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How Strategic Is Your Board?

Many corporate boards lack clarity about their role in strategy. A structured assessment of the board's strategic responsibilities — and how these should evolve if the company's competitive context shifts — can change that.

BY DIDIER COSSIN AND ESTELLE METAYER

THE LEADING QUESTION
Is your board equipped to handle your company's strategic challenges?

FINDINGS
- **The strategic role of the board varies, depending on factors such as culture and a country's legal requirements.**
- **Boards can supervise, cocreate or support strategy.**
- **Boards should be prepared to change their role in strategy if the industry context changes.**

IN A WORLD where business models are evolving rapidly and new competitors can emerge almost overnight, strategic thinking — especially at the top of the company — is more important than ever to a company's survival. Unfortunately, boards of directors have no clear model to follow when it comes to developing the strategic role that is best suited to the company they oversee. At one extreme, the board does little more than rubber-stamp the CEO's decisions, while at the other, the board constantly second-guesses the executive team. Neither extreme adds value.

As with other leadership roles, the one played by the board varies with the company's culture and the norms and legal requirements of its home country, as well as the norms of the industry. More importantly, the board must play a role that matches the strategic needs of the company and the state of its sector. The board of a young company usually needs to wrestle with different strategic

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issues than the board of a long-established company, and the board of a company in a young and chaotic industry generally needs to operate differently than the board of a company in a mature industry. In this article, we will look first at how to assess the strategic value that your board currently delivers; second, at whether that value matches your company's needs, based on the current competitive situation; and finally, if there isn't a good fit, how to realign your board's style so that it meets your company's current needs. (See "About the Research.")

Three Strategic Dimensions

Three dimensions shape the board's contributions to strategy. These factors differ from culture to culture and from company to company, but they are always present in varying degrees:

1. A Definition of Strategy Companies define strategy in different ways, depending on their place in their industry and the nature of their industry. Often boards go wrong simply because they have not defined the right measures of competition or the right challenges on which to focus.

2. The Role of the Board The board's role in strategy may range from that of advisers who supervise the strategy to full coauthors of the company's game plan. The particular role a board plays shapes its participation in the strategy debate in several distinct ways that each have pluses and minuses.

3. The Context of the Company The board's involvement in strategy also depends on the context or environment in which the company competes. If the company operates in a market that has a fairly simple and stable competitive dynamic, the board may be well advised to remain distant and largely hands-off on strategy questions. In a more chaotic context, however, a board may choose to take a stronger, hands-on approach to strategy development.

These three variables, and the interactions among them, make determining a board's responsibilities for strategy a complex decision. In our view, the best way to understand and clarify your board's optimal role is to first create a "map" of your company's strategic direction by analyzing the three dimensions in detail. You can then use that map to make a choice about what degree of involvement would serve the company best.

Define What Strategy Means to Your Company

The first step is to define what your company means by strategy. This might sound pedantic, but a shared understanding of how the company defines its strategic issues is actually of great practical importance. Strategy means many different things to different people,[1] and lack of clarity about what it means can prevent management from taking full advantage of competitive opportunities.

We believe there are at least five ways of looking at strategy:

1. Strategy as Planning The most traditional view of strategy sees its chief aim as the definition of the company's long-term objectives, action programs and resource allocation priorities. It is exemplified by the kind of structured, step-by-step process that gave birth to the notion of "strategic planning," which remains a cherished practice in most corporations, despite widespread criticism of it by many management thinkers who argue that it has many shortcomings.[2] Because strategic planning generally happens annually, it shares the same shortcomings for companies as for countries with centrally planned economies: misallocation of resources when market conditions change and difficulty responding to changed realities.

