Corporate Governance and Leadership Conference

Successful Strategic Planning In Light Of Covid-19 Pandemic

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Outline:

Board and Management In Strategic Planning
Metrics for Monitoring Strategy Implementation
Challenges in Strategy Oversight & Implementation
Key Pillars of Effective Board Strategy Oversight
Integrating Risk Management With Strategic Planning

Board and Management In Strategic Planning

INTRODUCTION: Strategic Planning-Rise and fall-or Transformation?

- Role of SP remains a subject of controversy for both academics and practitioners (critical in 1960s -1970s, effectiveness widely questioned 1980s-1990s)
- SP not dead-has evolved in response to dynamic environmental conditions.
- SP-iterative loop consisting of 4 steps; making sense of a situation, making choices on what to do, making those things happen, and making revisions based on new information.

MIT Sloan Management Review
Special Collection • "Top 10 Lessons On Strategy": How Strategic is your Board?

Board and Management in Strategic Planning

Today's business models are evolving at a rapid pace and new competitors emerging from every corner, armed with disruptive ideas. Strategic thinking - especially at the top of the company – is critical to every company's survival.

Evidence demonstrates that Boards of Directors are unsure of their specific role during the development of a company's strategic plan. On the one extreme, the board appears to be confined to approving the CEO's decisions; while on the other extreme, the board constantly second-guesses the executive team. In reality, neither extreme adds value.

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Board and Management in Strategic Planning

To understand the role of the Board of Directors ("Board") in Strategic Planning, it is important to revisit the purpose of strategic planning.

- If strategic planning is a ***blueprint of a company's future direction and focus***, then what role does the board play in this blueprint?
  - To approve the direction recommended by management?
  - To work with management to determine the ideal direction?
  - To guide management towards the ideal direction?
- Boards must create tangible value in the philosophy of the company and it's long term goals.

Board and Management in Strategic Planning

The CEO is the Chief Strategy Officer, much the same way as we have a CFO in charge of finance. The CEO is the management team leader in corporate strategy and performance.

To exercise its oversight role, the board must fully understand the company's current operating context (external and internal) and the future perspectives – from the CEO and management.

Thereafter, the most important role of the Board kicks in, that is, supporting management in the fulfilment of the goals aspired by all stakeholders.

Board and Management in Strategic Planning

Strategic Planning: The Four Major Phases of Board-Management Collaboration.

STRATEGIC EVALUATION

OPERATING ENVIRONMENT

collection, analysis, and discussion of information about the environment of the firm, the nature of competition, and business models

BOARD PROVIDES ADVICE AND COUNSEL ABOUT EMERGING ISSUES

STRATEGIC DECISION MAKING

STRATEGIC CHOICES

Core directional decisions that define fundamental choices concerning the business and the dominant business model – and the basis for future allocation of resources and capabilities

BOARD IS SATISFIED OF STRATEGIC CHOICES AND UNDERLYING LOGIC

STRATEGY DEVELOPMENT

MAKE IT ACTIONABLE

Identifying priorities, setting objectives, laying out the work plans; securing and allocating resources and capabilities to execute the chosen directional decisions

BOARD REVIEWS RATIONALE FOR ACTION PLANS AND ALLOCATIONS

STRATEGY IMPLEMENTATION

EXECUTE & AUTOMATE

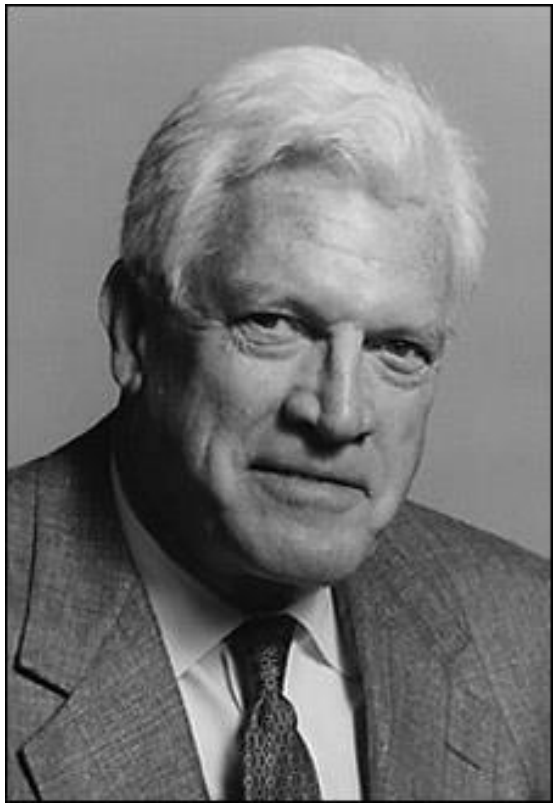
Allocation of resources,, implementing the strategy and monitoring results; taking appropriate corrective action where necessary, remaining focused on results

