The Board's Role in Strategic Planning

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The Board’s Role in Strategic Planning

Chair's foreword

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"It is not easy to predict the future but that is what Boards are asked to do and then from that prediction to bring clarity to the complexity in a way that is meaningful, measurable, and achievable."

That's a huge task, when often predicting what is happening next month can be struggle in our sector.

This think-piece, published as the world continues to struggle with a global pandemic, is a reminder of why this important work sits with those who govern. It has been written as a guide, to highlight the few elements that together can help boards set a direction and oversee a plan that will deliver the desired results.

This future focused role of boards isn't easy. Not for any of us. But through resources such as this and the wider support that Sport NZ has available to you, I hope we can move forward together making meaningful progress for the sector that is both rewarding and enjoyable.

We hope you find it useful.

Ngā mihi

Bill Moran
Chair

Sport New Zealand

Introduction

> **"The board's first responsibility is to ensure that the organisation has clearly established goals; objectives and strategies for achieving them; that they are appropriate in the circumstances and that they are understood by management .[1]"**

One wish that boards and their individual members express time and again when considering their contribution to organisational performance is the desire to 'be more strategic'. Even if being strategic does not come naturally to them they are aware that it is expected of them. In our experience, however, boards vary greatly in what they mean when they express this aspiration.

This is not surprising. If anyone were to seek guidance on this question from the governance and/or 'strategic planning' literature, confusion would almost inevitably be the result. Not only are there conflicting views on the role a board should play in strategic planning and setting organisational direction but even the idea of strategic planning has itself been fundamentally questioned.[2]

Not withstanding the underlying disorder, it is commonly accepted, even where governing boards have adopted a generally passive role, that a central aspect of their role is to at least 'sign off' on the organisation's strategic direction.

This obligation is as true of small grass-roots voluntary not-profit organisations as for large multinational businesses. An overriding obligation of boards in all these sectors – public, private and non-profit – is that their organisations have a sensible plan of some sort and that it is monitored carefully - to determine both direction and priorities and to provide a reference point to determine whether goals are being achieved.

What varies greatly in practice is the actual role played by the board and the effectiveness of its contribution in relation to this responsibility. In some cases the board's ineffectiveness has proved fatal. Writing about the non-profit sector, Houle[3] has commented that "many boards have so indefinitely postponed the task of stating or reviewing what they want to achieve that their programs have stagnated, decayed or died". This comment is no less, perhaps even more, applicable to the business sector.

The purpose of this article, therefore, is to examine how the governing board can most effectively contribute to determining desired organisational direction. We begin by exploring the board's role in what has historically been called 'strategic planning'. We then describe a way of thinking we have found to be profoundly helpful in assisting boards to get on top of this critical aspect of their governance responsibility.

1 Bosch, H. The Director at Risk. Melbourne: Pitman Publishing, 1995, p93. 2 See, for example, Mintzberg, H. The Rise and Fall of Strategic Planning. Hemel Hempstead: Prentice-Hall, 1994. 3 Houle, C O. Governing Boards. San Francisco: Jossey-Bass, 1997, p128.

Who 'does' strategic planning?

There is a continuum of advice on this. On one hand the 'business' planning literature almost never mentions the board in connection with strategic planning. Strategic planning is viewed as the province of the CEO and other senior executives. Sometimes it is even left to a separate group of staff whose full-time role is strategic planning.

The board's role, if acknowledged at all, is that of the final 'rubber stamp' passively receiving and 'signing off' the plan. Sometimes, a little, almost ritualistic, checking of planning assumptions is also allowed.

In contrast, the guidance offered organisations in the non-profit sector is often at the other end of the continuum. The board is expected to prepare the strategic plan on its own with comparatively little staff input. From this perspective the board and not the CEO is in the driving seat.

Perhaps neither of these apparently exclusive views should be a surprise. The differences in approach may reflect little more than the extent of available planning resources. The limited resources of a non-profit organisation, for example, may mean the board must do the strategic planning itself.

The nature of the issues and the expertise that is required may be another key variable. Some organisational challenges are very complex and require more 'technical' sophistication than others, leaving the board no option but to involve staff and/or outside expertise.

