Despite inherent difficulties presented by board/management dynamics, many boards do a great job in ensuring a successful strategy. What do effective boards do?

WHILE CEOs RECOGNIZE that developing "the right" strategy is extremely difficult, and consistently rank strategy as one of their top issues, a poll of directors show board contribution to strategic planning is lacking. Indeed, it is the area most needing improvement. Effective boards play a critical role in the development process, by both ensuring a sound strategic planning process and scrutinizing the plan itself with the rigor required to determine whether it deserves endorsement.

A wide range of views exists among directors on what's the right extent of board involvement in strategy development. One director describes his view: "If the board isn't comfortable with the strategy that management has set, it should tell management to rethink it, and come back with something better. But, the board shouldn't be involved in developing the strategy."

Headlines are filled with stories of well-known, respected companies that imploded due to strategic failures. How could well-intentioned, seasoned executives create strategies that became, ultimately, competitive disadvantages? And how could directors have approved them?

Looking at past practice, a large part of the answer can be found in dysfunctional management/board dynamics. Board members point to CEO/chairs who:

* Set a highly controlled agenda for strategy discussions, creating an environment making it difficult for independent directors to raise concerns about critical strategic issues.
* Became intractably committed to one strategy to the exclusion of other possibilities, and were impatient with directors not sharing total commitment to the chosen path.
* Were reluctant to acknowledge past mistakes, hanging onto a poor strategy, with resulting stagnation at the company.

On the other hand, directors have contributed to a failed process, being hesitant to aggressively and constructively challenge management-developed strategy. In many cases this was because directors were not sufficiently prepared, or felt they might be violating established norms of boardroom debate, fearing they would find themselves isolated and perhaps ultimately replaced. Some directors' reluctance was due at least in part to the reality that management had better, more in-depth understanding of the industry and company, with significant time and resources not immediately available to the board. It has been noted, interestingly, that this very proximity to the business can prevent management from seeing critical factors and seriously considering important alternatives.

What works

Despite inherent difficulties presented by board/management dynamics, many boards do a great job in ensuring a successful strategy. What do effective boards do?

They strike a balance based on a clear distinction between the role of the board and that of management, where the board provides oversight and strategic insights, while avoiding "micromanaging" or dramatically slowing the strategic decisionmaking process. Among the key roles that a board plays in the strategy development process are:

* Reviewing options, challenging them, adding additional perspective and agreeing on appropriate measures for success.
* Reviewing the strategy development process to ensure it is sufficiently robust to consider the appropriate range of alternatives and to assess them properly.
* Examining plans and processes for strategy implementation.
* Monitoring implementation through agreed metrics and providing operational and tactical guidance to management.

Done well, these can improve strategy and in fact speed the decisionmaking process, by ensuring consensus on the strategy and driving investment and operating decisions supportive of that direction.
Effective boards also practice the fundamentals. They have an effective working partnership with management in developing and reviewing the corporate strategy. These boards bring insight, knowledge, judgment, and analytical skill to the strategic planning process, focusing on critical issues such as emerging customer preferences, technology risks and opportunities, quality issues, supply chain enhancement needs, electronic commerce and other emerging market channels, and new product and market opportunities.

These directors constructively challenge alternatives put forth, in a way management willingly embraces, because the right working relationship has already been established. One director summarized the board’s role: “Board members must be strong enough to stand up to management yet be friendly and cooperative. Their role should be one of cooperative and spirited oversight. They cannot be rubber stamps.

Vehicles and venues

Boards use any of a number of vehicles to fulfill their responsibility for reviewing, understanding, and approving company strategy:

Board Meeting Discussions. The most common venue for board discussion of strategy is still the regular board meeting. But an important drawback is that regular meeting agendas cover too many other topics, and don’t allow sufficient time for full understanding and discussion of the strategic plan. One director notes, “Agendas can be a challenge because they don’t allow for sufficient focus on the important strategic issues facing the company.” Another points out that the board on which he serves “spends too much time on results and not enough focusing on strategy.” Even though this company is successful, he feels a greater focus on the future is needed.

Special Board-Level Strategy Meetings. A number of leading companies hold such meetings, which provide enough time, two days being common, during which the strategy is thoroughly explored and discussed. These sessions typically are conducted off site, providing an environment conducive to success.

Empowering a Board Committee. Some boards delegate responsibility for strategy to a board committee (such as a strategy or finance committee, or an executive committee). The committee’s findings are presented to and discussed with the full board, which, when satisfied, provides its approval. Other boards insist all directors be involved, because of the extreme importance of strategy to company success.

Advisory Groups. Some leading organizations form advisory groups or councils to advise both senior management and the board. These sometimes have widespread representation, providing cultural, political, and economic perspectives. More importantly, they include individuals with expertise in areas critical to where the business wants to go. These advisory groups have proven especially valuable in counseling on multinational strategy issues, particularly related to global markets. In addition to providing the organization access to global thought leaders, this approach avoids pressure to increase board size by adding additional specialized expertise.

Facilitation. Strategy design often is supported by outside specialists with expertise in strategic development, the industry, and facilitation.

These approaches are not mutually exclusive. Many directors favor an off-site meeting with knowledgeable, experienced facilitators, attended by senior management and either the entire board or a large enough segment to bring the necessary perspective, challenge and judgment to bear.

Relevant information and analysis

To effectively review and evaluate strategy, directors must consider a great deal of information beyond the draft strategic plan itself. Effective boards critically review the content and sufficiency of supporting information. A governance thought leader comments, “Directors need complete information -- on products, customers’ views, market conditions, as well as on critical strategic and organizational issues. We need to be particularly wary of strategies that are positioned as surefire, can’t fail, or risk free.”