2. Strategy as a Redrawing of Competitive Boundaries Here, strategy is used to redefine the company's competitive domain. In the past few years, for example, Nestlé S.A. redefined its strategic arena from food to "nutrition, health and wellness," creating opportunities that go far beyond food and beverages, and opening the door to a wide variety of new possibilities. In a more radical redefinition, Fujifilm not only survived but thrived during the transition from film to the digital age. Even as its traditional competitor Kodak foundered, Fujifilm succeeded because it developed a new vision of its strategic imperatives and acted on that vision. Fujifilm decided to use its knowledge of chemicals to diversify into areas such as a new line

of antioxidant cosmetics as well as optical films for LCD flat-panel televisions, while Kodak struggled to redefine its mission beyond its heritage as a film and camera brand.

3. Strategy as a Focused Response to a Key Challenge This kind of strategy[3] begins with the diagnosis of a key challenge. The challenge may come from risks and opportunities in the economic and business environment (for example, rising oil prices), or it may arise from the competitive landscape (for example, a new business model from a competitor). It may even stem from internal issues such as an organizational structure that does not allow full value creation.

Identifying, assessing, managing and structuring the risks and opportunities related to a key challenge can lead to a clear and focused strategy. For instance, corporations used to operating in the face of great uncertainty, such as natural resource or commodity players, tend to keep a close eye on risks and opportunities. They are well aware of the break-even points in the prices of their key commodities and the dynamics of capital investment in volatile markets, and their strategies are closely linked to these dynamics. For example, under the leadership of former CEO Peter Voser, Royal Dutch Shell plc committed to the largest capital expenditures program in the industry while restructuring the company — an implicit bet that oil prices would continue to rise even as high production costs shrank margins. Voser diagnosed a challenge (increasingly difficult access to oil and gas resources), designed a guiding policy (focus the organization on large capital expenditures and demand gains in efficiency) and organized a coordinated set of actions (cost restructuring, reorganization and cash-flow management) to support that policy.

4. Strategy as the Development of Core Competencies Companies often focus on how to continue to deliver value as a market evolves. IBM's research division successfully reinvented itself time and time again by reconfiguring its core strategy of transforming research into new products for the marketplace. From the 1940s until the 1970s, the research division relied mostly on corporate funding to underwrite long-term research projects. In the 1970s and 1980s, it emphasized collaborative teams and shorter-term projects funded by the business units. In the 1990s, the research division began to look to its customers' research divisions to jointly develop innovative new projects. Now IBM researchers have imitated a venture capital model to fund promising new ventures.

5. Strategy as Optimizing the Value Created for Stakeholders Here, strategy consists in defining, monitoring and optimizing how the company can maximize benefits for its customers and other stakeholders. For example, a number of banks moved toward a deeper customer focus following the 2008 financial crisis. In Canada, for example, Toronto-based TD Bank Group went all out in its efforts to court customers, especially those working full time, by undertaking a variety of new measures, such as offering early morning and Sunday hours for their convenience.

Given the range of possible approaches to strategy, boards need to begin by clarifying which interpretation of strategy they want to focus on or, if several matter, which one matters most. This is by no means a static decision: One view of strategy

ABOUT THE RESEARCH

The methodology presented in the article stems from clinical work with more than 20 organizations and more than 300 directors from around the world. The organizations we worked with included large publicly traded companies, family businesses, privately owned corporations, financial institutions, membership organizations, state-owned enterprises and a multinational organization. The work was conducted over a period of four years in different settings. The organizations were based in North America, Europe, Asia and the Middle East.

The work involved a range of strategic issues in corporate governance, including:

- Working with an organization on how to design a new strategy with board involvement.
- Establishing the governance review of a board to assess its effectiveness at handling strategic issues (based on a confidential survey of board members and management).
- Working with a board to build productive strategic discussions with the management team (and in several cases repair a board-management relationship that had become strained around strategic issues).
- Working on a process of improvement for board strategic discussions.
- Leading education sessions for board members on how to lead a strategic reflection from the board, in a productive relationship to management.

