IS YOUR BUSINESS MODEL BECOMING obsolete?

Julie Garland McLellan discusses how to handle one of the major risks facing all organisations – that consumers not longer want to buy their products or services.

Companies exist to manage risk. They generate rewards by doing so effectively. A key role of the board is to ensure that the company has a strategy that will generate rewards to meet the expectations of shareholders at an acceptable level of risk. In the not-for-profit sector the strategy is to achieve, or advance towards, the organisation's objectives while effectively managing risk. Government boards often have the difficult role of balancing financial and non-financial risks and outcomes, but must still develop and implement a strategy that reflects the shareholder's need for returns and appetite for risk.

Following the corporate collapses of the late 1990s and early 2000s attention has focused on the compliance role of the board and on structures and practises that are likely to prevent malfeasance. Many directors now claim that excessive focus on compliance is distracting boards from their role of formulating strategy and ensuring implementation optimises risk management and achievement of objectives.

When directors talk about risks that threaten achievement of their organisation's strategy, one of the most often cited risks is that people will simply stop buying the organisation's products and services. This is a concern to directors because it is absolutely fundamental to the organisation's viability. It keeps many directors awake at night because management of this risk happens (or not) at executive levels which the board cannot oversee in detail. They find it difficult to tactfully inquire whether everything is as it should be.

Business model

Even utilities or primary producers face this risk, although in a modified form as the concern is with changing ways to satisfy consumers. These changes could render the business model obsolete even though the product is still required (often by driving down the price to a point where only proponents of the new model are economically viable).

In many boards this risk, although real, is not imminent. The board tracks development of the risk by reviewing key performance indicators (KPIs) that can include:

- market share
- R&D spending and results
- staff training and skills development
- competitor activity in developing new products and services
- customer satisfaction, and
- prospect pipelines.

Board and management regularly review their KPIs and assess if different measures might improve understanding of current events and if the KPIs indicate any change in the level of risk. In an ideal world the company is able to stay 'one step ahead' and the risk never eventuates. In the real world, sooner or later, the indicators become the bearers of bad news.

So how can the board respond?

The first response is a proper analysis of the severity of the problem. The earlier the problem is addressed the less severe it is likely to be and there is more time for the board and management to develop effective responses. However, it is difficult to convince others that the risk is real when things are going well and warning signs that the current range of products and services are starting to lose traction in the marketplace are not yet clear. Directors in this position need to use tact, especially if they are the first board member to become concerned. Common strategies at this stage include establishing a market investigation taskforce or a subcommittee of the board to investigate customer sentiment and determine if there really is an issue.

Even when the answer to this query is negative such an investigation will add value by giving board members a greater appreciation of current customer concerns and showing management that the board has a proper focus on long term strategic issues. A minimum outcome of the investigation is improved understanding of the customer problem that the company's products and services solve. Understanding the key issues that cause the problem allows leading KPIs to be set and reported against at appropriate intervals, to provide adequate forewarning of adverse developments. Boards of companies that are sensitive to market demand usually ensure that this is on their agenda at least once a quarter. A major part of the

strategic planning process will consider customer needs and how the organisation will meet these needs.

If the problem has progressed to a stage where there are clear indications in the marketplace that demand is dropping it is far easier to gain a hearing at the board table but far harder to correct the problem. This is exacerbated if relationships between board and management are not candid and not based on trust. A shared desire to identify and remedy problems at an early stage is usually only gained if the board has previously worked on building appropriate relationships. When demand has dropped it is often too late to rebuild those relationships in time to solve the problem together. It is imperative that management is committed to working with the board; not writing optimistic board reports during the day and job applications every evening. If management doesn't admit to, and focus on, the problem in a proactive fashion the board must replace or enhance management until a correct focus is obtained.

First step

Delay at this stage can be fatal to the company. The first step for any board in this situation is a rapid review of the company's internal strengths and weaknesses. A candid discussion with management is difficult but can be easier if board members bring clear evidence of their concerns and demonstrate commitment to redressing weaknesses so that the problem can be addressed. The Company Directors Conference in May heard first hand how one board had broached such a difficult discussion and gained a successful result.

When relationships and focus are appropriate the board can decide how best to dedicate the necessary skills to solve the issue. Again, taskforces and committees are a frequent response at this stage as they allow a combination of skills from both board and executive ranks to be brought to bear on the problem. A consultant, contractor or interim executive, may also be required. Whatever the structures and the source of the expertise, successful companies manage the process as a project to ascertain the extent of the problem and to suggest a range of possible responses. This project should have a set timeframe, scope and budget, and should be managed to fulfil all such requirements. Specifying the scope is important; not many boards would accept a radical change of business such as the change that took Nokia successfully into the mobile phone industry. It is helpful if, at the outset, it is clear how radical a solution is likely to be acceptable.

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At the culmination of the project the board should endorse the selected solution. Regardless of the confidence that the board has in the management team, the board must understand, test and endorse the strategy. Major changes have higher risk of failure and greater need for close oversight. Failures of change programs and of new product deployment are also major risks directors worry about.

The next step is for board to select KPIs to monitor implementation and to set appropriate monitoring intervals for each KPI. Then they must let management manage! In some instances, regrettably, it may be all too late. If no viable strategy is found the board must look for an exit plan that will protect the interests of creditors and shareholders. If the board is proactive, an exit strategy that allows the company to assist stakeholders such as existing clients and employees should be achievable. As unpalatable as it may seem, there is always comfort in doing the right thing in difficult circumstances. Things could be worse; as one director of a not-for-profit assisting victims of cruelty exclaimed when questioned about lack of customer demand, "Lack of demand? I wish! We haven't got resources to meet demand."

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