PERFORMANCE TRUMPS CONFORMANCE

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The role of the board is to ensure its long term success, meaning that the company must perform. Conformance is hygiene and a matter of course. Performance is critical and can be achieved by developing and executing on a good strategy.

It is recognised that the role of the board is to take charge of the company and lead it from the top.

In so doing, its broad remit is to steer the company towards long term success. Executing this responsibility involves two broad areas: conformance and performance.

Conformance versus performance

Conformance is essentially about ensuring that the company meets its requirements in terms of legislation, accepted practices, rules, regulations and standards. These systems of checks and balances see to it that the company stands upright when accounting for its deeds.

Performance on the other hand is to do with ensuring that a company fares well as a result of the sum of the board decisions.

Many argue that conformance structures in a company contribute to its performance. Equally, there can be no success for a company without performance. As the chairman of a billion-dollar listed company once remarked to me, “If you don’t make money, what is there to safeguard?”

Rightly so, how a company is fundamentally organised drives performance because shareholders elect the board who, in turn, appoints management to run the company in the interests of shareholders. Annually, the board accounts to its shareholders how the company has performed.

It is no wonder therefore as to why boards are generally more obsessed with performance. In fact, according to SID’s *2015 Singapore Board*

Driving Business Performance

Begin with strategy

Strategy is simply a master plan of action designed to achieve an overall aim.

Most companies accept that strategy is important. But in reality, not many boards pay enough attention to strategy. There are several reasons for this:

- A strategic board is not easily achieved. According to a 2012 *HBR* article, "A More Effective Board of Directors", there are five disruptors that prevent a board from being strategic: lack of clarity, poor process management, poor team dynamics, board composition and lack on alignment and agreement on strategy.
- Strategy formulation is a demanding process. Strategic thinking and options force the board to confront a future they can only predict through approximation. Get it right and the company prospers. Get it wrong and the company may be wrecked. This is hard work that many boards are not inclined to do.
- Some directors myopically over-emphasise specific roles and miss the bigger picture of company performance. Directors are fundamentally fiduciaries, entrusted with the affairs of the company, which include its future.

While it is impossible to predict the future, it is possible to prepare for possibilities. Boards that spend more time thinking about their companies' future are more likely to get them there.

Follow up with execution

Having a good strategy does not guarantee success, executing it well does.

Many directors have said that execution is the role of management, not the board. While that is true to some extent, it would be incongruous with the board's fiduciary duties to be totally not involved.

The board should be both supporting management in execution and also ensuring that it delivers on the strategy.

One way the board can support management is to establish strategic initiatives, such as M&A and innovation projects. Such initiatives are time-based discretionary projects, outside the firm's core activities, but designed to help the firm achieve its targeted performance. The board can decide and champion the portfolio of initiatives needed to close performance gaps and facilitate sources of funding, over and above the operating budget.

Yet another way that boards can provide support to management is in customer intervention and strengthening specific customer relationships. Board members' thought leadership or successes in specific fields are powerful resources in establishing or strengthening customer relationships.

In the context of innovation, boards can play a special role in partnership with management in risk management. In this confluence, it helps to ensure that the company continues to perform without jeopardising the going concerns and its reputation.

The board also needs to ensure that management delivers on its strategy. It should monitor and measure management's performance, especially the CEO's. As the adage goes: what gets measured, gets done. Boards can do this effectively by having a dashboard which flags out trouble signs such as failure to meet earnings estimates, outdo peers or solve long-term or systemic problems.

of Directors Survey, which polled 210 listed companies, areas impacting business performance (intense competition, manpower constraints, limited domestic market and economic situation) were considered to be the most important areas of a board's focus. Regulations and government control came in fifth.

The law and regulations also point to performance as central to a board's main function. Section 157 of the Companies Act states that "the role of the Board is to manage, direct and supervise the business of a company and in so doing, exercise all the powers of the company". Principle 1 of the Code of Corporate Governance states that "the Board is collectively responsible for the long-term success of the company".

Delivering business performance

So it should be clear that directors must act in the best interest of the company, and what better interest can there be for a for-profit company than generating profit?

Any robust discussion on business performance begs the question, "what must a company do to generate profit in this day and age, and into the future?"

A recent *Harvard Business Review* article, "Great Innovators Create the Future, Manage the Present, and Selectively Forget the Past" makes clear that it is short-sighted for businesses to invest in its current successes. Business leaders must know that present day triumphs are the outcomes of successful innovative ideas of yester-years. Likewise, they must invest wisely in tomorrow's possibilities for tomorrow's profits.

In this sense, boards must ensure that the company's strategy is aligned to the innovation initiatives of today. This is what it means to drive business performance.

From a boardroom perspective, business performance is the measure of the decisions of the board against set objectives and there are many antecedents. Key among them are leadership and succession, investment in employees and innovation, strong values that drive culture, financial management and discipline, stakeholder relationships, operational efficiency, intellectual property and brand equity.

Business performance is propelled by two drivers: strategy and execution. Boards must be familiar with both concepts to discharge their roles effectively.

The box "Driving Business Performance" describes the board's role in strategy development and execution.

Performance first

To ensure high performance of a company, boards cannot ignore conformance aspects.

Needless to say, dropping the ball on conformance may have legal and criminal consequences. However, any good board will know that there is no shortage of competent and credible people and entities that can provide good governance frameworks on which a company base itself on. Many of such frameworks are fundamentally robust while others can be aptly sophisticated to suit the larger companies.

However, not focusing on company performance may get the board fired.

It is acknowledged that the board has a limited number of meetings each year. That is all the more reason why its agenda must be filled with critical issues that contribute to the company's long-term performance.

Yes, performance without conformance makes business a risky affair, but the reverse makes the company unsustainable. ■