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TOMORROW'S CHALLENGES

3 STRATEGIC QUESTIONS YOUR BOARD MUST ASK

BOARDS CAN ADD MUCH MORE VALUE TO CORPORATE STRATEGY. HERE'S HOW.

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With even the best CEOs being overstretched, boards have become essential to companies' strategic success. Unfortunately, most boards are confused about their strategic role and are failing to add value in this area.

There is a widespread belief that strategic thinking is for CEOs and senior managers. As a result, some boards are just a rubber stamp for the CEO, while more strategically assertive ones find themselves at odds with the executive team. Neither approach is helpful.

Boards could become much more effective by answering three questions. What does strategy mean to them? In what context does their company operate? And what do they see as their main strategic role?

Defining strategy

Although there is no universally accepted definition of strategy, boards could consider at least five meanings to help refine their responsibilities.

1] Strategy as planning. In this traditional approach, strategy establishes the company's vision, mission, values and purpose. It also helps to define long-term objectives, actions and resource allocation. Jack Welch championed this structured, step-by-step process at GE in the 1980s.

2] Strategy as redefining the competitive domain. In recent years Nestlé has redefined its strategic arena from food to "wellness," while Samsung has moved from electronics to "lifeware" with stylish digital products.

3] Strategy as a focused response to overcome a key challenge. Under former CEO Peter Voser, Shell increased capital expenditure to address the challenge of limited access to oil resources. And it took other steps, including cost restructuring and cash flow management, to support that policy.

4] Strategy as identifying and reinforcing core competencies. In this case, strategy is a way to achieve long-term sustainable competitive advantage and profitability. IBM's research division, for example, has repeatedly reconfigured its core strategy to find and transform research ideas into new businesses.

5] Strategy as optimizing the value contribution to stakeholders. Many banks have tried to move toward customer centricity following the 2008 financial crisis. They include Canada's TD Bank, which offered early morning and Sunday hours for its customers.

Boards need to clarify which of the five options matter most to them—perhaps by asking each board member for their individual view and tallying the results. Different views of strategy may dominate at different times. But the exercise is a great way to reduce disagreements within boards, and between boards and executives.

Assessing your business context

The company's context also influences how a board should act on strategy. Snowden and Boone (2007) identify four contexts for leadership decision making that can be adapted to board work.

1] A simple context consists of repeating patterns with clear cause and effect, allowing for fact-based management. Supervising the organization's established processes, the use of best practices and optimizing communication for clarity are central to board work in this context.

2] A complicated context makes it more important for experienced board experts to capture information that could threaten the company's health. In such a context, a board should also pay attention to executive blind spots and obtain alternative views.

3] A complex context is full of ambiguities and unpredictability that go far beyond a complicated context. Rather than second guessing the CEO on strategy, the board should use its own sources of information and interact frequently with the executive team to notice market shifts.

4] A chaotic context has turbulence, shifts and highly uncertain outcomes that even experts cannot assess well. This creates tensions and multiplies the number of big decisions to take. A strong board can make a decisive difference while a weaker one can threaten the entire organization.

Determining your board's role
Boards also have to balance the three different roles they might play, which affects how they will use their strategic muscle.

1] Supervision. In this role, a board monitors corporate performance and executive team behavior regarding strategy development, design and implementation. Although German boards play this role, supervisory skills are generally more valued in other cultures such as China than in the west.

2] Co-creation. Here, a board co-creates the firm's strategy by adding its members' own experience and contacts to those of the management team. Successful co-creation can produce a long-term perspective with more options and flexibility than management alone typically generates.

3] Support. Here, the board generates internal and external support for the company (or removes it and installs a new CEO). Distance from management gives the board objectivity and authority; its stamp of approval brings credibility and weight to major strategic shifts as well as subtle ones.

As with the five definitions of strategy, boards can rank or combine these three roles to clarify their strategic involvement. A board cannot act in a purely supportive role unless it is convinced of what management is doing. And a board without strong supervisory requirements might prefer to co-create strategy instead.

All boards must be prepared to adapt quickly to changes in context by rethinking their definition of strategy and their role. In a simple context, the board may support management's strategic plan while remaining distant and largely hands-off. But in complex or chaotic situations, a board's experience, judgment and willingness to make a dramatic intervention—even removing a CEO—are crucial.

Question time
Determining a board's strategic responsibilities is a complex decision that can vary widely between companies and countries. But by asking themselves these three questions—about definition, context and role—boards can potentially transform themselves into a life-saving, competition-beating, opportunity-enhancing asset for their organization.

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