BOARD PRIMARY FOCUS SHIFTS TO REVIEWING & MONITORING PROGRESS

Nadler (2004)

Board and Management in Strategic Planning

"A responsible and effective board should require its management to have a unique and durable corporate strategy, review it periodically for its validity, and use it as the reference point for all other board decisions"
– Kenneth Andrews.



Kenneth Andrews (1916-2005)
HBS Professor and one of early proponents of Business Strategy.

Board and Management in Strategic Planning

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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" perspec-tives from other industries	•Strategic benchmarking •Strategic coherence
Strategy as Contribution to Stakeholders	•Stakeholder intelligence	•Stakeholder engagement	•Stakeholder measurement and benchmarking

Challenges in Strategy Oversight & Implementation

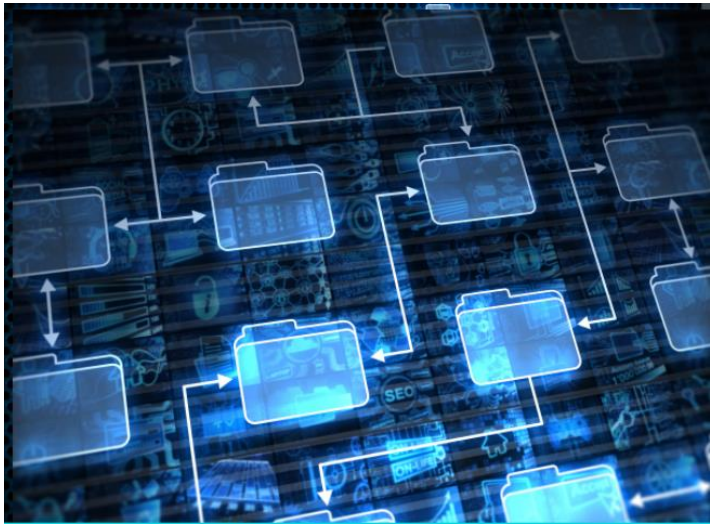
Challenges in Strategy Oversight & Implementation

Strategy oversight is essential because we operate in an increasingly complex and uncertain environment.

- The external environment (as well as the internal) is increasingly intricate, complicated and unpredictable (VUCA).
- Strategies that worked wonders in the past are irrelevant in the current and emerging business environment.
- Agile competitiveness of the past might now be pretty clumsy.
- Drivers of value systems might also have changed considerably.

Challenges in Strategy Oversight & Implementation

External Change: External risks and opportunities (including Covid-19) are dynamic and materialize without notice, and with no regard to the business environment.



Internal Change: The diverse components of the corporate system interact among themselves, influencing each other's actions. Successes and/or failures in any one activity will inevitably influence the success or failure of all the other activities.

Structural Inertia: Represents conscious or unconscious resistance to change. It's key symptom is the absence of a sense of urgency for internal change in tandem with external changes. If the pace of change in the external environment exceeds the pace of change internal environment, the end is in sight.

Challenges in Strategy Oversight & Implementation

Many companies use variations of the Balanced Scorecard to measure financial and non-financial metrics that are important to the company.

Measurement should provide a distinctive contribution in the pursuit of company goals in any one or more of the following metrics:

- Customer experience, based on the needs of each customer segment
- Return on expectation (sustainability objectives of the company)
- Organisational culture and health
- Public perception and standing
- Disruptive innovation and resilience
- Competitive edge (removing structural inertia)

Effective corporate performance management must be **anticipatory** and proactive, as well as reactive and **Interactive** in determining the scope of measurement.

