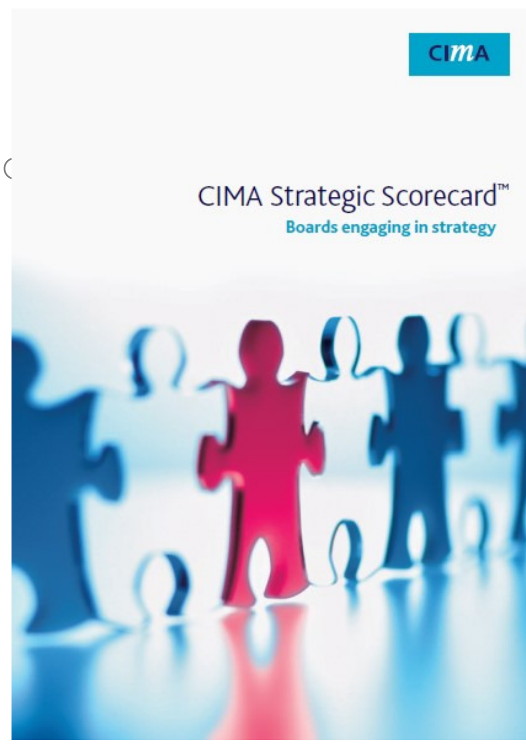
HOW TO ENGAGE BOARD OF DIRECTORS IN STRATEGY USING THE CIMA SCORECARD

A SUMMARY BY DR. ALVIN ANG



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WHAT THIS ARTICLE IS ABOUT

The best planned strategy counts for nothing unless it is implemented successfully ((CIMA), 2007). The key role of any Board of Directors is to provide effective oversight. However, many challenges stand in the way of Directors doing real strategy.

The Chartered Institute of Management Accounts (CIMA) has created a tool – called the CIMA Strategic Scorecard™ - to provide the board with a standardized framework for dealing with strategy.

Figure 1: The CIMA Strategic Scorecard ((CIMA), 2007)

Benefits of the scorecard include:

- ✓ Helping to facilitate discussions at board meetings by providing strategic information in a consistent and summarized format.
- ✓ Providing assurance to the company's Stakeholders by informing them of the organization's current strategic position and progress.
- ✓ Helping Directors gain grasp of the environment so that they can offer constructive and informed input.
- ✓ Regular Board meetings require constant preparation and updates to the scorecard –this helps the Board focus on key issues.

- ✓ Enforces constant refinement to any proposals before exposure to Board meetings – and improving the quality of the Board's contribution.

- ✓ Sharing after-meeting scorecard details with the company's Management Team helps keep consistency of strategy throughout the company – and having more constructive engagement with them.

- ✓ Helps to identify gaps in knowledge.

This article presents a step-by-step summary of how the Board can use the CIMA scorecard to aid them in Strategic Planning.

PART I

COMMON CHALLENGES OF BOARD OF DIRECTORS

According to (CIMA) (2007), the common challenges facing Board of Directors are:

1. Lack of Time and Crowded Agendas.

    - Berry (2012) stated that most Directors are doing Managerial roles – and not Directional roles. This is because it was their managerial experiences that got them promoted to the Director level, and so they are more comfortable doing what they had been doing – getting stuck in their comfort zone.

    - They spend most of their time doing day-to-day operational firefighting and focusing on compliance issues with new laws – while their role should be to ensure that the board exercises its mandate and requirement to operate at a strategic level (Carter & Lorsch, 2004).

    - Their tasks should be considering alternative strategies, exploring whether a strategy is working or not, whether strategic aspects are on track or falling behind.

2. Too Much Information.

    - It is not that the Directors receive too little information, but that they receive too much.

    - This information is often poorly organized and presented in different formats at each meeting – causing confusion and missing out the important issues ((CIMA), 2007).

    - This leads to most Directors forgetting much of the information given in recent meetings (Carter & Lorsch, 2004). Which in turn leads to Directors not having a complete understanding of the Corporate Strategy. (A McKinsey survey revealed that 68% of Senior Executives have no complete understanding of what their Corporate Strategy is ((CIMA), 2007).

    - This coupled with the complexity of the business makes it difficult for them to get a deep understanding of the organization.

3. Lack of robust processes

- Strategy is an on-going process. However, Boards may only meet annually, or fewer than that.

- The interval between Board Meetings are termed "away-days" – where a vacuum exists in-between meetings.

- This causes unfamiliarity during meetings because there are no on-going processes to sustain the Strategy momentum.

