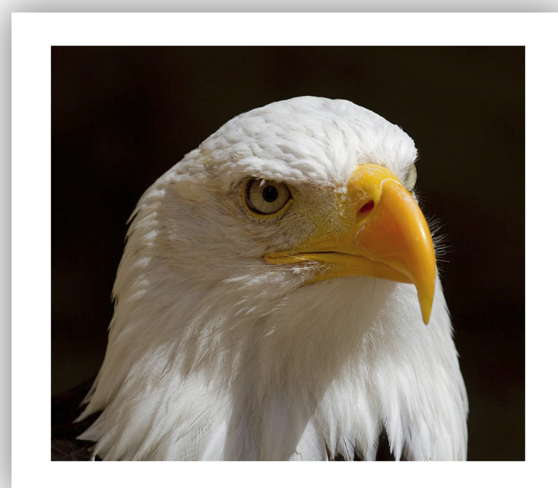
A "Board's Eye View of Strategy"

For Companies Beyond the Venture Stage



November, 2014

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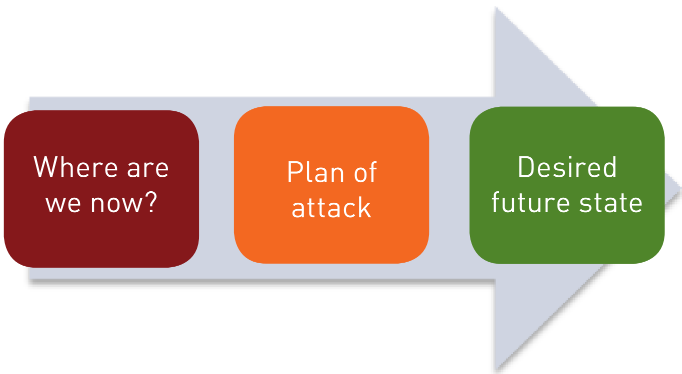
Strategy – the key is knowing what you should and can do, what you have to give up, what the market will embrace – then it's about focus!

Boards of Directors play an important role in strategy setting and in their approval of the strategic plan. In our view, deciding the right strategy is one of the most critical jobs the board must get right!

Governance, as defined by the OECD is the "system by which an organization is directed and controlled". The board can provide no clearer direction to the CEO than through approving the strategy and no better control on behalf of stakeholders than by monitoring progress against it.



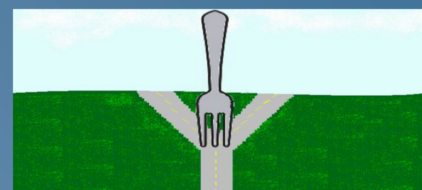
Knowing where we are, and where we want to be in the future is a good first step. It identifies the strategic gaps that must be addressed. That makes it easier to decide on the actions that will need to be taken. There's more to it than that.

We still must ask – will this add value to our customers? Can we really do this? Are we good at it? What do we have to give up – is it worth it. Can we stick with it? Can we actually implement our plan?

It's advantageous if at least some members of the board have experience running businesses that have faced similar challenges. Issues are likely to be clearly identified and challenged. But what if that's not the case?

This paper sets out a process and some sample questions boards can ask to ensure they've tested the plan and understand its consequences.

Strategic Choice



There is probably no word that is used more in board rooms than strategy. We all agree it is important.

Strategic planning is about choices. Planning changes as new opportunities arise.

We've yet to come across two organizations that define strategy exactly the same way, much less plan the same way as each other. Nor do we find any evidence that the same process is used in successive planning cycles.

The challenge facing planners is that in the face of faster and faster paced change, the time needed to gain real traction in core markets can still take several years.

The key is to "pick right", "focus" and "stay on track".

