

Preparing for strategic decision-making

Better Boards Conference 2015

James Beck

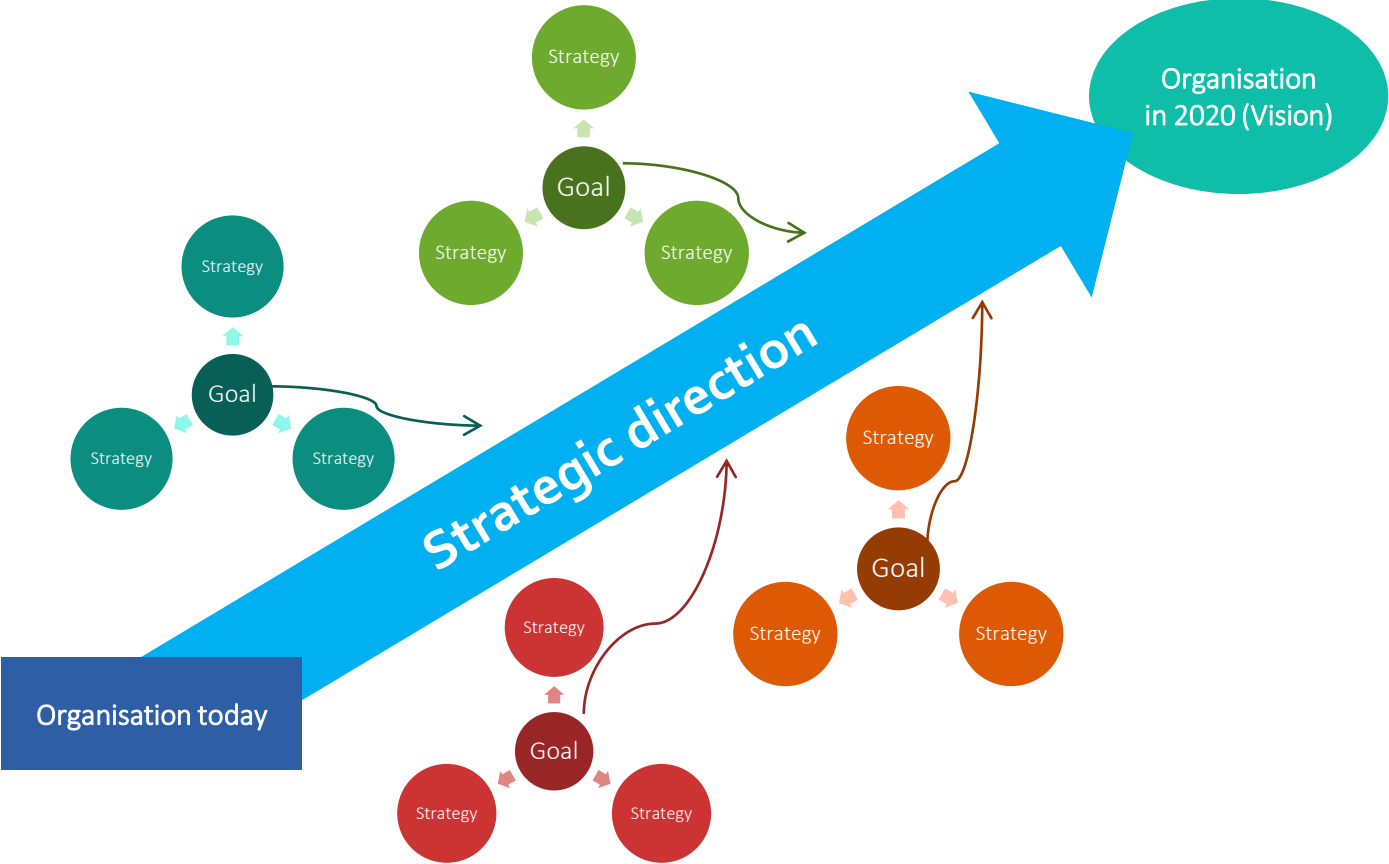
Discussion points

- Developing an effective strategic planning process – if you do not have an agreed strategy, how can you make a defensible decision?
- The main influences on strategic decision-making
- How board members can believe that they are making a sound decision, when they are not
- The factors that lead to poor decision-making and how they can be prevented
- Ways in which the board can minimise the risk of poor decisions by focusing on the design of their decision-making processes and procedures



Developing an effective strategic planning process

What is strategy?



The aspiration of every board we have worked with is to spend more time on strategy.

