



## ***Strategic Planning is a Partnership***

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How involved should the board be in the strategic planning process? Should the board initiate the process or is this management's job? Who owns the strategic plan? What should the board approve? These are questions that we are asked on a regular basis.

We've dealt with many of these questions in this special edition of Good Governance. In this article we address the matter of the extent of board involvement in the process and the consequences for the CEO (and the board) when directors do not engage or are excluded from the organisation's strategy formulation process.

### **All in or all out**

Strategy formulation can feel like a feast or a famine for directors. They are either in up to their neck, or they are excluded. In the former, the board dominates the planning process; management's role is seen as being to execute, not design. For many not-for-profit boards, in the past, this was a common scenario, particularly when directors felt that there was a lack of planning expertise within management. Some of these organisations have now come the full circle with highly competent managers. Board members can be seen as having been left behind. CEOs and management teams feeling this way about their board are likely to take the planning reins and carry out the planning themselves, relegating the board to the role of approver or rubber stamp.

Neither of these responses to the board's role is satisfactory nor leads to good governance.

The board represents the organisation's owners, be these shareholders, members or any other category of owner. Owners have a strong interest in the long-term sustainability and success of the organisation. Few, therefore, would be pleased that a board should choose to disengage from participation in the development of strategies designed to deliver this outcome. Some might argue that they don't care who designs the strategies so long as these lead to good outcomes. And that's not an unreasonable argument. Behind this point, however, are some considerations that can impact on the process and the final design.

### **An outsider's perspective**

One of the benefits from a well-structured board is that its directors bring an independent outsider view of the organisation. With only the external stakeholders' interests at heart, the board is not

distracted by vested interest. Management, on the other hand, has an inherent vested interest. Their careers, position, status within the organisation and their financial futures are tied up in the maintenance of their job. Given this, which of them would design a plan that was beyond their capabilities and expertise? Yet such a plan might be required in order to produce appropriate consumer and owner requirements. This alone is sufficient to ensure that the board plays a role in the planning process; but at what point, at the commencement, in the middle or at the end, and to what extent?

### **Continuous involvement**

A lack of process can inhibit the board's involvement in the organisation's strategic programme.<sup>1</sup> Ideally the strategic planning process, or elements of it, should be based on a pre-determined schedule, not by either board or the CEO determining that, "It's about time that we did a strategic plan." The process should include a set of 'triggers' designed to initiate key events and stages. We suggest that there should be board involvement throughout the process. The level of involvement and emphasis, however, will be different at different stages. In the direction setting stage, the board will be extensively involved. This stage involves the identification of the outcomes to be achieved and the design of the highest level strategies to ensure successful achievement; in other words the business design and direction.

The next tier necessitating detailed strategy planning sessions will, however, almost exclusively be the preserve of management. Here the management team translates the board's critical high-level decisions into operational strategies in the form of business plans, objectives, resource allocation priorities and measures. Having stepped back from involvement in this part of the process, directors re-enter when they review the plans, ask searching questions and offer comments, check for effective risk management and approve the associated budgets. Implementation is then up to management.

### **Strategy formulation is a core board role**

Strategy is a core component of the board's role, not something that is the subject of board attention once or twice each year. Such an ongoing involvement, however, creates tension for all concerned. Directors must be clear about when it is appropriate for them to roll up their sleeves and involve themselves deeply, or when they should participate at a distance. They must carry out the former taking care not to pre-empt management decisions and prerogatives, thus causing conflict with executives. The latter, however, can relegate them to bystanders or detached observers. Boards can find themselves walking a tight rope between 'over involvement' and 'under involvement' in the strategic planning process.<sup>2</sup>

Attendance at a once a year strategic planning retreat does not constitute effective board engagement and, in itself, is not enough to allow directors to add value. Strategic issues should be the subject of continuous board examination and dialogue. Both management and the board should maintain a vigilant watch over the conditions that either facilitate or hinder the achievement of outcomes. The result of this watchfulness then becomes the subject of continuous strategic dialogue by the board and management.

### **Effective strategic planning demands a partnership**

Establishing the strategic direction for the organisation cannot be done by the board acting alone. Few, if any, boards have sufficient collective knowledge about the environment, competitors, Government policy, client/consumer/customer requirements, industry trends or the organisation's competencies to

engage in strategy formulation on their own. Given this lack of in-depth knowledge, a partnership with management is required. When strategic issues are on every board agenda, the opportunity is created for directors and management to share their experience and perspectives. Inevitably more of this time will be spent with managers educating directors than the other way round. This should not be seen as a problem. In fact managers should welcome the opportunity to bring their board up to speed on a range of issues relevant to both parties. Directors, listening to management presentations, are able to ask the ‘outsider’ questions, the kind of questions that management teams often neglect to ask of themselves. Their closeness to the action can sometimes lead to a loss of the big picture or the failure to identify some of the flawed detail.

### **When managers ‘go it alone’**

We have seen situations where, either as the result of board disinterest or by deliberate design, managers have taken over the overall strategic planning process. We suggest that this is a dangerous move on the part of the executives involved. Not only does such a move usurp a critical board role and thus risk director anger when one or more realise that they have been shut out of a core directorial task, but there is the risk that strategic failure will be sheeted firmly and exclusively on the back of those who designed the strategies. In a sense, encouraging the board to play its correct role in the strategic planning process might be regarded by executives as risk management or an insurance policy. Management initiatives should flow from board initiatives. In the absence of the latter, management can rightfully say to directors, “Until you do your job, we cannot do ours.”

But there is more than merely defining and assigning formal roles. There is the matter of director wisdom and the potential benefits that flow from mining this. The outsiders’ view, the independent and disinterested perspective, the ‘big picture helicopter view’ and the vast experience that many directors bring are too valuable to be omitted from the strategic planning process. The further contribution that directors can bring to ongoing strategic thinking should not be underestimated by managers, indeed, it should be welcomed.

### **Answering the questions**

So to come back to the first of the opening questions; *‘How involved should the board be in the strategic planning process?’* The board should be deeply involved in those elements of the planning process that necessitate director contribution or for which the board is accountable, i.e. the overall business design, the allocation of financial resources, strategic thinking and the ongoing monitoring of achievements measured against the goals set. *‘Who should initiate the process?’* There should not be reliance on one party or the other to do this. There should be a strategic planning system and schedule that is self triggering. This should operate at board and management levels in response to separate and interdependent functions. *‘Who owns the plan?’* Both do. When the concept of ‘ownership’, however, is expressed in terms of who has the right to sign off or authorise changes, then the strategic directional statements, i.e. the mission or purpose, vision, corporate values, KRAs and corporate KPIs belong with the board. The operational plans, however named, belong with management. *‘What should the board approve?’* it should approve only those elements that it ‘owns’ as we have defined these. This, however, is not to say that it does not have a stake in the management-developed operational plans. It does. But the stake is expressed as ‘overseer’ or ‘critic’ rather than designer or developer.

We cannot express strongly enough the view that organisational planning is a partnership between all organisational players. Management needs the board to set the company direction and confirm the

design of the business. The board needs management to develop the second tier strategies and to design the operational framework for the implementation of the business direction. With such partnerships operating in sync and to the same ends, a business brain is put to work that brings all the parts together to form something that is bigger and better than could be developed by any of the parts acting on its own.

1 Nadler, David A, Behan, Beverly A, and Nadler, Mark B. Building Better Boards: A Blueprint for Effective Governance. Pg. 133. Jossey-Bass. San Francisco. 2006.

2 Ibid Pg. 132.