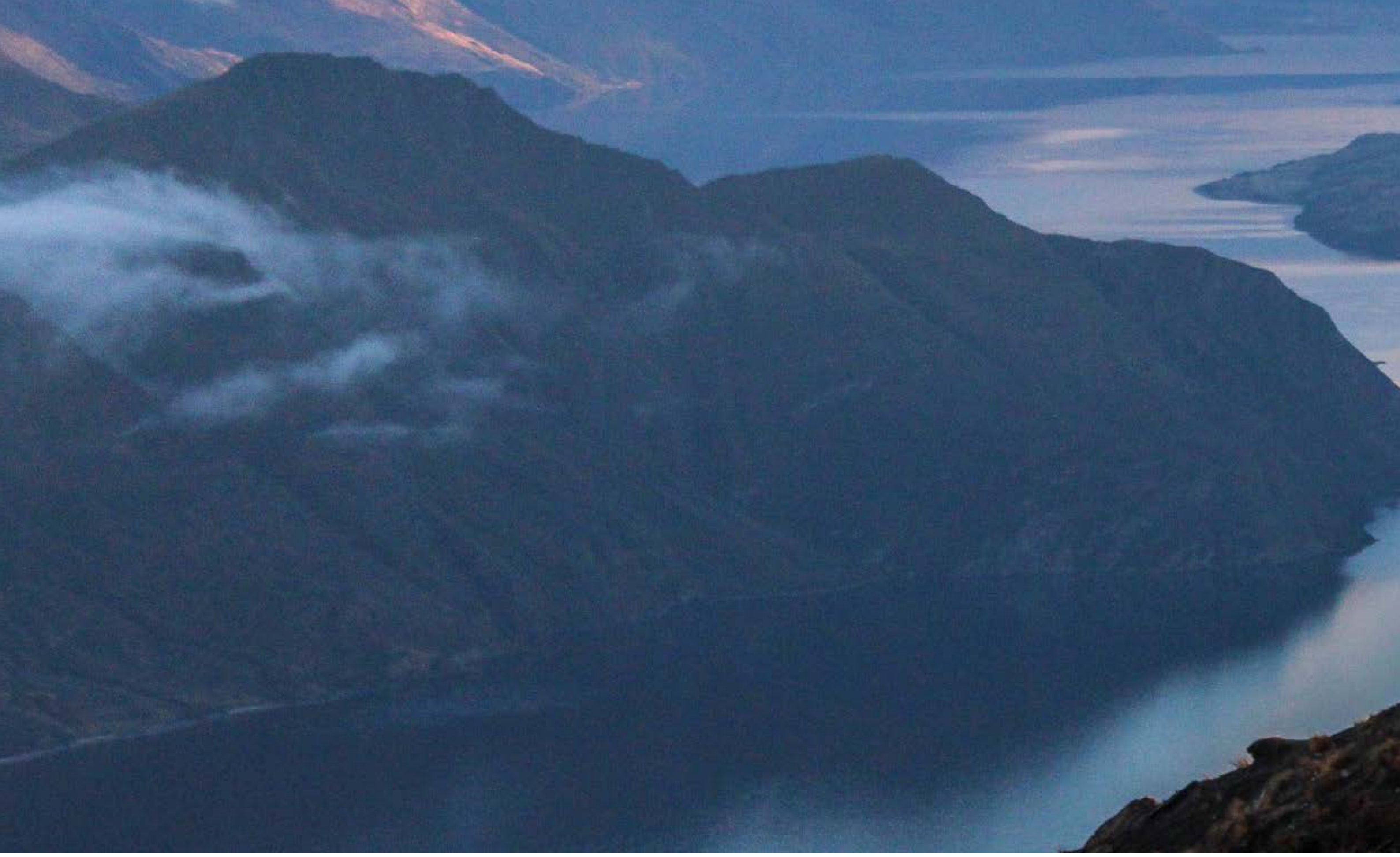
On the other hand these different approaches may simply reflect quite different expectations of the board's role generally – not just in strategic planning. In the US business environment, for example, where the board chair is often also the CEO, other board members are often expected to play little more than a supportive ('cheerleader') role. The CEO clearly expects (and is expected) to set the strategic direction as well as develop the detail of 'the plan'.

