The Effective Board

INDEPENDENT AUDIT
BOARD REVIEW

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Long-Term Success

Over the past few years we've seen boards become increasingly sensitive to the need to make sure they spend enough time on strategy. For most this has included a strategy awayday (see last month's The Effective Board) and an attempt to put strategic issues higher up the meeting agenda.

But there's still an anxiety among boards – and at least some shareholders alike – that boards don't look far enough ahead, or really think through the strategy and strategic challenges well into the future. Here are a few random (and by no means comprehensive!) ideas that you might want to think about – as well as a few traps to avoid.

Good practices to consider...	Things to avoid...
Make sure there's enough free discussion time to think about the "waves of change"...the things that will cause fundamental shifts. And not just shifts in your current sector as you know it today – it's about geopolitical shifts, customer behaviours, technological upheavals, global trade patterns, competitor emergence, regulatory changes...	Not allowing enough time – or, more likely – getting the forum wrong. It's not the sort of thinking that can be fitted into a timed slot and it's hard to do it in a normal boardroom environment. The awayday(s) might work, and it would make a good balance to shorter-term matters. Or over a long dinner – as long as there's some structure. And don't forget that someone needs to take notes, or all that thinking will get lost.
Spend some time on the business model, to look at the assumptions underpinning it and think about how future changes might affect them – and how that compares to historical experience. Then go a step further, and ask yourselves which of the "facts" about the world on which the business model depends are actually things that you have always taken for granted, but in fact are capable of changing. This is where a diverse board shows its strength, when the grizzled industry specialists who might all take the same things for granted are challenged by those who didn't grow up with those assumptions.	Supposing that some things are a state of nature when actually they merely haven't changed for a while. Some banks got this wrong seven or eight years ago – they assumed that liquidity would always be available because the inter-bank markets would always be there, and so the only thing they needed to think about was their own creditworthiness. In the event, of course, the markets ceased functioning for a while. The existence of liquid markets turned out to be an assumption, not a state of nature.
Think about the non-strategic risks too. Of course the "strategic risks" need to be debated, but long-term strategy can be knocked off course if you're blindsided by "business as usual" events that seriously undermine your future plans. Think of reputation in particular, and the way customer perceptions are fundamentally changed by things like regulatory fines...tax strategy...ill-thought through comments...ethical misbehaviour...remuneration excesses...industry image...accounting scandals...	Focusing on the "known risks" which often form a large part of strategic risk lists. It's often the things you take for granted and the "business as usual" risks which cause problems. And they are not necessarily unknowable – adopting a different mindset, introducing some challenge and allowing the time to toss out ideas can often bring them to the surface.

Good practices to consider…	Things to avoid…
Bring in an outside expert or two to introduce ideas and liven up the discussion – not necessarily only at strategy days. They can have a stimulating effect even on more routine discussions by bringing a fresh point of view. And ask different people – customers, investors, bankers, strategy gurus, innovators, academics… maybe even a few "youngsters" who might let you into some of the ways the next generation are thinking.	Relying on the Board itself and the odd executive. Yes, they'll have good ideas and ultimately they're the ones who need to provide the thinking and leadership. Like it or not, we all become a bit institutionalised over the years (those shared assumptions…) and even with the best will in the world no-one can be expert on everything that's going on outside. Fresh challenge really helps, but it does need to be fresh – maybe even a little bit green!
Take "the scaremongers" seriously. You might think they are wrong about fundamental shifts (global warming and the impact on fossil fuels…massive population changes…microtechnology…political upheaval…) but you can't be certain. So it's still worthwhile weighing up the risks and doing some "big scenario" thinking. And don't overlook the potential for regulatory change as a result of public concern over something, regardless of whether you think the concern is justified.	Dismissing inconvenient schools of thought with reasoning that is just as flaky as that which you don't want to accept. For example, "the you can't know that" argument, in which you use an opponent's unfounded certainty of change to justify equally unfounded certainty of things carrying on as they always have. The extremes may never emerge and counter-forces might dilute the impact – but open debate about "what ifs" can still trigger useful thinking.
Think customers! They have to be at the heart of the strategy. So what is it they will really want and need ten (or more) years from now? What will they expect from you? How will this change as new generations become your customer base? And are today's customers the people you'll be trying to sell to in future? Who do you need to speak to today who could be your customers tomorrow?	Trying to anticipate future customer needs based on today's mindset. The board should consider its age profile: can it really get into the mind of customers from the next generation (or the one after that)? Does it really understand the customer experience? Can it really rely on (slightly younger) executive management to do that? How can it follow the way the executives think through customer generational shifts? Is some "young blood" needed to compensate for the grey hair, and if so what would be the best way to get the benefit?
Make the succession discussion truly long term. How far is the strategy based on bringing in talent from outside? And/or how does this sit with spotting and nurturing in-house leaders of the future. The non-executives are probably not close enough to do the spotting, but the CEO's pen portraits should help them understand who might be coming through in five or ten years' time, what roles might suit them, and how those on the bench will be ready to play and lead in line with the long-term strategy.	Regarding "succession" as just being about today's top few executives. A five to ten year horizon could mean looking at those still in their thirties – and who might still be based out in the more distant parts of the business, out of the immediate line of sight of the board and possibly even of the top team at HQ. And don't neglect diversity – not just gender, but also the overall make-up of a team taking into account future markets and other strategic drivers.
Look at remuneration from the long-term perspective. Yes, long term success is built on a sustainable series of short term successes – but policy needs to take into account where you want to get to in the long run, not just over the next three years. This can mean putting a bit of imaginative thinking into what the performance measures should be.	Being focused on the quantum of remuneration, that targets are sufficiently demanding, and not enough about whether the overall remuneration policy will motivate actions designed to secure sustainable long-term growth.
Capture sporadic thoughts mentioned "in passing" in meetings. In the course of normal board discussions, often people will mention "big trend" or "big challenge" issues which are valuable and need to be captured to be returned to later – and possibly to form the basis of that longer-term discussion that's some months away. And that applies in committees too – not just in the board meeting.	Losing sight of these valuable insights because they are not immediately relevant to the item being discussed: it's not the right moment and people maybe don't respond or the Chairman (probably correctly) doesn't allow discussion as it's not the time to veer off in that direction. That's not a problem in itself, but it's a pity to waste good insights just because they don't fit into the structure of the minutes and aren't recorded in some other way.

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