Director input to corporate strategy

Getting the board on board

High profile scandals and the ensuing focus on corporate governance have increased the clamor for board involvement in strategic decision-making. Such a move makes sound business sense too. Different studies have shown that getting directors involved in strategy can enhance a company's financial performance and boost stock value.

Director dilemma

Despite this, directors at many organizations still struggle to make any real impact on strategic issues. What makes a board effective? Having the right structure for starters. But what exactly is the right structure? Is a board more effective if its members are mainly insiders or are non-executive directors a better bet?

It appears there is no easy answer to such questions and different and contradictory theories abound. Analysts argue that company management has its own agenda that conflicts with shareholder interests. Management allegedly squanders capital on travel, office refurbishment and favors growth at the expense of profit. The answer? Flood the board with outside or independent directors to act as custodians of owner interests. The payoff will hopefully be lower agency costs and better organization performance. With a board consisting of mainly ''insiders'' the reverse is supposedly true.

On the contrary, others believe that executive directors:

- will monitor agency costs as they have their own reputations to protect;
- boast more intimate knowledge and understanding of the company and can therefore make superior decisions; and
- unlike outsiders, also enjoy access to informal knowledge sources within the organization.

However, it is reasonable to assume that long-serving outside directors will likewise have built contacts and a comprehensive level of understanding.

The link factor

Another claim is that the board functions as a valuable link between the company and essential resources relating to such as information, capital, customers, competitors and other important stakeholders. Factors such as context and current need determine the importance of these and other resources.

The premise here is that the number of links to the external environment determines the level of access to resources. However, the nature of these links is also important as one example illustrates. Five out of the eight members of the board in question were farmers. Not

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surprisingly, the directors boasted strong associations with the farming community and were well versed on farming matters. But the downside was a board out of touch with general business issues, which negatively impacted on organizational performance. The moral here? Quality is better than quantity.

Ultimately, the objective should be to establish links that offer the greatest potential benefit to the firm. In highly regulated industries, for example, connections to government bodies could prove useful.

The relationship between the board and organization performance is complex and no one theory stacks up more than others. Whatever the board configuration, members should be result-focused, strategically-oriented and possess the ability to collaborate. In addition, effectiveness can also depend on directors:

- being motivated;
- allocating enough time for board responsibilities; and
- doing their homework in terms of the organization and its industry.

Having a blend of different intellects, backgrounds and experience to kindle discussion and debate is also imperative if those involved are to properly engage in critical thinking and strategic deliberations. The right balance is also crucial where any director's background is concerned. External networks can be invaluable in terms of providing access to important strategic insights and diverse perspectives. But you can have too much of a good thing, as we all know. In this case, director involvement in too many other boards makes further demands on time and raises question marks against commitment.

Strategic scorecard

Tools of the trade are essential in any context and it is no different here. Organizations should therefore redesign management and board processes and responsibilities to ensure that each undertakes comparable steps. Board agendas should be improved and directors equipped with appropriate information to enable a deeper understanding of the business.

Most important of all though is the adoption of suitable strategic management tools. In this respect, balanced scorecards are a proven mechanism for helping to align short and long term business goals. The UK's Chartered Institute of Management Accounts (CIMA) has advanced the concept further with its strategic scorecard designed to balance governance issues with improvements to the strategic performance. The scorecard's four-quartered configuration draws on recognized strategic management, planning and control practices. CIMA and other leading organizations have successfully trailed the concept, whose main strength is arguably its focus on all stages of the strategic process and not just implementation and appraisal.

The first quarter relates to a firm's strategic position and:

- focuses board attention on strategy development, company position and competitive advantage;
- is framed by organizational vision and mission and the development of key strategies and objectives relating to critical factors such as sales growth, consumer satisfaction, cost control and innovation;

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- can also help provide early identification of opportunities and threats so that current approaches can be revised if necessary; and
- helps grow director awareness of the impact of strategic and tactical issues on the company's long term prospects.

At CIMA this quadrant has led to considerable improvement in strategic awareness of competitor intent and environmental and regulatory developments. This increased awareness also provides the foundation with more consistent and rigorous cultivation of strategy-related opportunities, concerns and decisions.

In the second quarter, the focus is on raising board awareness of multiple strategic alternatives and involves:

- consideration of strategic alternatives in terms of such as the business portfolio, markets served, industry sectors, growth rate and product offering;
- important decisions concerning capital investment, merger, acquisition or joint venture; and
- thorough evaluation of each option in relation to organizational mission and objectives, stakeholder needs and the strategic position.

Exploration of a number of possible alternatives at CIMA has brought a continuous flow of options concerning issues such as geographical expansion, alliances and collaborations, new products and services, operational changes and pricing. Decisions about what to pursue and with how much urgency are made easier. At any one time, there are options at different stages of development.