Challenges in Strategy Oversight & Implementation

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01 Look OUTSIDE

What is changing in the external environment? How is the market changing?

What are our competition doing?

02 Look INSIDE

What is growing in the internal environment?

What is our level of competence?

Are we getting better than our competition?

03 Assess the PAST

Where have we excelled or performed dismally?

Where has our competition out-performed us?

04 Imagine the FUTURE

How are our costumer preferences changing?

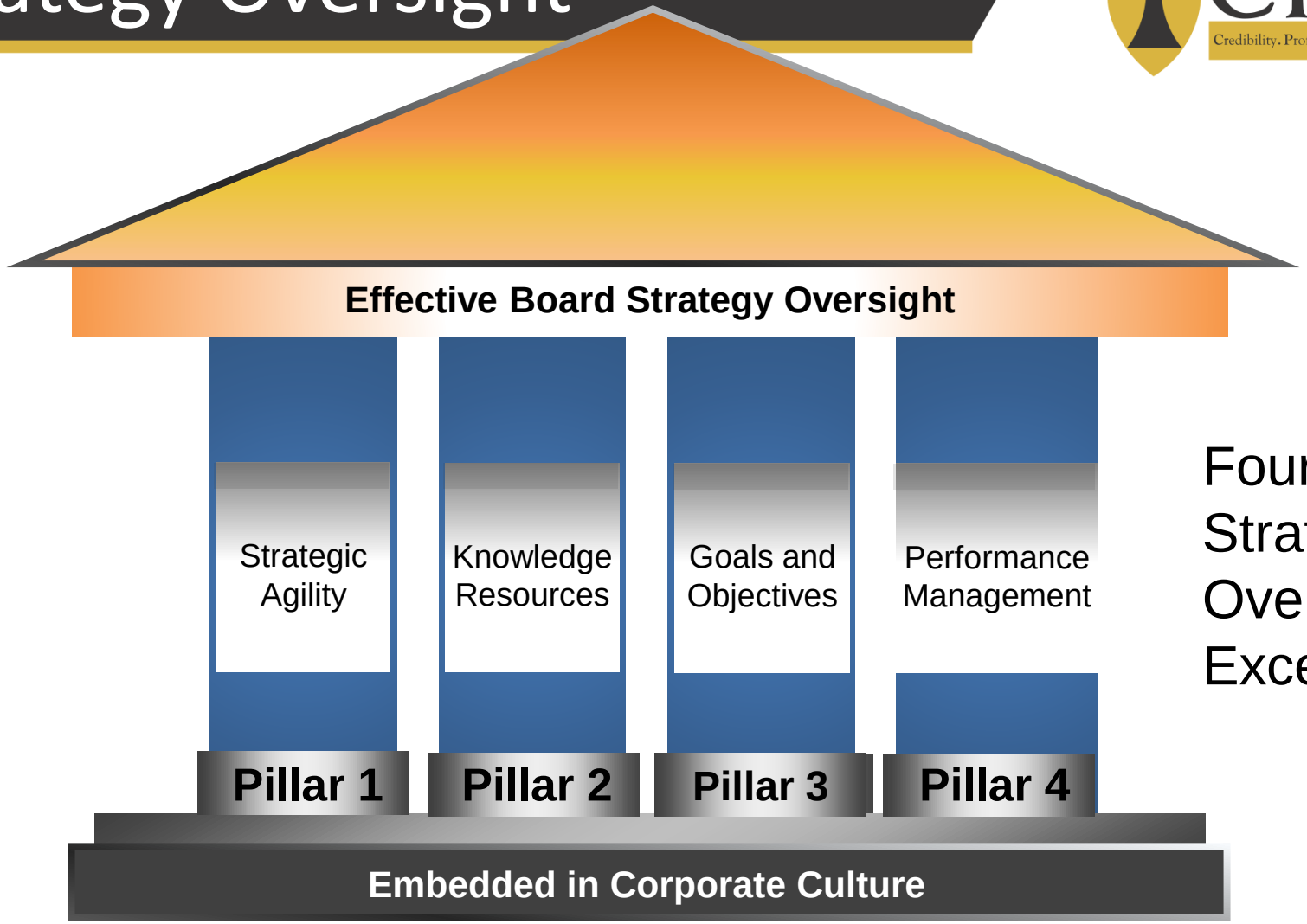
How is technology evolving ?