PART II

WHERE DOES THE CIMA SCORECARD FIT IN?

Figure 2: Enterprise Governance Framework ((CIMA), 2007)

ENTERPRISE GOVERNANCE FRAMEWORK

Figure 2 shows the Enterprise Governance Framework of an organization. The Conformance arm comprises of rules and compliance control methods, while the Performance arm comprises of value creating methods.

The highlighted box in red shows the area where the CIMA Strategic Scorecard™ fits in. In other words, the CIMA Scorecard™ is a value creation tool that enhances Corporate Strategy – and not an audit tool meant for compliance management.

KEY PERSONNEL INVOLVED IN IMPLEMENTING THE CIMA SCORECARD™

These are the Key Personnel involved in implementing the CIMA Scorecard:

A. Chief Executive Officer (CEO)

B. Scorecard Owner

C. Company Secretary

D. Management Team

E. The Board itself

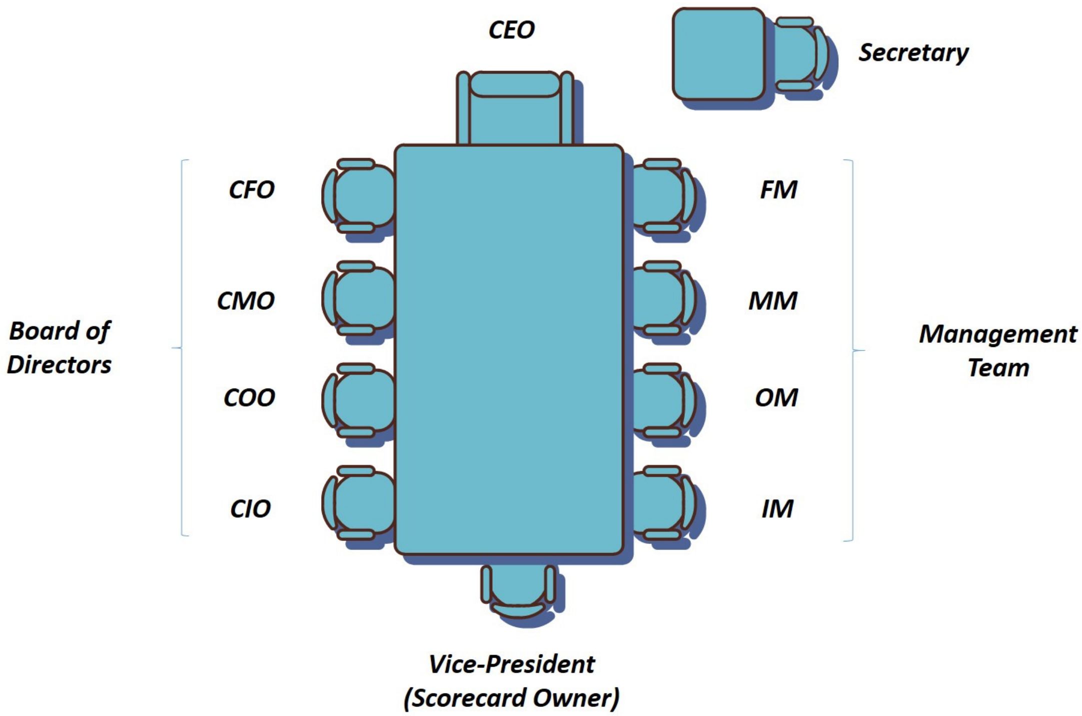

Figure 3: A Possible Layout of the Board Meeting with Key Personnel running the CIMA Scorecard

Figure 3 above shows a possible seating arrangement of a typical Board Meeting with Key Personnel involved in the CIMA Scorecard™.

On the left hand side sits the Board of Directors where

✓ CFO: Chief Financial Officer

- ✓ CMO: Chief Marketing Officer
- ✓ COO: Chief Operating Officer
- ✓ CIO: Chief Information Officer

On the right hand side sits the Management Team where

- FM: Finance Manager
- MM: Marketing Manager
- OM: Operations Manager
- IM: Information Technology (IT) Manager

CHIEF EXECUTIVE OFFICER (CEO)

These are the Role and Responsibilities of the CEO:

- ✓ Act as the advocate of the CIMA Scorecard. Responsible for leading discussions.
- ✓ Responsible for ensuring that it is delivered to the board at the appropriate time with complete, relevant and high quality content
- ✓ Not directly responsible for preparing and updating the scorecard
- ✓ Needs to ensure buy-in from both the Board and Management Team

SCOREDCARD OWNER

The Scorecard Owner should be a member of the organization's Senior Management Team (or its equivalent), preferably the Vice-President of the company – seconding the CEO. He/she is usually the Chief Strategy or Finance Director.

