Hot Topics

Improving board effectiveness: Oversight of strategy

Oversight of strategic planning can be a challenge for many boards; yet, it is one of the most important responsibilities of the board. An effective board advises management in the development of a strategic plan that aligns with the organization's mission, the expectations of stakeholders, and offers an appropriate short-, mid- and long-range focus. A key aspect in the board's oversight role is also to actively monitor management's execution of approved strategic plans as well as the transparency and adequacy of internal and external communication of the strategy.

Boards play an integral role by serving as advisers to senior management and the overall organization. Ineffective strategy oversight by the board can contribute to regulatory and compliance issues, shareholder distress, and potentially a gap between the board and management with regard to objectives and definitions of success for the organization. The board should provide advice on determining an organization's long-term goals and then in identifying the best approach for achieving those goals. Some of the key responsibilities of the board related to oversight of the organizational strategy include:

- Defining, reviewing and articulating the vision, mission and core values of the organization
- Providing leadership and direction in developing a strategic plan
- Challenging management to determine that significant risks have been considered in development of the plan
- Assessing and improving the planning process
- Confirming that key performance indicators (KPIs) and financial objectives are developed
- Monitoring performance against set goals, indicators and objectives

A roadmap to effectiveness

Strategy can effectively be thought of as a roadmap — a course or route that management plans to take to move the organization from its current state to a preferred state — which includes meeting key goals and objectives and strengthening its future. It is a plan of action designed to achieve these goals and objectives over a specified period of time.

According to a recent study conducted by Dr. John Kotter, Konosuke Matsushita Professor of Leadership, Emeritus, at Harvard Business School, "Approximately 5 percent of all organizations implement their strategies successfully, and 70 percent of strategic initiatives fail to meet their objectives. The remaining 25 percent have some middling success but do not meet the full potential of the strategy devised." Why is that? It is not the role of the board to execute strategy; however, the board is responsible for oversight of the process, which includes how leadership of the organization develops and how the board monitors strategy implementation. The board should continuously provide advice with regard to efficient and tactical ways to improve the organization's opportunities to be successful.

Because much of the effectiveness of a strategy lies in its implementation, boards should focus as much of their attention on implementation as they do on its development. Boards should consider asking the critical questions, such as:

- Does the organization have adequate financial and human capital needed to execute the strategy?
- Is the organization positioned and organized to effectively implement the plan?
- Is the plan sufficiently specific to enable management to implement and the board to monitor that implementation?
- Is the current leadership team fully committed to, and capable of, successful implementation?

Figure 1: The Deloitte Governance Framework

In the Deloitte Governance Framework (Figure 1), strategy is identified as one of the five critical governance elements over which the board provides active oversight. Executing active oversight with regard to these five elements— performance, strategy, governance, talent, and integrity—cannot be delegated to management.

The **2011 Board Practices Report: Design, Composition, and Function** states that more than 90 percent of public companies said that management develops the organization's strategy and the board provides advisory support. It is important to note that the level of involvement can vary widely across organizations, depending on the stability of both management and the environment in which the organization operates. For example, boards may be more involved in working with management on strategy during a crisis or a change in leadership. Organizations need a fundamental strategic plan that is flexible enough to adapt to changes in the internal and external environments. The board should bring technical and industry experience, social capital and thought leadership to the discussion, as well as an independent viewpoint to help the organization determine its strategic direction and improve its overall success.

Strategy dialogue

What should boards be discussing with regard to strategy and how often should they address the topic? In the soon to be released **2012 Board Practices Report: Providing insight into the shape of things to come**, only 54 percent (as compared to 52 percent in 2011) of public companies reported discussing strategic objectives at every board meeting; however, all boards should hold these discussions regularly.

Once a strategy is defined, updates on specific strategic objectives should become part of the ongoing board agenda. It is critical for the board and management to work together on the level of detail and the specifics of the information to be presented at each board meeting. The objective is for the board to continually provide advice and be knowledgeable about the process. Management should review financial and

Effective continuous monitoring…

Seven questions (and follow-up questions) board members may want to ask:

1. **Does the board have a monitoring mechanism in place, and is timely feedback received on the organization's progress against the strategy?** (How often is feedback received? Is there enough detailed information? Is this information received ahead of the board meeting?)

2. **What challenges are hindering implementation or execution?** (What is being done to mitigate or remove the identified challenges?)

3. **Are the risks identified during the strategy planning phase still relevant?** (Has anything changed during the development, implementation, and monitoring phases?)

4. **What is happening in the marketplace relative to the organization?** (Assess whether there are new risks and what competitors are doing. Should the organization's risk tolerance be reevaluated?)

5. **What are the key performance indicators telling the board?** (Are they accurate? Does the board understand them? Are there any red flags?)

6. **What information is management providing to support the original assumptions identified during strategy development?** (Is there an appropriate level of detail to tell the story? Is there a comparison of planned results to actual results?)

7. **Does the board clearly understand the answers to questions 1-6?** (Were they easy to answer? Are the answers what was expected?)

performance indicators with the board, and the board should weigh in on progress and confirm alignment with the strategic goals and objectives. Board members bring additional value to board meetings through their experiences and perspectives, as well as their continuous scanning of the environment and absorption of external information. The board can and should assist in the continuous monitoring of strategy execution from an independent perspective. The board should also assess leadership and its decision-making processes related to strategy.

Too often boards only provide input into an organization's strategy at management's request. The board should be continuously updated on significant risks or challenges met during the process. The risks associated with strategic objectives should be clearly identified, discussed, understood and monitored by the board. As part of its oversight role, the board should continuously contribute new ideas and be engaged from the beginning - the planning phase to the execution and continuous monitoring of the strategy.

Strategic oversight model

The Deloitte Governance Framework: Framing the Future of Corporate Governance provides a model of leading practices for boards to consider in executing their oversight responsibilities. Underlying each governance element are four attributes to help measure effectiveness: skills and knowledge, process, information, and behavior. A board's maturity with regard to each element may range from low to high, but the board should take the time to assess how well it believes it is performing. The following table outlines a representative maturity model that can be used in evaluating what would constitute a high-performing board for each attribute with respect to in looking at the strategy governance element of the framework.

Figure 2: Representative strategic oversight model

Attributes	A highly functioning board exhibits the following:
Skills and knowledge	• Thoroughly understands the business and its drivers and has relevant, recent experience and knowledge in the industry, adjacent industries/markets, and competitors.
Process	• Executes a well-documented process to engage at all key points in the strategic planning process: • Understands risks to and risk of the strategy; • Establishes and approves KPIs to monitor strategic execution; • Ensures senior management goals align with strategic priorities; • Ensures management clearly communicates strategic plans internally to employees and externally to other stakeholders; • Approves major strategic, capital or financing transactions and monitors execution; • Clearly identifies the board leader responsible for execution.

Information	• Receives timely, detailed information on the strategic plan at every meeting; • Receives adequate information related to execution and KPIs; • Supplements information received from the architects of the strategic plans with information from internal (risk, HR, marketing, etc.) and external sources.
Behavior	• Board and management collaborate on the selection among strategic alternatives; • Management seeks and the board provides appropriate input that leverages skills and knowledge; • Designated board leader encourages open dialogue and ultimately builds consensus around the selected strategy; • Board exhibits "healthy skepticism."

Concluding thoughts

Strategic planning and oversight is more than a basic need, it is the key to building a high performing and fully effective board. Good boards continuously strive to add value to the organization. An active role in strategy development and the continuous monitoring of its implementation is perhaps the most effective way to guide an organization to improved performance.

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