In the UK, where traditionally not only the CEO but a wider range of 'executive' directors have dominated business boards, the possible contribution that can be made by part-time, 'non-executive' directors – particularly if their background is in other business sectors – has often been dismissed as inherently limited. Although executive domination is less pronounced in the Australian and New Zealand business environments, there are still some similar elements.

In the non-profit sector, many boards have a tradition of close involvement in operational activity, regardless of the skills of paid staff.

The enthusiasm for board members to get their 'hands into' operational detail can easily extend into their participation in the detail of the strategic planning process.

The complete opposite may also occur, as for example in those parts of the sector where governing board members seldom have professional expertise in the work of the organisation (e.g. education, health). In such organisations it is not uncommon for planning processes to be based on the premise that the work and 'mission' of the organisation are far too important to entrust anything other than a nominal role to 'lay' board members.



What is strategic planning?

While acknowledging that these different perspectives exist, are they addressing the same issue?

First we should ask what is meant by strategic planning.

It is tempting to start with the cynic's suggestion that 'strategic planning' is a contradiction in terms, an oxymoron – like the terms 'military intelligence' or 'progressive conservative'.

It is hard to find anyone who will argue that planning is not a 'good thing'. We each know from our personal experience that planning before 'doing' adds significantly to the likelihood of success; just 'muddling along' leaves too much to chance. According to Mintzberg,[4] who has described different ways people think about planning, it can be seen variously as:

- *future thinking* - simply taking the future into account
- *controlling the future* – acting on thinking about the future to achieve a desired outcome
- *decision making* – determining in advance what actions and resources are needed to reach a goal
- *integrated decision making* – when the decisions to achieve a desired future state are interdependent
- *a formalised procedure* – when an integrated and articulated system of decisions is needed to produce a defined result.

Mintzberg has also listed the main reasons organisations must plan.[5] These are to:

- *coordinate their activities* – to ensure that the activities of different parts of an organisation are consistent with a common set of goals. The planning process is thus seen as a means for communicating across an organisation
- *ensure the future is taken into account* – to understand the future implications of present decisions
- *be ' rational '* – planning represents a superior form of management
- *control* – planning is inherently about the control of those whose work is 'coordinated '.

4 Mintzberg (1994) op cit., pp 7-15. 5 Mintzberg (1994) op cit., pp16-21.

If these characteristics reflect the range of thinking about planning, we can start to see why boards might be confused about their role in the process. Much of what is described above mixes those things that a board might claim as its particular area of influence and activity and others which fall clearly in the category of management prerogatives.

Before having a closer look at the implications of this we should consider the addition of 'strategic' to the concept of planning.

Following the distinction made by the military, many organisations try to differentiate between 'strategic' and 'tactical'. Strategic in this context refers to the important, higher-level, things; tactical refers to the detail. Care must be taken with this form of labelling because details can become important.

We have found it is more useful in the governance context to use the concept of strategic to mean 'of relative consequence'. This definition goes to the heart of the governance challenge – how can a board get an effective focus on what is truly, 'strategic', i.e. of real consequence to the organisation?

What criteria should be applied? We should acknowledge that the different approaches of well- known writers on organisational and business strategy, like Michael Porter and Peter Drucker, suggest we should adopt a focus either on position or on perspective. Strategic planning focused on 'position' would concentrate on what the organisation should produce and in what contexts or markets. By contrast, a focus on 'perspective' would concentrate more on an organisation's way of doing things. Both offer useful insights and organisations should consider both in their planning efforts.

Another useful set of criteria considers matters strategic if they:

- go to the heart of why the organisation exists
- involve a significant commitment of resources
- may move the organisation into a whole new domain
- involve 'long-cycle' feedback (i.e. results of the action/investment take a long time to become evident)
- will have lasting impact.

Strategic planning is then a process that addresses the need for an organisation to identify and take deliberate steps to deal with issues which have real consequences for it. Given that conclusion we can move on to the next question.

Why is the board accountable for strategic planning?

The short answer is quite simply because, in the overall chain of accountability, 'the buck (for organisational relevance and achievement) stops' with the board. The governing board of any organisation is accountable to some other broader group or interest. Most commonly it is accepted that these are the owners, whether legal (e.g. shareholders or members) or moral (e.g. residents in relation to a local authority).

Governmental and non-profit boards have long grappled with this challenge of acknowledging and dealing with a broader range of interests.

