LogiStyle

Helping Corporations Develop Logical Leadership

Food for Thought September 2008

Should the Board get involved in Strategic Planning?

Food for Thought is our way of sharing interesting concepts on corporate leadership and management with others who might find it useful. The thoughts offered are intended to be controversial and thought provoking. They always follow our motto of helping develop logical leadership.

This topic is particularly germane to directors on boards of small to mid-cap public companies. Such companies typically operate in well defined markets and are unlikely to be a large conglomerate. Many directors of such companies are either former CEOs or have served in a senior operating capacity, often in related markets and businesses. Such directors are tempted to make meaningful contributions to the company's strategic plan, much to management's chagrin. Management silently laments that these directors seldom have the depth of understanding of the current markets, the breadth of understanding of the current business, the intimacy with the organizational capabilities or the responsibility of execution that is required for developing a viable strategic plan. Directors should leave it to management to develop and present the best organic strategic plan that they can generate – a plan that is based on the implicit assumption that the company will continue as a going concern, with the current management team in charge. We will call this Option A.

What then is the role of the board in the strategic planning process? It is actually significant. However, it is not in the creation of the plan, but in evaluating it. The board should ask management to provide not only an organic plan (Option A) but a set of strategic alternatives, Option B. The strategic alternatives, violating the previous assumption that the company remains a going concern in its current form, should include a spectrum of possibilities, ranging from breaking up the company, selling detachable pieces, to selling the whole company.

The board's job is to evaluate the credibility of Option A, taking into account the potential optimism and the long term execution risk inherent in the plan, and compare it against

Option B, taking into account the more immediate payoff for the shareholders that it might offer. The board should compare these two options against a third option, Option C: a hypothetical analysis, conducted by the independent directors of the board, examining what a new management team that is brought into the company might propose. The board's role in strategic planning is to evaluate these three options and choose a direction for the company.

Too often, some directors become so attached to the company that it becomes their identity. Such directors ignore their role in evaluating Options B and C, and instead get intimately involved in Option A – the organic strategic plan. Seldom do boards proactively examine Option C until that option is likely to be invoked. Examining all three options during each annual strategic planning cycle allows the board to contribute in a broader way in governing the company's management rather than meddling in what should be management's job – the development of an organic strategic plan.

We have received many responses to our Food for Thought mailings, asking if you can freely share and forward these thoughts. Indeed you can. All we ask is that a clear attribution to LogiStyle and our contact information are included. For the interested reader, we have archived some of our recent Food for Thought mailings at our website, and can be viewed at LogiStyle: Food for Thought Archive. As always, we welcome your comments. We hope your business is doing well. If we can be of any assistance please fell free to call – even, if just to chat.

Best Regards,

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