The authors worked closely with chairmen and CEOs as well as with members of the board, including members of the strategy committee when such a committee existed. The research included work with organizations in the following industries: banking, industrial manufacturing, pharmaceuticals, telecommunications, broadcasting, luxury goods, aviation, hotel management and humanitarian activities.

may be more essential to the success of the organization in the medium term, but another will need to take priority over the long term. Boards may even need to examine different time periods (for example, five versus 25 years) in their consideration of strategy. Having this discussion with management is invaluable — and a great way to stop the all-too-common "death by PowerPoint" that takes place at many board meetings. Many disagreements within boards, and between boards and executives, can be avoided by examining and identifying the board's role in how it defines its strategic function. For instance, a board that sees its primary focus as adding value for customers can help clarify this strategic objective for executives. Or a board that sees its mission as helping the CEO steer clear of large risks during difficult times can focus on profiting from board members' experience.

Boards can begin to assess their optimal strategic function by ranking the five possibilities in terms of which matter most to them. We find that one effective way to do this is to ask every board member to assign points to each of these five definitions and then tally the results to uncover the differences in views and determine which approach or approaches rank highest among all board members. Such a process provides an opportunity to air different perspectives and build a coordinated view across the board.

Determine the Board's Role

The next step is to determine what roles the board should play in light of its strategic priorities. Boards typically play up to three roles:

1. Supervisor In a supervisory role, the board spends its time monitoring corporate performance and executive team behavior. The board ensures the performance of the organization and its executives in selecting a course of action and implementing it. Board members supervise everything, including strategy development, design and implementation. This requires the board to develop specific supervisory skills including a systematic view, attention to detail and an understanding of consistency and control, all of which can be adapted to supervising not only results but also strategy. The board must engage in a process of probing and sensing underlying conditions in the company by using appropriate metrics, hard and soft, while paying attention to risks, strategic inconsistencies and flaws that could threaten the business. Developing these supervisory skills is thus a prerequisite for board supervision of strategy. However, such skills are not necessarily valued in boards as much in the West as in other cultures such as China, where large corporations are closely supervised by government agencies that continuously monitor organizational and individual performance. For example, Xu Shanda, an independent director of the Industrial and Commercial Bank of China Ltd., based in Beijing, has said his past supervisory experience with tax authorities at the ministry level is an important asset to the bank that would be less valuable to a Western company.

2. Cocreator A board may contribute directly to company performance by cocreating the strategy of the company. Industry experience beyond the company, managerial experience beyond the industry and contacts with many stakeholders (whether governments, customers, society or employees) often give board members a broader perspective than company executives have when it comes to understanding trends and the complexity of today's business world. By pursuing a cocreative role, boards can help open the minds of executives and steer the strategy debate beyond any cultural blind spots. Such blind spots typically arise from executive myopia due to corporate, historic or strategic biases. An executive strategy retreat with the board or a highly structured yearly strategy meeting can yield an opportunity, implicitly or explicitly, for cocreation that takes executives beyond their strategic preconceptions. Starting out with supervisory questions (for example, what are your principal moves to achieve your strategic objectives? What are your fallback options?) and pursuing support issues (such as gaining alignment between board and management and enforcing corporate commitment to the strategy) can lead to reflection, which, in turn, may inspire some level of strategy cocreation. Successful strategy cocreation typically leverages both the internal information held among the management team and the external information and experience of the board to produce a longer-term perspective with more options and flexibility than may come from

managerial views alone. As part of strategy cocreation, boards may engage with management about the company's definition of strategy.

3. Supporter In this role, the board acts largely as a support to management, lending the executive team its credibility and authority (or, in some cases, withholding its support to pressure management). Although distant from management, the board adds value by garnering support for the company both within and outside the company. Distance gives the board objectivity and authority; its stamp of approval brings credibility and weight to major strategic shifts as well as subtle ones. The board also helps management in realms the latter cannot easily reach: governments, social movements, stakeholders and so on. In times of crisis, a supportive board can be critical not just to success but to the survival of the company. In general, board members can be invaluable in steering a company clear of serious obstacles. For instance, the work done by Antony Leung, former financial secretary of Hong Kong, to encourage the Industrial and Commercial Bank of China to establish a supportive international board of Chinese diaspora members probably smoothed the company's transition from a major domestic Chinese financial institution to an international bank.