In the business sector, too, the growing 'business for social responsibility' movement considers that there is also a wider group of 'stakeholders' whose interests the board should take into account.

Regardless of where a board sits on this matter (in itself a strategic issue) the key point is that a board does not act in isolation. There are other 'higher' interests to be served. The board acts as 'trustee' for the owners' interests in seeing that the organisation continues to fulfil some need or purpose and does this in a way that is economically acceptable and sustainable.

Neither the CEO nor staff, contractors or volunteers are ultimately accountable for ensuring the organisation achieves 'what it should'. Only the board has this responsibility. It would be an abrogation of its stewardship responsibility to owners (as well as foolish and incompetent) for a governing board to wait for its CEO or other 'agents' to tell it why the organisation should exist and what its priorities and standards of performance should be.

The board must, then, be accountable for ensuring there is an effective strategic planning process that defines these expectations.

The board's role in strategic planning

Let us describe the ideal role by revisiting the basic idea of strategic planning.

Mintzberg defines planning as a "formalized procedure to produce an articulated result in the form of an integrated system of decisions".[4] While few would argue that this is not a 'good thing', it is unlikely a board comprising part-timers, often lacking expertise in the operations of the organisation, would be able to produce the type of plan Mintzberg's definition implies.

The Mintzberg definition suggests operational, task-oriented planning activity must be carried out to achieve organisational goals. These are then 'coordinated' and responsibilities are allocated to those people and groups who are most capable and best placed to carry them out using the resources (including time) available.

Before detailed implementation planning of this type can begin, however, organisational purpose, direction and priorities must be determined and clearly stated. This is the board's job.

If the board has not done its job at the 'front end' of the strategic planning process, the CEO and other executive 'planners' are forced to do their more detailed implementation planning in a vacuum. To the extent that they are forced to guess what is expected of them, it is a risky business for both executives and board.

A simple distinction should therefore be made between the board's role and that of the executives and others participating in the planning process. The board's principal responsibility should be defined as determining – through a process of strategic thinking – the fundamental questions: Why does this organisation exist? What is its future? Where do we want it to go?

While this may help the board address these questions, it is only then that the job of the CEO and staff can really begin: determining how to achieve the desired results and managing the implementation process.

In addition to specifying a clear direction and priorities, the board has the task of creating the risk management framework. This involves setting limits to the types of risks it is prepared to contemplate (see *Good Governance* magazine, issues 6 and 7) and letting executives and others in the organisation know what situations and circumstances it is unwilling to tolerate.

In a real sense, therefore, the simple but powerful distinction in roles is between the board's job to determine 'Ends' and the executives' role in choice and implementation (within board-defined boundaries) of 'Means'. Together these form two complementary parts of the overall 'strategic planning' process.

4 Mintzberg (1994) op cit., p 31.

What are the 'Ends' on which the board should focus?

In a commercial context the obvious (and traditional) answer to this question is the achievement of specified levels of financial return. This will always be the object of the investors whose capital is at risk in the company. As Bosch[5] has suggested, many boards see themselves primarily as flexible money managers; the type of business and its underlying 'mission' are secondary matters.

There is increasing evidence, however, of the shortcomings of a business development approach that lacks real fundamental underlying purpose and direction.

The goal of making money appears on its own to be insufficient. In an analysis comparing 'the best of the best' US companies with similar but less successful companies, Collins and Porras[6] found that the differentiating factor was a compelling vision. This gave purpose and direction to those companies (average founding date 1897), enabling them to ride out a multitude of business cycles and even the impact of bad decisions. This research reinforces the idea that while successful companies make money - lots of it - financial return is only a measure of success, not the underlying purpose for it.

Non-profit organisations also need to define their 'purpose'. Most organisations in this sector share one overriding reason for existence: to make a difference to the life of their consumers, members, clients or the community.

In a professional association this is typically in the form of improved business success for members. Disability organisations aim to see barriers to 'normal living' for their clients removed. Hospitals and community health centres aim to deliver improved health outcomes for the communities they serve. Arts organisations seek to enrich the cultural life of the community and to provide their artists with opportunities to express their talents. Sports organisations provide players with the means to improve their playing skills and to enjoy the social and recreational benefits of playing the sport with others at the same level.