Vision: A world class Professional Accountancy Institute.

Measurement: Four Perspectives

Key Pillars of Effective Board Strategy Oversight

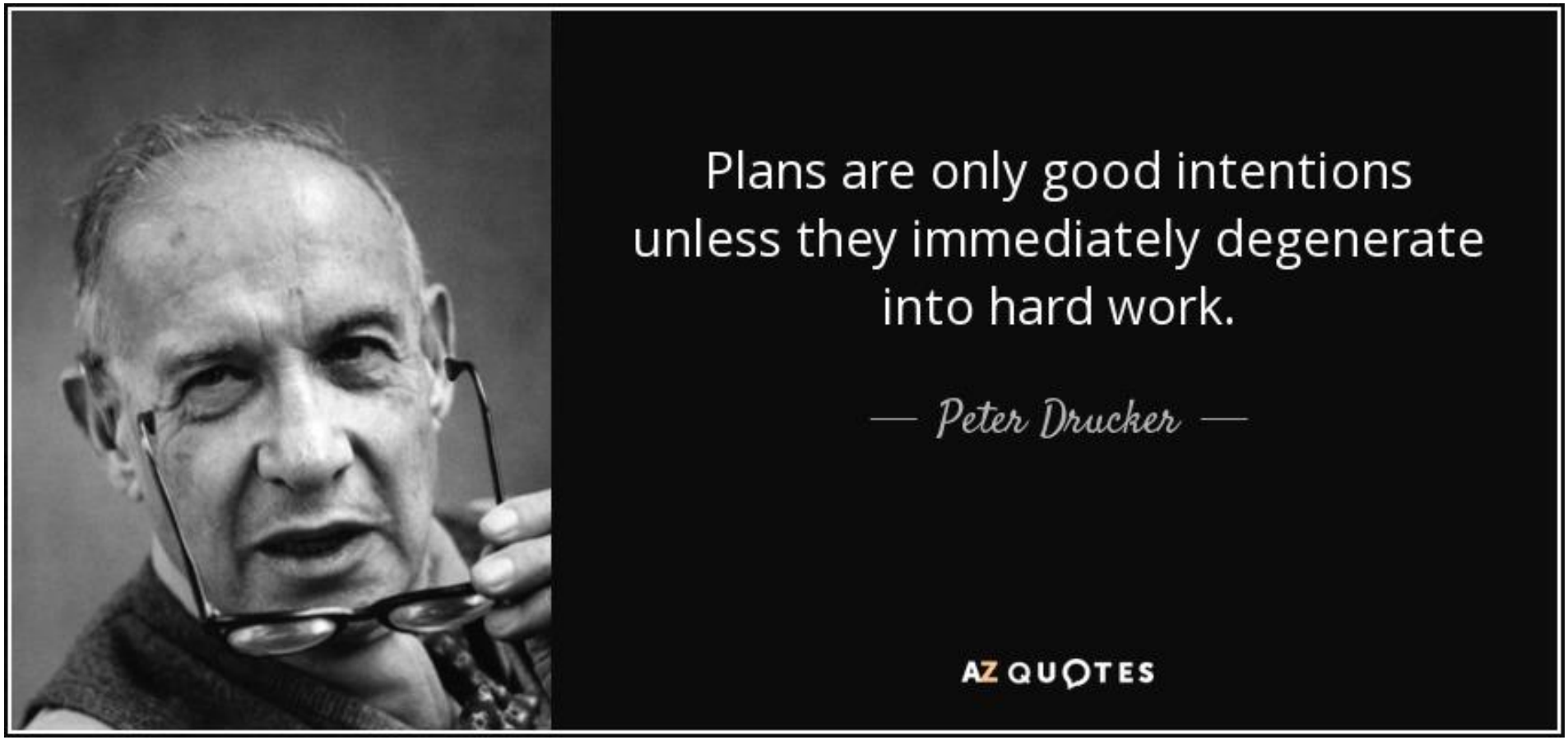
Key Pillars of Effective Board Strategy Oversight



Four pillars of Strategy Oversight Excellence

Metrics for Monitoring Strategy Implementation

Metrics for Monitoring Strategy Implementation



Metrics for Monitoring Strategy Implementation

Strategic planning is the continuous process of making present entrepreneurial (risk-taking) decisions systematically and with the greatest knowledge of their futurity; organizing systematically the efforts needed to carry out these decisions; ***and measuring the results of these decisions against the expectations through organized, systematic feedback.***

Measurement of results through a clear process is an integral component of strategic planning. There is NO strategy without measurement.