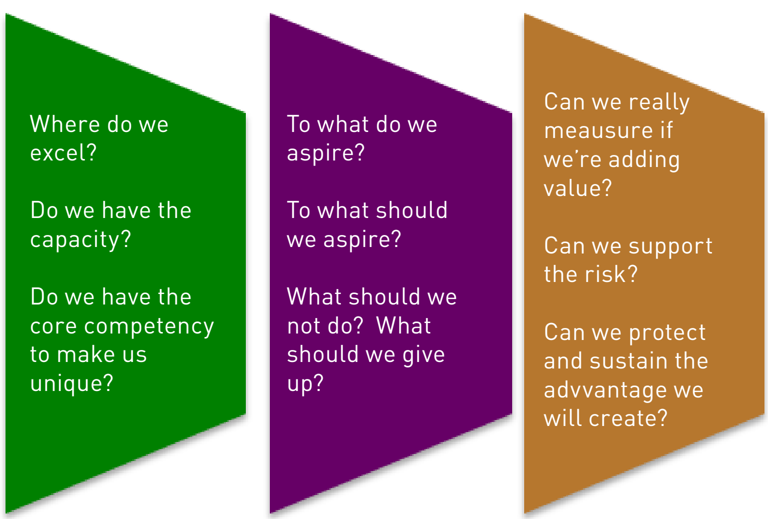
The purpose of strategy and the need for comprehensiveness

In most sectors – save regulated industries where competition is moderated, the top two competitors control the lion's share. IOS/Android, Holt Renfrew/Harry Rosen and Airbus/Boeing are large sector examples. The same principal holds true for regional competition, sub-categories and specialties. In Victoria BC, national brand David's Tea and locally owned Silk Road dominate the local tea market.

The key is to be one of the top two competitors in any defined market space. Effective strategy setting is critical.

Far beyond setting sights on growing revenue by 10% and calling it a strategy is the need for a cohesive choice of actions that add value for customers, can be leveraged, and can't be easily copied.

Strategy is more than goal setting. It is also about knowing what we can do, what we should and should not do, what customers tell us adds value for them. Testing "all" of the steps we must take to create something unique, difficult to copy and sufficiently profitable to be sustained. It's a good way to prove the plan can be implemented. Tough choices may need to be made.



* Source – Upturn Case Files

*Case Study
Comprehensive Strategy

A regional financial institution looked to deliver a unique suite of services customers would view as adding value.

A combination of factors was brought to bear.

Customers were asked to help design a new suite of products. Their satisfaction with the total product suite was measured every quarter.

New software was developed to allow each customer to be profiled and measured as a profit centre.

A variable, commission based compensation plan was put in place to drive sales, accompanied with ongoing risk assessments. Sales personnel were paid for both quality and volume.

The net result was that the FI became the second largest competitor in a market in which many national banks were present.

The President felt that simply stating growth targets would have been insufficient. A cohesive strategy convinced both the market and the organization itself of the value inherent in the approach.

The President also felt that testing the plan to ensure it could be implemented provided added confidence.

The board's assessment of strategy

One of the reasons boards micro-manage is that they may not fully understand the strategy or feel they can support it. It's tough to let go, but it is absolutely essential that management be given the freedom to run the business within the approved plan. Often management is blamed for being unclear in their proposals. That may in fact be the case but there's always the possibility the board may not understand the issues to the degree that is necessary.

The board must reach, a point where it is sufficiently conversant with the plan and issues it is designed to address. Without that level of understanding, the board cannot move beyond its role to provide direction and begin to meet its oversight responsibilities. It cannot do that until board members are confident they've met their due diligence mandate.

Think of it this way. Acting as stewards, the board must determine how capital is to be allocated. One of the principal roles of capital is to support risk taking for the purpose of augmenting returns to shareholders. By deciding to support a proposal of strategy, the board must be satisfied that the risks and opportunities that are inherent in the proposal are more beneficial than other alternatives that might be considered. In other words, the risk-adjusted rate of return associated with the strategy is a sufficiently good investment. Approving a strategic plan is making an investment, and the board has to ensure it is duly diligent in its decision-making.

We recommend a Three Tiered Approach along with some sample questions on the following page:

Tier 1 examines the board and the organization's capacity to reach reasoned conclusions including the approach to completing assessments – in other words, do we know what we're talking about? Simply how do we know?

Tier 2 assesses the question – are we really confident in the strategy, and equally important do we have confidence we have considered all the components that need to be put in place to action it? It means having confidence we're on the right track.

Tier 3 explores whether we see our organization, the actions we intend to take and the way we envision ourselves in the future as sustainable and able to add value to customers going forward.

