A board's role in strategic planning

Are members of the company board responsible for setting the direction of the company or is this overstepping the mark?

By Graham Kenny

There seems to be much confusion among CEOs and directors regarding a board's role in planning the company's strategy and future direction. Recently in Perth, at one of my public seminars on this topic, the CEO of a mining company asked: "Isn't it up to the board to develop strategy? We're told strategic planning is the board's role." "It depends what you mean by 'strategy'," I responded, "but if you mean developing the details of how your company is to achieve competitive advantage, then my answer is 'no'."

Why the confusion?

The source of the confusion may start with a misreading of the board's role in general. A board is appointed by the shareholders (owners, members) of an organisation to look after the best interests of the company – not the shareholders. For clarification in this area, the publication, *Duties and Responsibilities of Directors and Officers,* by the Australian Institute of Company Directors, is a must-read for all directors and CEOs.

In company law, a company is regarded as a person, and a board's role is care for that "individual", looking after its long-term survival, growth and prosperity.

In this corporate-governance role, a board is judge and jury of a CEO and his or her management team, as well as of any strategic plan that this group produces. As a consequence a board has to keep at arm's length any development of its organisation's strategic plan. You can't be judge, jury and the accused all in one!

But does this mean that a board plays no role in the strategic planning process? Again the answer is 'no'. It has a significant role to play, but that role needs to be defined.

Planning parameters approach

I've dealt with many CEOs who have had bitter experiences with their boards – too involved, not involved enough and so on. The main reason, I believe, is that the role of the board in the strategic planning process hasn't been clearly articulated. So no one's happy – not the board, not the CEO, and not the management team.

One way to solve this problem is to adopt what I call the 'planning parameters approach'. In this approach, the board presents a set of planning parameters to its CEO, who then takes them forward with his or her strategic planning team.

These are broad guidelines and constraints for the development of the strategic plan.

Once completed, the plan is presented by the CEO to the board for evaluation, which then has the opportunity to assess it against the parameters laid down at the beginning of the process.

Benefits of this approach

A large not-for-profit I was involved with had had many previous unsatisfactory experiences with its board in strategic planning. It decided to redesign its planning process to follow the planning parameters approach. Among the benefits that followed was that the board members no longer wasted their time sitting in on discussions that were often far too detailed for their participation. Further, by not having directors present throughout the strategy meetings, planning team members were no longer placed in a position in which they felt a need to defer to board members, many of whom lacked industry knowledge. The managers had to make up their own minds as to what was best for the organisation and what the details of the strategic plan should be. On the other hand, management was no longer working in the dark, but within the planning parameters established by the board.

A further benefit this organisation found from working with this approach was that it forced discipline on the board: it could no longer sit back and wait for the strategic plan with the view that "we'd know a good one if we saw it". At the first stage of the planning process board members had to decide what their assessment criteria (planning parameters) would be. The result was that when the strategic plan was presented to the board by the CEO, the changes required were not radical. Planning became more streamlined, requiring less backtracking.

Putting it into practice

A planning-parameters session usually takes a board half a day of quite intense discussion. Figure 1 in the panel *(above right)* presents some examples of planning parameters for your consideration and possible adoption.

The first one, the planning horizon, relates to the strategic plan itself. Some plans have a horizon of three years, others less and others more. It depends on the industry and the amount of change occurring in it. For some industries, there is little certainty beyond a two-year span. Change is slower in others, and a longer period is not only possible but also highly desirable.

Another planning parameter that a board may devise relates to capital expenditure limitations. From its knowledge of the finances of the organisation, a board may decide to restrict the amount of capital available to management, perhaps because of the organisation's debt situation. Obviously, it is important for a strategic planning team to know this limitation up front, as it may restrict the activities proposed.

Other planning parameters relate to strategic plan outcomes such as profit, either in dollar terms or as a percentage of shareholders' funds, or as revenue, either by product group or geography or by domestic and export sources. A parameter that is clearly the province of a board is the required percentage return on shareholders' funds. Naturally, these requirements would impact on profit and cash flow as well.

Figure 1.
Examples of planning parameters

- Planning horizon for strategic plan (eg, three years)
- Capital expenditure limitations
- Profit and cash flow in dollar terms
- % return on shareholders' funds
- % of revenue from exports
- % of revenue from a certain product/ service group
- % of revenue from a geographic region (eg, Asia)
- % growth in revenue over planning period
- Types of businesses the organisation should embrace or avoid (eg, areas likely to involve litigation)
- Policy on diversification and acquisition opportunities
- Major impacts to be taken into account

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But a board may also rightly express a view on the sources of revenue. In Figure 1, these streams are shown as a percentage of revenue from exports or certain product/service groups or geographic region. For instance, a CEO and his or her strategic planning team may be told that certain revenues need to come from markets other than the domestic. A board may also provide guidelines to management regarding the percentage of revenue from new products as compared with older ones. It may suggest that certain geographic regions be avoided for social and political reasons, so as to reduce risk.

Growth is another parameter to be considered by a board. A certain percentage return on shareholders' funds might be achieved at the expense of growth. So a board may require that revenue growth keep pace with the return on shareholders' funds, competitor activity and industry growth.

The last three items in the list of examples relate to policy parameters. These might include the type of businesses the organisation should avoid for reasons of litigation, for example, or it might be a policy on diversification and acquisition. Lastly, a board may identify certain major influences of an economic or social nature that need to be encompassed by the strategic plan.

Take a closer look

In this article I've concentrated on a board's role in developing a strategic plan. However, a board has an additional role in monitoring the plan once developed. But that's a different story.

All boards and management should take a closer look at the process that operates within their organisations to develop a strategic plan. Boards should review the form their involvement takes and question whether or not that involvement compromises their ability to make an impartial evaluation of the plan once produced.

The requirement of a board to give sufficient guidance, yet be able to impartially assess a strategic plan developed by management, can be met by adopting the planning parameters approach. ❍

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