In government-owned organisations, defining purpose and clear Ends can be particularly problematic and difficult. Implicit (and sometimes explicit) non-financial objectives frequently compete and conflict with commercial objectives. As elsewhere in the world, the process of 'corporatising' public authorities in New Zealand and Australia has seen many former public services placed in new agencies under the direction of separate governing boards. The political ownership of these organisations has made it particularly difficult for the boards (e.g. of District Health Boards in New Zealand and hospitals and community health centres in Victoria, Australia) to articulate clear purpose and expectations and align these with community expectations and requirements. Continuing ambiguity in ownership intentions results in the boards, appointed by the government, going around in circles with each new instance of political intervention.

5 Bosch (1995) op cit., p.93. 6 James C. Collins and Jerry I. Porras (1994) Built to Last. Century, London.

Defining and expressing Ends

Traditional strategic plans, whether or not the board has been an active participant in their development, typically contain a hierarchy of statements. At the upper level, these statements are intended to create a high-level sense of direction and purpose. They are often referred to as 'mission', 'vision', values, goals, objectives, key result areas (KRAs) etc.

A problem with these statements is that, if they are not designed to be the basis for realistic Ends achievement and performance monitoring, they can have little more than rhetorical value. They bring to mind Scott Adams'[7] (paraphrased) description of a mission statement as "a long awkward sentence that demonstrates [the board's] inability to think clearly".

Strategic planning statements are traditionally expressed as intentions or open-ended 'goals' ("We aim to enhance…To coordinate……" etc).

Even if the actual impact shows that these statements can be considered more than just wishful thinking, they tend to stimulate a focus on 'activity' rather than on hard-edged 'achievement'. Accompanying performance measures may tell us little more than how 'busy' an organisation is. They may not tell us what is achieved in terms of real results or outcomes – actual changes in the world.

It is vital, therefore, for a board to express Ends in the form of outcome statements.

The easiest way to do that is to take out all the active verbs from traditional strategic planning statements. Ends should be written as if they are a result already achieved.

The organisational Ends articulated by the board should describe the reason for the organisation's existence and define the difference or impact it can make within its sphere of influence. It is important for the board to focus on the strategic results it wants to achieve, as only the board can give leadership to the organisation in this area.

The vital questions for the board to address in defining and reviewing its Ends are:

- what 'good' is to be done? (i.e. what service is to be offered, what need is to be met, what results are to be achieved etc?)
- for which groups, individuals or target markets? (who is to benefit?)
- at what 'cost'? (i.e. what level of 'investment' is justified by the production of particular benefits for defined target groups? What resources should be allocated and which priorities should be chosen when there are competing alternatives?).[8]

From the fundamental nature of these questions it will be apparent why we emphasise that the board's prime activity needs to be strategic thinking rather than strategic planning. Until these questions are satisfactorily answered, at least on an interim basis, little operational planning can take place. Addressing such matters thoroughly demands a high degree of learning by the board about critical environmental and other contextual issues. It is inevitable that not only will new answers emerge but also new questions.

The way the board goes about its deliberations is important. It should not only allow such new answers and questions to emerge but will actively seek them out. Strategic thinking is not status quo oriented.

As has been seen many times, the successful company or organisation will flounder tomorrow, a victim of its own success today. The institutionalisation of today's successful formula can easily make it blind to what will provide success tomorrow in a world that has moved on.

A critical role for the board is to be aware of what is on the horizon or the radar screen and challenge the organisation's thinking and its mental maps of the world in which it operates.[9]

7 Scott Adams is the creator of the 'Dilbert' cartoons. 8 This has particular relevance for board conversation, a topic which will be dealt with in a futur paper. 9 Carver, J and M M Carver. Reinventing Your Board: A step-by-step guide to implementing policy governance. Rev ed. San Francisco: Jossey-Bass, 2006.

Conclusion

Returning to our original question – what is the board's role in strategic planning? - we must conclude that, if it is going to do its job well, it must provide clear leadership and direction for its organisation.

The board plays its part at the start of the strategic planning process by providing clearly stated strategic-level results or outcomes and a risk management framework that limits, when necessary, the executives' freedom to act. Once it has done this job it has created the framework within which executives and others can develop detailed operational plans directed to achieving effective implementation and organisational performance.