(Peter Drucker, 2012)

Metrics for Monitoring Strategy Implementation

Key Performance Indicators (KPI) are measures focusing on those aspects of organizational performance that are considered the most critical for the current and future success of the company.

KPI's are tools used to give meaning to the relative health of the business based on a selected metric (a quantitative, periodic measurement of one or more business processes).

KPI's rely on metrics, hence their achievement and measurement relies greatly on the accuracy of the metrics themselves.

Metrics for Monitoring Strategy Implementation

Whereas measurement mechanisms are essential for accurate decision making and strategy success, it might be too ambitious to expect an accurate performance assessment of critical business functions by evaluating one or more metric or KPI.

- This deficiency formed the basis for Balanced Scorecard (BSC) approach to translate strategy into action by measuring enterprise performance under four distinct perspectives:
    - Financial Perspective (how do we look to shareholders);
    - Customer Perspective (how do customers see us);
    - Innovation and Learning Perspective (can we continue to improve and create value), and
    - Internal Business Perspective (what must we excel at).

Integrating Risk Management With Strategic Planning

Integrating Risk Management With Strategic Planning

At the board level, strategic risk management is a necessary core competency. Directors should ask the CEO about the risks inherent in the strategy and how management is managing and monitoring those risks.

The 4 key failures which threaten a company's strategy, are:

(1) Technical risks: Failure to identify, assess and manage critical risks to the company inclusive of financial and non-financial risks as well as reputational risk;

(2) Strategic risks: Selection of non-priority (or non-adapted) strategy and/or lack of a sense of urgency in delivering critical strategic objectives;

(3) Interpersonal risks: Poor working relationships typically between management executives and the board.

(4) Integrity risks: inclusive of lack of processes and culture failure around fraud, conflict of interest, etc.

Integrating Risk Management With Strategic Planning

While no one can accurately predict the future, boards and their management must be proactive in their response to potential events, regardless of their cause, if such events could lead to a devastating impact on strategy execution and the overall performance of the organization.

Research shows that a few factors gravely compromise integration of risk management with strategy, which is the starting point for action:

- Technical failure by management in the overall risk data collection and analysis;
- Failure of boards to understand enterprise risks because of lack of awareness, knowledge, and sometimes, sheer ignorance;
- Over-reliance by senior management on complex quantitative risk models that ignore or diminish sound qualitative judgment;
- Failure to repeatedly question all assumptions relied upon in strategic planning;
- Failure to promote a culture that expedites risk information collection and sharing.

Integrating Risk Management With Strategic Planning

Risk Intelligence

- Clear and actionable strategic risk information paves the way for management and the board to make better judgments about courses of action, control approaches, tactical adaptations, levels of investment and risk-sharing opportunities impacting a company's strategy.
- Historical performance indicators are common in performance management, but they can only tell us about the past. They cannot predict what will happen in the coming days. Boards and management should devote time to explore the future possibilities given a set of current business conditions, and how the future is unfolding. By keen monitoring and good use of scenario analysis, companies can implement a forward-looking risk management and strategy adaptation mechanism that could change the fortunes of the company.

In conclusion

- In successful strategic planning, strategy implementation is no less important than the design and formulation of the strategy. However, organizational attention on the implementation stage is normally low and the failure rate high. Without effective implementation, even the best strategy is useless.
- There is need for reconceptualizion of strategy as an iterative loop. The fundamental advantage of strategy loops is their ability to incorporate new information and translate it into effective action- they integrate formulation and execution and are well suited to disruptive and rapidly changing environments like COVID 19.
- In good governance, one of the board's key responsibilities is to set the strategic direction of the company and ensure its L-T survival. Recent surveys reveal that boards are spending much more time on understanding, questioning, and refining the companies' SPs. The are also being involved in setting the company's risk appetite and ensuring its fit with strategy.

Thank You

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