Engaging the Board in Strategy

Despite widespread agreement that Boards need to be involved in strategy, many organisations find themselves frustrated and unable to structure that involvement. We spoke to some of Australia’s leading Directors to explore how targeted, structured engagement can get the most out of Boards and defuse tension without removing Management’s ownership of the outputs.

Balancing Board involvement in strategy development

There is widespread agreement that Boards should be involved in strategy, and that Boards ultimately decide on strategy and targets. Increasingly, Boards want to do more than just sign off on management proposals – they want to be involved in strategy development.

However, both Boards and Management teams are mindful of the risk of Directors becoming too “hands on”. After all, the best Boards see their role as supporting Management to be successful – they know that strategy is more likely to succeed where it is wholeheartedly owned by Management, rather than thrust upon them by the Board.

While the right role for a Board will be driven in part by the organisational context – for example scale, capabilities of Board and Management, breadth of operations and financial performance – the traditional presentation of fully formed strategic proposals to the Board fails to leverage Directors’ expertise. It also creates tension by positioning stress-testing or scenario development as a critique of Management, rather than a valuable contribution to a stronger strategy, and by asking Directors to sign off on strategies that they may not be fully armed to probe and test.

Letting Directors in to the process

There are several reasons why Management teams and Boards can struggle to get the balance right. Some Management teams prefer to work up detailed proposals independently, doubting that Board involvement will improve the outcome. Others want to collaborate with Directors but struggle to align on the appropriate level of involvement, or to structure the interactions, given packed Board agendas and a preference for formal Board meetings.

A first step to agreeing on a process is to explicitly discuss how the Board wants to be involved, and where they can add value across the strategic planning cycle.

While Boards can often assist Management teams by being more explicit about the “guide rails” for strategy – purpose, ambition, risk appetite – in our experience the greatest uncertainty around the role of the Board relates to the discussion of issues and options.
As Figure 1 illustrates, while there is generally clarity around the start and end of the strategy cycle, there is less alignment on the role of Boards in confirming the market context, identifying and prioritising risks and opportunities, and integrating these into potential strategic options.

**FIGURE 1: LACK OF CLARITY ON ROLES THROUGH THE STRATEGY CYCLE**

<table>
<thead>
<tr>
<th>AMBITION</th>
<th>What is our purpose and ambition?</th>
<th>Clear role for Boards to set targets and constraints</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONTEXT AND STRATEGIC ISSUES</td>
<td>What is the market outlook? What are our strategic issues?</td>
<td>Often unclear how Boards should contribute</td>
</tr>
<tr>
<td></td>
<td>Which issues are the highest priorities?</td>
<td></td>
</tr>
<tr>
<td>OPTIONS AND INTEGRATED STRATEGY</td>
<td>What are our alternative options?</td>
<td>Clear role for Boards to sign off on strategy</td>
</tr>
<tr>
<td></td>
<td>What options should we adopt? How will we adapt to likely scenarios?</td>
<td></td>
</tr>
<tr>
<td>MONITORING</td>
<td>How will we monitor progress?</td>
<td>Clear role for Boards to set metrics and sign off on reporting framework</td>
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To get the balance right, strategy and strategic planning processes need to let Directors in to the process, and find a way for Directors to shape and comment on emerging strategic themes without removing ownership from Management. This means structured involvement over time as opposed to just at the beginning and end of the strategy cycle.

**Traditional Board formats don’t work**

Engaging the Board in strategy is difficult for Management teams. How can they meet the expectation that Management will “do the work” and present recommendations backed by a robust fact base, while also maintaining flexibility and encouraging input and debate? How do they capture and incorporate diverse views around the Board table? How can they justify space on a crowded Board calendar for a session where no explicit decision is required?

Often, the compromise is a “Board strategy day”, with extensive pre-reading, which allows Directors to immerse themselves in the strategy, and provides a clearly differentiated format for strategic discussions. While these days can be useful components within the planning process, they often cover too much ground at once, or maintain the dynamic of presenting fully formed proposals for approval, and thus fail to address the fundamental challenge of providing time and space for Board input to genuinely shape strategy.

To allow the Board to engage on issues and options, rather than just the final recommendations, strategy processes need to evolve to include Directors as strategic partners. A critical implication is that strategy-focused sessions should be included throughout the annual Board calendar to create the opportunity for the Board to align on the key strategic issues facing the business and to contribute to the range of options that management should consider, before arriving at a decision on which options to pursue.
In our experience, the biggest challenge for Management teams and Boards is to find structured ways to engage as strategic partners without blurring their distinct roles. New approaches such as those set out in Figure 3 can help break away from the traditional focus on “talking at the Board” toward a more constructive partnership.

Structuring these engagements over time, through the annual calendar or as part of an iterative strategy development process, helps to align the Board as well as to fully leverage their diverse experience – while leaving development of detailed proposals to Management.

Each of these sessions needs careful preparation to deliver enough value to justify a place on the Board calendar. They need clear structure, including an understanding of what is for discussion and how outputs will be used. They need to be well informed, with a robust fact base and with the right people in the room to cover detailed questions as they arise. Finally, they need the right culture and behaviours – a willingness to be transparent about what is known and not known; openness to new ideas; and facilitation that draws out and explores divergent views while keeping discussions on track.

**Conclusion**

It is in the interests of both Management teams and Boards to engage the Board as a partner in the strategy development process, rather than as a governance body that only signs off the outputs. The right mix of structured engagement on the annual Board calendar and throughout major strategy refreshes can defuse tension and produce better strategy, while setting up Management teams to own and deliver strategy with support from the Board.