Although management typically strives to provide the board with all relevant information, experienced directors consider what’s not there, and proactively seek out what may be missing -- anything that will help them properly evaluate strategy. And they insist on receiving information in a timely manner. One director said, “If directors are not getting good information in advance and of the nature they want, it’s a warning signal. Directors need to insist that they get what they ask for!” The accompanying exhibit (see page 49) identifies information successful boards typically look for in assessing the strategy.

Don’t ignore the process

Effective boards ensure they are comfortable not only with the information and analyses used by management in strategy development, but also with the strategic planning process. Directors consider major activities, planning timeframe, steps involved and the extent to which key members of management participated in strategy development. These reviews
identify outside participants, such as consultants, as well as means used, such as scenario analysis or focus groups, and how that information was used.

Directors need to be confident the strategy to be adopted will result in superior shareholder value creation. It should be designed to generate greater shareholder value than other strategy alternatives. It should ensure long-term viability of the company, or identify a potentially critical need for business combination. The strategic plan also should clearly define how shareholder value creation will be measured.

In the end, the board must be comfortable with the process used to develop the strategy, with the strategy itself, and that management -- beyond just the CEO -- buys into it and is committed to its successful implementation. While successful boards become "thought partners" with management in strategy development, it is management that must own the strategic plan and fully believe in it.

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Information boards need to fulfill strategy-related responsibilities

**Internally Produced**

* Alternate Strategies -- options considered by management and with comparative analysis.

* Strategic Plan -- clear statement of proposed strategy and how management plans to implement.

* Performance Measures -- targets for key non-financial and financial measures. In subsequent years, the board will use these measures to evaluate the strategy's success.

* Major Risk Factors -- internal and external factors that could prevent the company from achieving the strategy, including likelihood and magnitude of the risks and means by which management will address them.

* Major Interdependencies -- related strategic initiatives with suppliers, customers, or partners, along with associated risk information.

* Resources and Investments Required -- including people, capital, and capacity and tied to the sources of funding for any major new investments called for in the strategy.

* Divestiture of Existing Businesses Required -- should be identified and addressed.

* Strategic Alliances, Partnerships and Acquisitions -- those needed for successful implementation must be identified, with implementation plans.

* Technology Implications -- dependence on, need for and opportunities related to expanded use of technology, with its high level of associated risk. Electronic commerce issues should be clearly highlighted.

* Best, Worst and Most Likely Case Scenarios -- related to the assessment of risks inherent in the strategy. Could also indicate the degree of stretch beyond current performance required to achieve the strategy.

* Evaluation of Past Strategies -- including identification of successful strategies and an analysis of elements that were not successful.

**From External Sources**

* Current and Evolving Customer Demand -- with focus on the future.

* Company's Current Market Position -- i.e., its major products and services, as well as its sources of competitive advantage.

* Competitor Intelligence -- major current and expected future competitors and a comparison of relative strengths, competitive advantages, and strategies.

* Industry Information and Trends -- including the expected impact of technology and electronic commerce.

* Analysis of Potential Stakeholder Reaction -- including shareholders, to the proposed strategy, considering major stakeholder response to similar past moves.

* Information on Concerns -- expressed by market analysts and the media.

Source: Report on Corporate Governance and the Board - What Works Best, PricewaterhouseCoopers and the Institute of Internal Auditors Research Foundation
Boards and strategy: The NACD's approach

Ed. Note: Reacting to a survey of CEOs which showed that strategic planning ranked number two in importance to their companies yet only number 11 in their boards' effectiveness, the National Association of Corporate Directors formed a commission to study the issue. In conjunction with its alliance with the Center for Board Leadership, the NACD's commission -- comprising 41 prominent individuals from industry, academia, law, and investments -- spent nine months at the task, releasing a 78-page report in September 2000. The following is the report's executive summary.

The Vital Role of the Board in Strategy

* Boards should be constructively engaged with management to ensure the appropriate development, execution, and modification of the company's strategy.

* The nature and extent of the board's involvement in strategy will depend on the particular circumstances of the company and the industry in which it is operating.

* While the board can -- and in some cases should -- use a committee of the board or an advisory board to analyze specific aspects of a proposed strategy, the full board should be engaged in the evolution of the strategy.

Strategy Development: A Cooperative Process

* Management and the board should jointly establish the process the company will use to develop its strategy, including an understanding of the respective roles of management and the board.

* Management and the board should agree on specific steps for strategy development.

* To participate effectively in the strategic thinking process, boards should be prepared to ask incisive questions -- anticipating, rather than reacting to, issues of major concern.

Strategy Substance: Key Elements

* At the beginning of the strategy process, there should be a full and open discussion between management and the board concerning the substantive elements that are going to be considered in the development and execution of a winning strategy.

* After agreeing on assumptions with the board, management should propose a preliminary strategy for discussion with directors.

* In assessing and approving a strategy, directors should consider its executability and timing.

Monitoring the Execution, Results, and Adjustment of the Strategy

* The board should monitor execution of the strategy against milestones.

* Management should continually send the board information relative to the performance of the company, especially events, trends, and uncertainties that may impact the execution and success of the company's strategy.

* The board should ensure that management makes modifications to the strategy as necessary.

Director Selection, Education, Evaluation, and Compensation: Keys to a Winning Strategy

* Selection and replacement of directors should reflect the strategic direction of the company.

* Management needs to educate directors about all aspects of the company, and directors need to take the initiative to learn about the company and its environment in considerable depth--from both inside and outside sources.

* The evaluation of the board and of individual directors should include considerations of the expertise needed to contribute to the strategy.

* In compensating directors, companies should set a substantial target for stock ownership, and award a significant portion of directors' pay in stock.

* The board must be willing and able to recognize whether or not the company has a winning strategy -- and, if not, to urge corrective actions.

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