Implementation is the concern of the third quarter where directors:

- become more aware of the process and the challenges involved;
- identify projects and activities crucial to success; and
- regularly monitor timescales and deploy corrective measures when targets and deadlines are missed.

Failure is more likely during this phase than others, so awareness of implementation issues is clearly crucial. CIMA monitors progress through routine reporting of decisions and actions and has implemented a traffic-light scheme to signify where attention is required and which issues are okay. Scorecard measures are linked to strategic priorities.

The final quarter relates to strategic risk and requires:

- a more performance-focused approach to risk management instead of being solely driven by compliance and regulatory demands;
- examination of the company's propensity for risk, the risks inherent in key strategies, how risk is reviewed and contingency plans for key risk areas; and
- assurances that risk management is incorporated into important acquisitions and projects.

Risk analysis at CIMA stimulates further investigations to identify its potential impact and where contingencies are most needed.

There's no doubting the complexity of a strategic scorecard or the need for careful planning and introduction. At least part of its success at CIMA is down to gradual phasing in of each quadrant alongside the company's annual strategic and financial cycles. But implemented properly, a strategic scorecard approach can aid performance evaluation and encourage a continuous improvement philosophy towards strategy.

Strategy and the supply chain

Potential for director impact on strategy is arguably greater when the board chairman doubles as CEO, as in many US organizations. Astute individuals who occupy this dual-role

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will perceive it as an opportunity to exert influence in areas that can be critical for organization success. Like supply chain management (SCM).

SCM can present a variety of strategic opportunities so it is vital to get things right in important areas such as leadership, benchmarking, operations, business planning and technology. This can be achieved through:

- Hiring supply chain heads who boast the right blend of qualifications and experience. Failure to do so invites disaster, especially when things get tough. The supply chain is often volatile and sudden demand swings can result in serious and lengthy disruptions for the customer if left unchecked.
- Assessing availability and service from the customer perspective and developing best practice performance metrics in these and other areas like cost control as a basis for goal-framing.
- Leader input within sales and operations planning (S&OP) to clarify roles and ensure cross-functional collaboration that also incorporates equal accountability for customer services and inventory for all functions.
- Building key supply chain issues into business planning.
- Exploitation of sophisticated technologies to lower costs, better manage inventory flows and improve supplier and customer relations. CEO involvement can help ensure that necessary training and support mechanisms are in place. Realizing technology’s potential also demands an understanding of processes so that improvements can be made if required.

Additionally, leaders should not allow short-term objectives to dictate strategy and impede the attainment of longer-term performance and profitability. In one company, an unhealthy obsession with quarterly figures meant that targets could only be achieved through price cuts in the final month of each quarter. The response? Alert customers delayed their orders to exploit the cuts and the organization was left facing higher costs due to the cycle of wasted labor for two months of every quarter and overtime in the other. CEO intervention led to a consistency in both price and delivery, bringing savings to company and customer alike.

Support is essential to the success of SCM. Shrewd operators who realize this will provide incentives both inside the organization and to external partners like suppliers. Such actions can lead to employee commitment to the organizational whole while motivating outsiders to help achieve improvement goals.

Comment

The review is based upon: ‘‘Engaging boards in corporate direction-setting: strategic scorecards’’ by Stephen Drew and Roland Kaye, ‘‘Can directors impact performance? A case-based test of three theories of corporate governance’’ by Gavin Nicholson and Geoffrey Kiel, and ‘‘Are you the weakest link in your company’s supply chain?’’ by Reuben Slone, John Mentzer and J. Paul Dittman. In the first article, the authors discuss the growing call for director involvement in corporate strategy. Reasons for increased participation are cited as are factors that may enhance or hinder the board’s impact. Drew and Kaye point out that effective tools are needed and recommend the use of a strategic scorecard developed by a leading UK financial institution. In depth discussion includes details of the goals and

actions within each phase and how the scorecard facilitates director learning and links to different organizational areas. Nicholson and Kiel focus on board structure and how issues such as the level of board independence impacts on corporate governance and organizational performance. Three theories are detailed and the authors investigate the accuracy of expected results within a case study of seven organizations that differ in size, type and ownership. The final piece urges chief executives to become more involved in supply chain strategy. Slone *et al.* point out the wide-ranging impact of supply chain management (SCM) and list key areas where CEOs exert a considerable influence. The suggestions made are aptly illustrated by reference to real-world examples. Each article makes a valuable contribution to the theme and many significant implications for business practitioners are evident.

Keywords:
Strategic planning,
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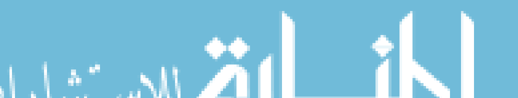

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