In the same way that boards can rank and map their definitions of strategy across the five possibilities, they can also describe the roles they currently play — supervisory, cocreative, supportive or a combination of these — to gain greater clarity about the role they need to play. For example, a board cannot decide to act in just a supportive role unless it is convinced of the quality of corporate choices, behaviors and performance the leadership team produces. On the other hand, a board may not have the necessary skills to take on a supervisory role and may prefer to work toward a more cocreative one, cooperating with management on strategy. What counts is that the board understands its role and how that affects the nature of its involvement in strategic questions. (See "The Board's Contributions to Strategy.") Once the board achieves clarity about strategic ends and means, its members can better address how they will support strategy and organize their communication and contacts with internal and external stakeholders.

THE BOARD'S CONTRIBUTIONS TO STRATEGY

The three types of board roles intersect with the five dimensions of strategy to yield a variety of ways in which the board can add value to strategy.

APPROACH TO STRATEGY	BOARD'S ROLE		
	Support	**Cocreation**	**Supervision**
Strategy as Planning	• Process for scanning for weak signals	• Shaping "a pattern in a stream of decisions"[i]	• Key performance indicators • Evaluation by board • Supervisory skill sets
Strategy as Focus/Scope	• Challenging assumptions • Supporting strategic focus	• Board members' diverse frames of reference • Identifying strategic blind spots • Scenario planning • Industry convergence analysis	• Monitoring the consistency of the strategic focus
Strategy as Response to Threats/Risk	• Competitive blind spot analysis	• Insights on global and industry trends	• Independent intelligence stream
Strategy as Competitive Advantage	• Capabilities identification	• Offering "alien eye" perspectives from other industries	• Strategic benchmarking • Strategic coherence
Strategy as Contribution to Stakeholders	• Stakeholder intelligence	• Stakeholder engagement	• Stakeholder measurement and benchmarking

Assessing the Business Context

Finally, the context in which the company works should inform the board's strategic leadership stance. A framework for the leadership's decision making can provide a good context for evaluating board decision structures.[4] We typically see four context types:

1. Simple Context A *simple context* consists of repeating patterns that have clear cause and effect. This context allows 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. Complicated Context A *complicated context* usually requires the services of experts. Having experts on the board with diverse views and extensive industry experience helps capture otherwise unknown information and facts that could threaten the health of the company. In a complicated context, a board should also start paying attention to the blind spots of its executives (such as a false sense of confidence) and obtain alternative views.

3. Complex Context A *complex context* is full of ambiguities and unpredictability that go far beyond a complicated context. In such situations, the board should not spend its time second-guessing the CEO but rather should seek out its own sources of information so it can make up its own mind about strategic decisions. It also should minimize the extent to which it delegates reflection and action, as these should remain as much as possible within the board. Frequent interaction with the executive team and external sources of information is essential to capture market shifts quickly.

4. Chaotic Context A *chaotic context* is full of turbulence and shifts that are sometimes hard even to identify. Outcomes are highly uncertain, and no one, not even experts, can assess them well. This creates tensions and conflicting points of view. It multiplies the number of significant decisions to make and requires greater reassurance within the organization. In a chaotic context, the board's role often becomes highly visible. Opportunities and risks abound, and a strong board can make a decisive difference, while a divided, weaker board can threaten the life of the organization.