He/she is responsible for managing the strategic planning process. The initial preparation of the scorecard is likely to be a joint responsibility of the strategy director and the finance director, but the subsequent regular updating should be the responsibility of the finance director.

COMPANY SECRETARY

The Company Secretary is responsible for preparing the Board's agenda.

BOARD OF DIRECTORS

The Board's responsibilities are:

- ✓ To review and challenge the information that has been presented to them
- ✓ To decide appropriate follow up action.
- ✓ To make constructive suggestions
- ✓ Each Director should be given individual responsibility for each separate aspect of the scorecard. Then, that particular Director should drive the delivery of specific projects with regards to that individual aspect. That particular Director should be supported by the appropriate Manager.
- ✓ As an example,
    - The CFO can be in charge of the "Strategic Position" portion of the scorecard
    - The CMO can be in charge of the "Strategic Options" portion of the scorecard
    - The COO can be in charge of the "Strategic Implementation" portion of the scorecard
    - The CIO can be in charge of the "Strategic Risks" portion of the scorecard.
- ✓ Thereafter, each of them is responsible for driving projects with regards to that portion.
- ✓ He/she will be supported by the respective Manager. For example,
    - CFO will be supported by the FM
    - CMO will be supported by the MM
    - COO will be supported by the OM
    - CIO will be supported by the IM

MANAGEMENT TEAM

These are the responsibilities of the Management Team:

- ✓ Supporting the respective Director in providing input on the part of the scorecard for which they have been allocated.
- ✓ Enforce standardization so that the data gathering can be as routine as possible.