* Source – Adapted from Upturn Consulting's Key Business Driver Inventory

A Case Study

A small, regional FI identified its key business drivers to include reduced rental vacancies, changes to central bank interest rates and shifts in investor preferences.

A condition developed in which falling interest rates were likely to make home ownership more desirable at the same time funding loans through increased deposits was to be become more difficult.

Total revenue was quickly re-forecast disclosing significant opportunities to increase lending volumes, but an attendant need to finance lending programs with inter-bank loans and expensive external investment.

One option was simply to not respond to the emerging opportunity but that would mean being absent from a robust market.

It was determined that the company would reactivate its mortgage securitization program. This way it would remain in the market, capture additional fee income and retain its work force.

The company amended its short-term incentive program to augment lending and was able to build momentum in the local market.

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Sample strategy assessment questions

	Where are we Now?	Plan of Attack	Desired Future State
Tier 1 How we know	What is the Board's ability to understand the business now? Formal evaluation process was used - SWOT, PEST, 5S, LEAN etc.? Confirmation from customers that we add value for them? Weak points are considered along with strengths?	Board members have had exposure to plans similar to this one? Clear on what the plan does not address, what we are giving up and are we prepared to accept the fallout? Can see all of the re-engineering requirements, new investments needed and how they will be addressed?	Understand how competitors respond to our initiatives? Know which way the "herd" is moving and where bubbles may arise and are mindful of the traps? We talk about accountable, measureable outcomes as opposed to inputs? All levels of the organization aligned and supportive?
Tier 2 Confidence we are on the right track	Confirmed we're as good or bad as we say? Clear on under-performance and can address the root causes?	Plan is cohesive, considers all aspects and we know we can implement it and manage attendant cultural changes? Clearly within our risk appetite?	Know what we can and cannot control and have mitigated the uncontrollable? Have mapped out potential disruptors and our response?
Tier 3 Know we're sustainable going forward	Clear understanding of what we don't, can't and won't do? We've identified trigger points and early warning indicators that signal the need for a change in direction?	Sought clarity, explanation and are convinced ROI achievable and best return on investment given the options? Link between initiatives and sustainable value is clear?	Confident that we've differentiated and the link between core competencies and the creation of differential value is clear? Customers have confirmed we will be on track?

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UPTURN Our Approach to Board Strategy Assessments

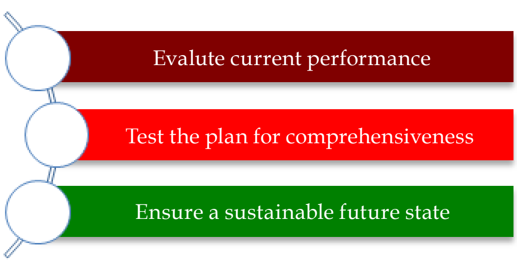
We believe boards must have a defined process to guide them in their assessment of strategy and their debate and approval of the strategic plan.

We work with clients to help craft long-term strategies and help boards gain comfort that their assessment has met due diligence standards.

Our work starts with a series of interviews designed to help us understand current requirements, gauge the level of planning capacity, design planning approval criteria and ensure outcomes and metrics are clear. We assess implementation planning and change management programs.

Our assessments help to establish early warning indicators and performance trip wires to help boards meet their oversight responsibilities.

All organizations must meet a market need to be sustainable over the long term. Ensuring there is a complete and objective assessment of the current state of affairs, assessing the plan for completeness and the capacity to implement it, then testing to ensure value is added and responds to customer needs ensures the strategy's long-term effectiveness.



That allows clients confidence they have chosen the right strategy. Then, it's possible to remain focused, and to stay on track

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Upturn Consulting Ltd. serves a range of clients from its offices in Victoria, British Columbia, Canada. Clients include financial institutions, regulatory bodies, universities, agri-business and government.

Areas of consultancy include corporate governance, risk management, strategic assessment and business reorganizations – including mergers and acquisitions.

Prior to accepting an engagement, Upturn determines client requirements and makes a determination of the outcomes that must be delivered to add value to its clients. Client requirements and value added outcomes form the basis of the agreements that are reached before engagement letters are signed.

Upturn provides on-site management for client projects if required

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