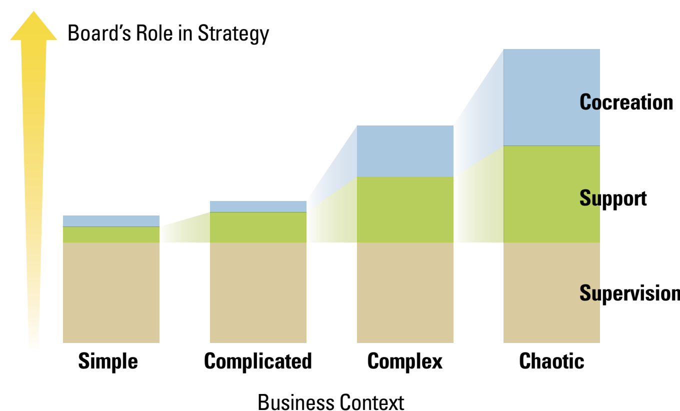
In today's fast-moving world, the business context can quickly shift from simple to complicated and from complicated to complex and even chaotic. In general, boards tend to get bogged down with issues that are complex but often nonstrategic (such as financial filings and operations). When determining their role in strategy, board members should take into account the context in which they believe the organization operates. Is the context stable — or might it change at some point? (See "How the Board's Role Changes.")

We find that boards can add the most value in complex or chaotic situations, where executive teams are typically overwhelmed and lack the diversity of views needed to fully understand the situation. When the dominant context becomes complex or chaotic, a dozen heads are usually much better than one. In complex or chaotic contexts, resilience and company survival require early detection and the ability to interpret, to engage confidently, to recover and to exploit opportunities quickly. These are times when experience, judgment and the willingness to make a dramatic shift — for example, removing rather than steering a CEO — are crucial to the organization.

All boards must be prepared to adapt to changes in context. They should be ready to shift not only

HOW THE BOARD'S ROLE CHANGES

The dominant role of the board in strategy (cocreation, support or supervision) should evolve, depending on the context the company faces. The overall time the board spends on strategy supervision does not change, but as the company's environment becomes more challenging, the board should increase the time it spends on supporting and cocreating strategy. In a chaotic environment, the board will spend roughly equal amounts of time on strategy cocreation and strategy supervision.



Today's chief executives are overstretched and confronted with rising levels of complexity from society, governments, alternative business models, global changes and economic volatility.

their strategic goals but their understanding of their own role. As contexts change, giving priority to customers may matter less when employee safety or the entire organizational reputation is at stake (for example, during a disaster such as the BP Deepwater Horizon oil spill in 2010). A rebalancing not only of strategic priorities but also the underlying strategic focus may become essential. As a result, the board may need to act quickly, taking a much more hands-on, nearly managerial approach.

The Impact of Context

Today's chief executives are overstretched and confronted with rising levels of complexity from society, governments, alternative business models, global changes and economic volatility. Even the best executives cannot be expected to respond consistently well to all these challenges, especially when the environment turns chaotic. Matching the right environment to the right kind of board activity is surprisingly straightforward. In our experience, most contexts demand that the board follow a particular strategy:

Simple: In a simple context, the dominant strategy is to operate according to a plan. The board should take a supervisory role that typically focuses on execution and optimization, driving such initiatives as Six Sigma or a lean supply regime.

Complicated: In a complicated context, a planning or core-competency strategy will tend to dominate. The board's role remains supportive and supervisory, however, and the board tends to focus on improving the executive team's precision and sophistication, often by recruiting the help of outside experts.

Complex: In a complex context, boards should support and supervise strategy — and sometimes even cocreate it. A complex context tends to incorporate the traits of every other context.

Chaotic: No one strategy dominates in a chaotic context, but in high-functioning companies, boards will tend to take charge more. They are usually more involved and more concerned about risk management.

In all types of business contexts, however, companies today need strong boards that comprise focused and dedicated individuals. These individuals must have access to accurate and well-organized information and be able to establish meaningful structures and processes and implement board dynamics that foster effective debates that result in good decisions and actions. But even the most exceptional board can fail if it tries to fulfill the wrong strategic role at the wrong time. Reflecting on a company's strategy and the board's role in developing that strategy is important to the success of any board.

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