PART IV

KICK-STARTING THE SCORECARD

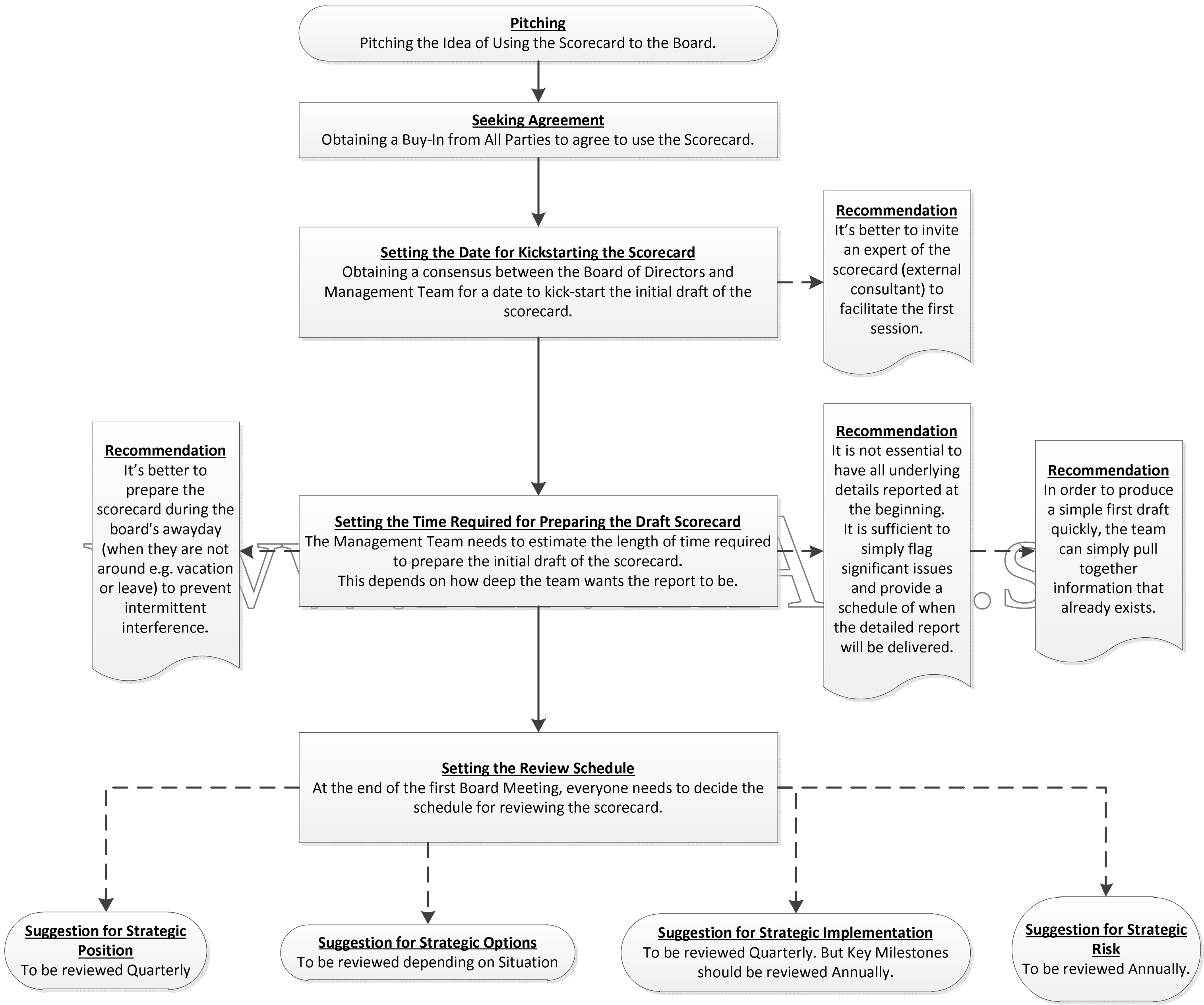

Figure 4: Steps to Kick-Start the CIMA Scorecard

PART V

STRATEGIC POSITION

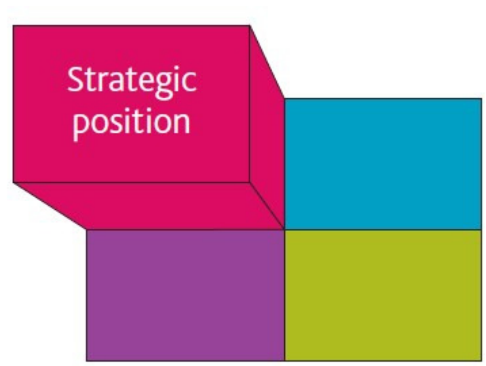

Figure 5: Strategic Position ((CIMA), 2007)

STEP 1

WHAT STRATEGIC POSITION CONTAINS

The possible areas that should be discussed by the Board for Strategic Position are shown in Figure 6

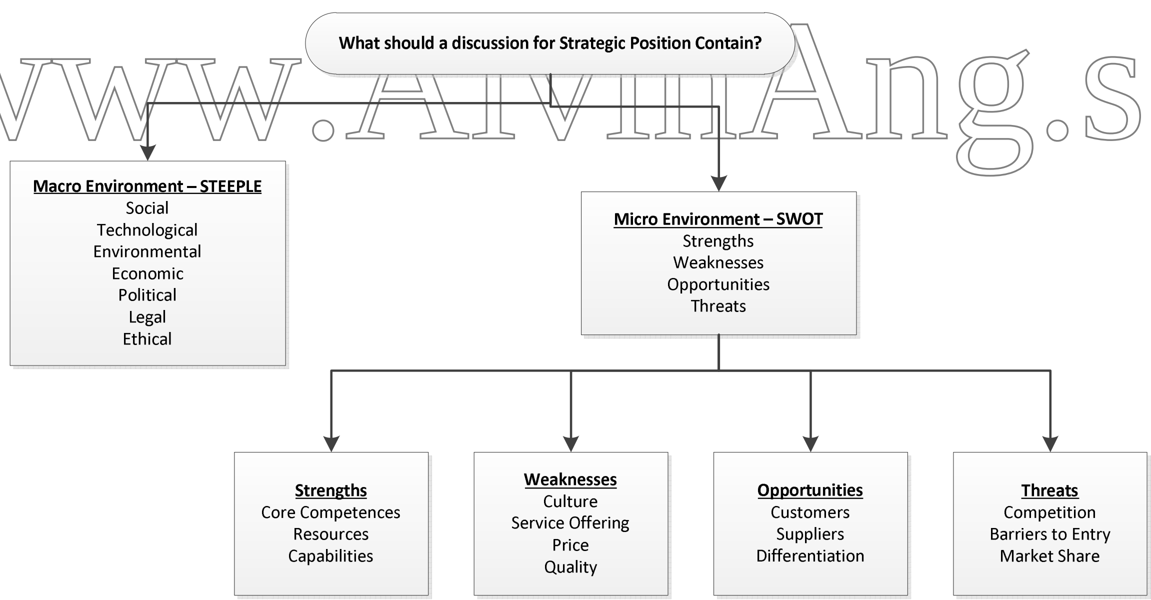

Figure 6: Possible Areas of Discussion for Strategic Position

STEP 2

POSSIBLE TECHNIQUE

One possible technique to execute Strategic Positioning is the Boston Consulting Group (BCG) Matrix.

