

Strategy as a Governance Issue

By Neil L. Drobny

Directors have a lot on their plates these days. With the high-level corporate abuses and scandals that have surfaced in recent months and years, board members, in public companies in particular, are re-examining their roles and responsibilities.

One area that has not attracted a lot of attention yet, but seems ready to emerge in the next wave of governance concerns, is board involvement with strategy. Late in 2003, Eastman Kodak Company announced a significant strategic shift toward the faster-growing digital printing world. Within a month, a group of high-profile investors joined forces to force Kodak to substantiate the merits of the new strategy, which many major investors feel is too risky. For example, as a result of this strategic transition, Kodak's long-standing position as Walgreen's sole processor of print photos has come unraveled (*Wall Street Journal*, January 23, 2004).

As corporate decision making becomes more transparent, directors must anticipate the new ways that investors, and perhaps other stakeholders, will challenge decision making in the executive suite. As the Kodak example illustrates, strategy selection is an area that can generate significant controversy and disruption. Accordingly, directors will be well served to assure that strategic decisions made by top management can withstand outside scrutiny.

This is not to say that directors should second-guess the strategic decisions of top management. Rather, the role of the board is to verify the presence of a culture and processes that will allow for the germination of an executable and sustainable strategy. A few of the major areas that boards should consider are discussed below.

Director Summary: New transparency requirements make it essential that directors become aware of management's strategic decisions earlier than in the past. Too often directors learn of strategies too late in the process, when it is difficult and expensive to reverse unwise courses of action. Ensure that all managers are behind strategic decisions, not just one or a few top executives.

"Window" into Strategic Planning Process

As Carter and Lorsch point out in *Back to the Drawing Board* (Harvard Business School Press, 2004) the process for developing strategy in a corporation is at a critical juncture. One reason is that the product of the process is open to challenge, as has been seen in so many cases recently—of which the Kodak example is only one of the most recent. Strategies that lead to mergers and acquisitions that become colossal failures—such as AOL Time Warner—and result in an avalanche of shareholder lawsuits, are being questioned like never before.

Traditional strategic planning processes that use the "analysis and recommendation" model, where the strategy essentially pops out at the end of the process—often an isolated process—has already been called into question in the business press, such as a recent article in *Fortune* magazine. Directors need a window into whatever process the organization uses in order to watch it as it develops. To be presented with a strategy as an end product means there is already too much momentum (and usually a lot of money spent developing it) behind the strategy to allow directors to make any meaningful input. Having that window into the process as it develops along the way provides the opportunity for questioning and input where appropriate.

Is the Organization Aligned with Strategy?

The best barometer for how well an organization will execute its strategy is the degree to which the management team is aligned behind the strategy.

Achieving an actionable plan and an aligned team requires: participation that is broad but efficient; collaboration created by building on the best elements from many perspectives, experiences, and capabilities; and consensus achieved through debate, dialog, and resolution of differences. Incorporating these elements provides tactics and targets representing the best thinking of the business, and agreement around the goals, path, actions, and responsibilities. An alignment-driven strategic planning process will be a new concept for some. Yet it can provide a comprehensive, efficient means to adjust varying viewpoints

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behind a single strategy toward a common objective. Otherwise, even the best plan cannot be executed effectively.

The board should question top management as to what the major points of agreement and disagreement were in crafting the strategy, and how conflict was resolved. If management appears defensive or dismisses disagreement as minor, the board should dig deeper. *It is the board's responsibility to make sure that the company does not pursue a course charted by the tunnel vision or self-serving interests of a few powerful executives.*

Assuring that Senior Management Competencies Match Responsibilities

It's not enough just to create new tactics around marketing, sales, production, and other key functions. "People" issues must also be addressed. Competencies—the capabilities an organization must have to succeed—must be present and in the right positions, particularly in senior management. Giving an employee job goals, performance metrics, and incentives will not produce desired results if the individual lacks the competencies needed to accomplish his or her part of the strategy. Sometimes dramatic changes in the business environment create large gaps between what is needed to do a job and the competencies resident within the individual charged with doing it. It is essential that such gaps be closed—either through a development program or replacement.

It is the board's responsibility to know how to identify those gaps, when such changes are needed at or near the top, and to make sure that needed changes are made. Failure to act on such needs will sow the seeds for broader failure throughout the organization.

Assure Behaviors that Support the Plan

Behaviors are the second "people" factor that have an impact on an organization's performance. Directors should ask themselves, "Do I ever see behaviors in the organization, especially at the senior management level, that are counterproductive to where we are taking the company?" If the answer is even close to a "yes" or "maybe," then the good news here is there are short-term actions that can be (and should be) taken to address the issue. Ignoring the behaviors, on the other hand, means

wasted time, resources, people, and money—costs that few companies can afford in today's environment.

Organizations that incorporate behavioral-change opportunities and incentives into their growth strategies can realize substantial bottom-line benefits if they effectively define expectations and communicate them throughout the organization. By aligning behaviors with strategic goals in a continuous improvement process, the company has the opportunity to gain significant sustainable strategic advantage over its competitors.

Assuring Strategic Communications

Consistent, unambiguous communications up, down, and across the organization are the lifeline of day-to-day execution of the plan. Studies have shown that a main reason why companies do not successfully execute strategy is the lack of employee strategic awareness. Further, if managers put out different messages to their respective business units as to direction and priorities, inefficiencies and errors will result. All detract from the bottom line.

Internal communications are an opportunity to reinforce key messages to the organization. Repetition of the same message by different people in authority is an effective means to not only ingrain the message into everyone's behavior, but to underscore that the entire organization "is on the same page." Studies have shown that when managers communicate well and employees understand goals, organizations perform well.

The directors' responsibility is to look for signs that company strategy is communicated and understood throughout the organization. One director of a public restaurant chain makes a habit of asking waitresses who serve him, "What is the purpose of your job?" The organization has drilled a customer-centric answer to that question into each employee, and he usually gets the right answer. When he does not, he lets the manager of that store know about it. It is a very powerful practice.

Summary

Directors have the opportunity to determine whether or not the company has a sound strategy, whether the people in the organization are truly committed to it, and whether it is being executed effectively. Often creative checkpoints are needed. There is probably no more important determinant of an organization's success than its strategy, and it is an area to which more directors will likely be paying keen attention. ■

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