

It is therefore common for many boards to dedicate one or two sessions each year to focus entirely on strategy development. Often this takes place at off-site board retreat and sometimes at locations relevant to the company's business.

Once the strategic plan is developed, converting it into action is as important. This requires defining what success looks like and identifying the key initiatives with the requisite timelines and resources needed. In addition, the key risks and the plans to mitigate them need to be discussed as a part of the strategic plan.

It is impossible for a board to be as informed about the company and the market as management. Right information from management on the company's progress is important for the board in its governance role.

The board should therefore ensure that a tracking mechanism exists for major strategic initiatives. This may include dashboards and other mechanisms that can confirm progress "at a glance" rather than have the progress and results buried in board papers and minutes.

In summary, strategy is critical to the success of a company and the board needs to play an active role in it. The role of the board is to positively contribute to strategy development,

approve the strategy, support management in its execution and review management's performance in following through with the agreed strategy.

The writer is a member of the governing council of the Singapore Institute of Directors. This article first appeared in BTInvest,
http://www.btinvest.com.sg/specials/boardroom/strategy-more-than-a-board-game/