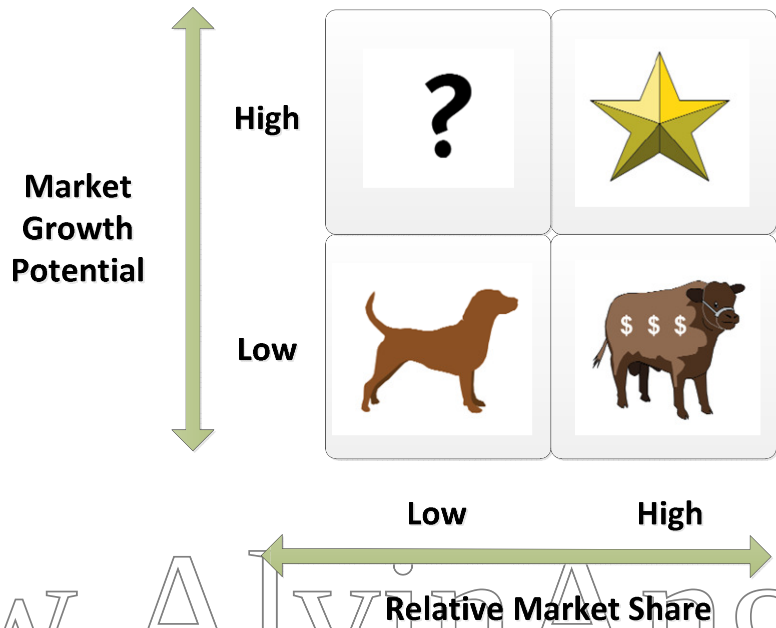

Figure 7: Boston Consulting Group (BCG) Matrix ((CIMA), 2007)

Figure 7 shows the Boston Consulting Group (BCG) Matrix. It helps the company identify which quadrant it currently is in – and which quadrant it wishes to progress on next. These are what the figures represent:

- ✓ Dog – Representing low growth and low market share.
- ✓ Question Mark – Representing high growth but low market share.
- ✓ Star – Representing high growth and high market share. An organization aspiring to grow rapidly should aim for this quadrant.
- ✓ Cash Cow – High market share but low growth. This quadrant could possibly be targeted by a company as part of its portfolio since it can generate future growth in new areas (funds for new investment).

STEP 3

BEST PRACTICES

These are some tips to do well at Strategic Positioning:

1. Do not overload the Board with information.
2. Use a few key points, as a summary, emerging from analysis.
3. Do not over analyze. Select a few tools and stick to those.
4. Need to develop own tools and techniques to understand positioning effectively.

PART VI

STRATEGIC OPTIONS

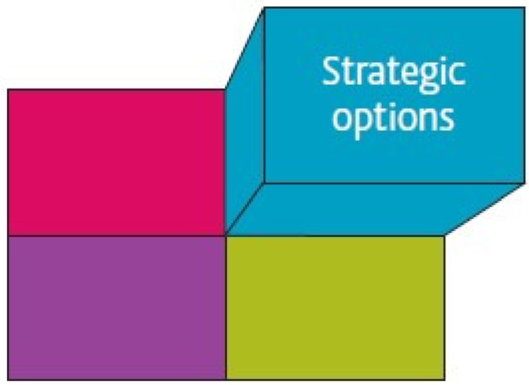

Figure 8: Strategic Options ((CIMA), 2007)

STEP 1

WHAT STRATEGIC OPTIONS CONTAIN

Strategic Option is executed in 2 phases:

Phase 1: Options Generation.

- This is the creative phase where ideas should not be constrained.

Phase 2: Evaluation and Analysis of Options:

- Evaluating the strengths and weaknesses of every option – a critical, judgmental point of view is required here.

STEP 2

POSSIBLE TECHNIQUE

One possible technique to execute Strategic Options is the Strategic Options Grid.

Table 1: Example of a Strategic Options Grid adopted from ((CIMA), 2007)

Criteria / Options	Strategic Attractiveness	Financial Attractiveness	Implementation Difficulty	Uncertainty and Risk	Acceptability to Stakeholders	Total Score
1. Incremental Strategy	1/3	2/3	2/3	2/3	2/3	9/15
2. Float Off Food	2/3	3/3	2/3	3/3	2/3	12/15
3. Close More Stores	2/3	2/3	1/3	1/3	2/3	8/15
4. Rationalize Products	3/3	2/3	2/3	2/3	2/3	11/15
5. Increase Franchise Space	3/3	3/3	2/3	2/3	2/3	12/15

Table 1 shows the Strategic Options Grid. For each option, score each criterion from zero to three. The scores are totaled and an ideal total score is 12 or more. This grid was taken from an example used in Marks and Spencer.

A brief explanation of each option used by Marks and Spencer:

1. Incremental Strategy (defined internally by Marks and Spencer).
   - ✓ Evaluation: This would not really improve M&S's long-term competitive advantage and it would be a high risk approach, because the business would become even more exposed.
2. Float off food (which means to offer shares of Marks and Spencer for sale on the stock market)
   - ✓ Evaluation: This would make shareholders better off, since the business is probably undervalued. It would not be inherently hard to do this.
3. Close more stores.
   - ✓ Evaluation: This would focus the company on its key outlets, but it might damage the brand and decrease customer loyalty in the process.
4. Rationalize products (e.g. stop selling men's shoes).
   - ✓ Evaluation: This would DE clutter the business and provide an opportunity for growth.

5. Increase franchise space.

    ✓ Evaluation: This would allow in other products, which could create more interest.

STEP 3

BEST PRACTICES

These are some tips to do well at Strategic Options:

1. Recognize options that determine a firm's profits and select those (even if they are unquantifiable).

2. Reduce the number of options down to four or five. This will help the board maintain focus on the big picture.

3. Be clear about what has to happen before the option can be pursued. Strategic options may not have a very promising timeline. Some options are put on the shelf, waiting for the right combination of circumstances to emerge before a decision is arrived.

4. Be flexible when using the Strategic Options Grid. Organizations may use them too rigidly, convincing themselves that they have 'generated Strategic Options' simply by filling up the boxes. However, true options represent a way of thinking rather than getting embroiled in techniques. It is all about creating possibilities for the future, which is the key essence of the Strategic Options dimension.

5. To explain point 4 in greater detail:

    a. The organization may think that some options are disparate, while they can be combined to form a single desired scenario. In other words, every strategic option needs to have its own standalone merit.

    b. When combining options to form a desired scenario, it may spur a new project. In other words, rather than 'micromanaging' these options, 'macro managing' actually gives the organization greater strategic flexibility.

6. Keep watch of costs required when creating/executing these options.

PART VII

STRATEGIC IMPLEMENTATION

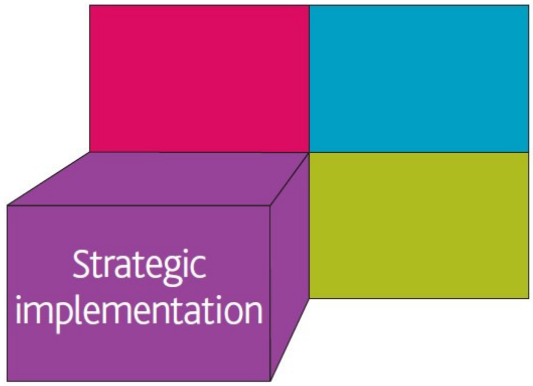

Figure 9: Strategic Implementation

STEP 1

WHAT STRATEGIC IMPLEMENTATION CONTAINS

Strategic Implementation means Execution of the Strategic Options in a nutshell. However, there's more to it. Besides simply executing the Strategic Options, it contains:

1. Detailed and attainable milestones
2. A critical path to link these milestones
3. Evaluation of every milestone. This will help the board decide whether to accelerate, abort, delay or, possibly, switch strategy (in-between milestones).

STEP 2

POSSIBLE TECHNIQUE

A possible technique to perform Strategic Implementation is: The Balanced Scorecard (BSC), developed by Kaplan and Norton (1996). This was originally developed as a way of addressing companies' Performance Measurements problems. However, it has evolved from being a Performance Measurement system to a Strategic Implementation system because:

- ✓ The BSC forces the management to translate vague strategies into concrete objectives and measures.
- ✓ It is easy to cascade the scorecard down throughout the organization and create a culture of shared objectives.

The BSC measures performance of an organization from four perspectives:

1. Financial Performance: Revenue, profitability, cash and budget.
2. Customer Performance: Value creation from the perspective of the customer, for example, customer satisfaction
3. Internal Business Processes Performance: Key processes of the organization that adds value to customers.
4. Learning and Growth Performance: Employee skills and Information Systems.

The BSC will not be presented here in detail. More information about it can be found in the book "The Balanced Scorecard: Translating Strategy into Action" by Kaplan and Norton (1996) .

STEP 3

BEST PRACTICES

These are some tips to do well at Strategic Implementation:

1. Regarding inter-milestones and timelines, the board needs to be aware of breakpoints where interventions might be required.
2. Milestones should be reported regularly, together with implications and necessary corrective action.
3. Strategic Implementation is meant to focus on a small number of key projects that are crucial to the delivery of the strategy. Thus the board should not get too bogged down in details.
4. Directors need to have a feel for how management executes strategy, including some of the tools and techniques used by them.

PART VIII

STRATEGIC RISKS

Figure 10: Strategic Risks

The Strategic Risk dimension encompasses the other three dimensions, namely, Positioning, Options and Implementation. Although it appears last, Strategic Risk Management is embedded within the overall CIMA scorecard. It wraps up the entire scorecard with identified risks for each of the other dimensions.

STEP 1

WHAT STRATEGIC RISK CONTAINS

There are three key components in Strategic Risk Management:

1. Determining the Organization's Risk Appetite. Every organization has a risk appetite regardless of whether it is aware of it or not. The determination of its Risk Appetite provides an overall context.

2. Identifying the Organization's Risks. This includes determining the various risks, the likelihood of their occurrence and the company's ability to manage them.

3. Managing the Organization's Risk. This includes risk prioritization, how risks are managed and monitored, and whether any risks are currently materializing.

STEP 2

POSSIBLE TECHNIQUE

A possible technique to perform Strategic Risk Management is to use CIMA's Risk Management Guide taken from (CIMA) (2009). The steps are outlined below:

1. *Determining the Organization's Risk Appetite*

Risk Appetite can be qualitative or quantitative. It need not be complicated, but the following can be considered:

a. Specific risks that it will not accept

b. Level of capital the organization willing to risk

c. Risk appetite comparison with peers

A Risk Map (Figure 11) helps to assess the defined risk appetite. Beyond the Risk Boundary, the strategy may be rejected or modified to the point where it falls within the risk appetite.

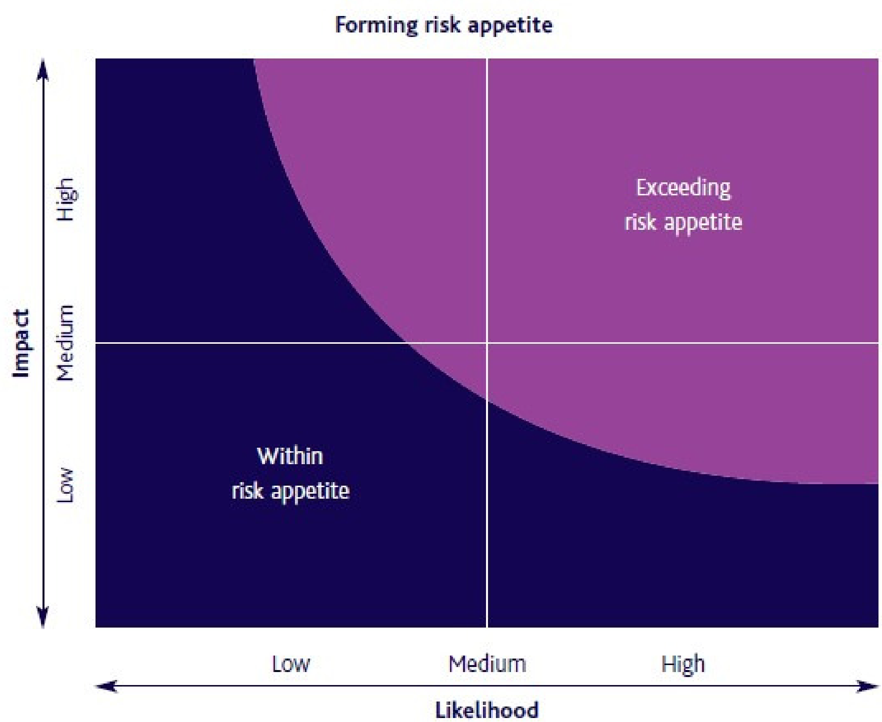

Figure 11: An Example of Determining Risk Appetite ((CIMA), 2007)

2. *Identifying Risks*

Techniques include:

- ✓ Risk Workshops
- ✓ Brainstorming sessions
- ✓ Interviews. Finding the most effective sources of knowledge.

3. *Managing Risks*

Techniques for assessing risks may include:

- ✓ Scenario Planning
- ✓ Computer Simulations
- ✓ Decision Trees
- ✓ Sensitivity Analysis

Typically, organizations respond to risk in four ways:

- ✓ Risk Retention
- ✓ Risk Avoidance
- ✓ Risk Reduction
- ✓ Risk Transfer

STEP 3

BEST PRACTICES

These are some tips to do well at Strategic Risk:

1. Determining Risk Appetite and Identifying Risks are easier than Managing Risk. Thus, hard work is required to embed Risk Management within the organization on a long-term basis.

2. Risk Management should be a continuous process. Figure 12 shows the Risk Management Cycle proposed by (CIMA) (2009).

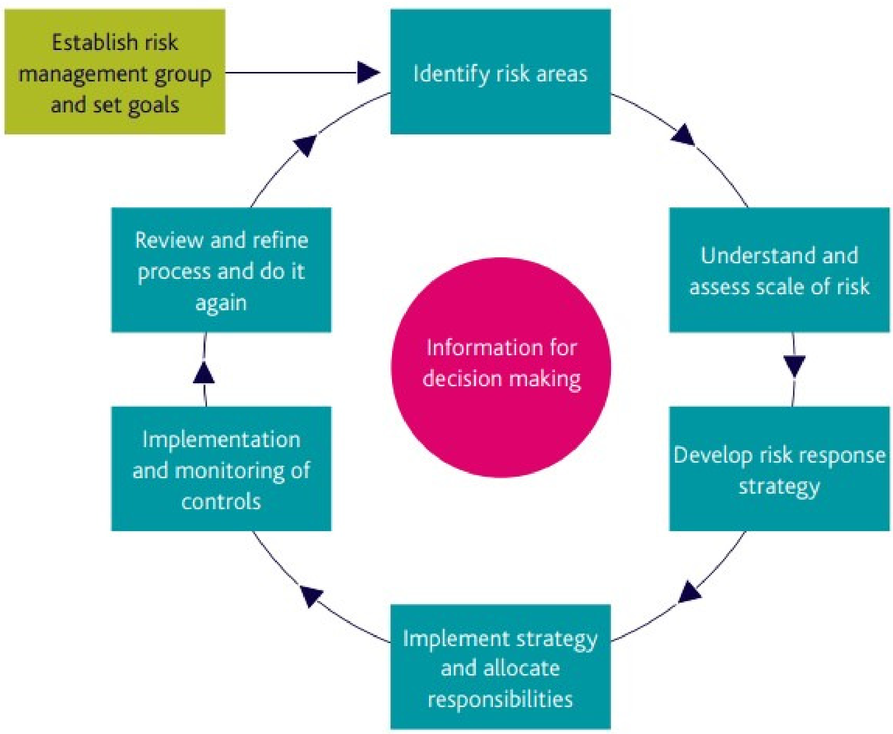

Figure 12: Strategic Risk Management Cycle ((CIMA), 2009)

3. The Risk Management Group should include everyone i.e. not just the management team, but also technical specialists such as engineers and IT staff, external experts and other stakeholders. This will help identify risks from a variety of perspectives.

PART IX

CONCLUSION

Table 2 shows a summary of techniques used in the CIMA Scorecard.

Table 2: Summary of Techniques used in the CIMA Scorecard

Strategic Positioning Technique Used: Boston Consulting Group (BCG) Matrix	***Strategic Options*** Technique Used: Strategic Options Grid
Strategic Implementation Technique Used: The Balanced Scorecard (BSC)	***Strategic Risks*** Technique Used: CIMA's Risk Management Guide

The CIMA Strategic Scorecard™ summarizes Corporate Strategy in a consistent format to enable the board to exercise oversight. All the separate sections shown above would be combined to create a single document. This helps the busy non-executive director see all the major strategic issues at a glance.

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ABOUT THE AUTHORS

ABOUT CIMA

The Chartered Institute of Management Accountants (CIMA) is the world's leading, and largest, professional body of management accountants. They provide courses and certifications on management accounting, financial accounting and business-focused subjects. More about them at www.cimaglobal.com.

ABOUT DR. ALVIN ANG

Dr. Alvin Ang earned his Ph.D., Masters and Bachelor degrees from NTU, Singapore. He is a scientist, entrepreneur, as well as a personal/business advisor. More about him at www.AlvinAng.sg.