Carter & Lorsch, 2004, *Back to the Drawing Board*

28% of directors we have surveyed in our board reviews rate the board's involvement in strategy as 'average' or 'poor'

27% of directors rate the ability of the organisation to deliver upon the strategic direction and business plans as 'average' or 'poor'

Challenges for boards

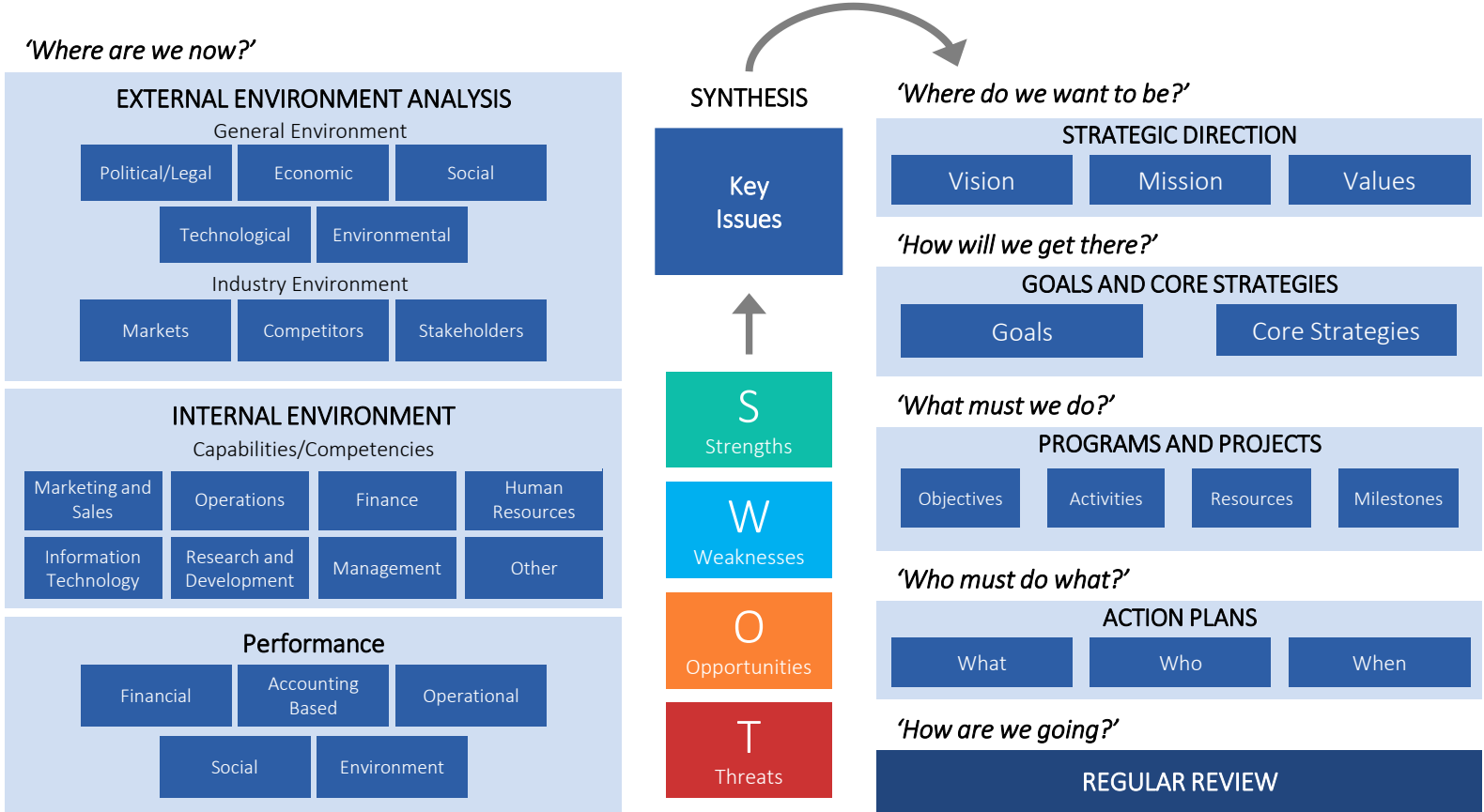
- Understanding of strategy by directors
- Appropriate level of engagement in strategic planning
- Process for developing the strategic and other business plans and budgets
- Linking strategy with risk
- Recognising the strategic context for decision-making
- Overseeing implementation

A strategy demands choices

Someone who does not need to choose, does not need a strategy. They just go ahead and do it. It is difficult to develop a strategy, because it requires choices, often amid uncertainty and unknown factors, and these choices commit an organisation to long-term, substantial investments. A choice now has consequences for the future. Strategy is based on commitment, because these choices cannot simply be undone. Strategy also means deciding what *not* to do. We *will* do this but we *won't* do that.

Source: Wiebes, Baaij, Keibek & Witteveen, 2007, *The Craft of Strategy Formulation*, p. xv

Strategic planning model

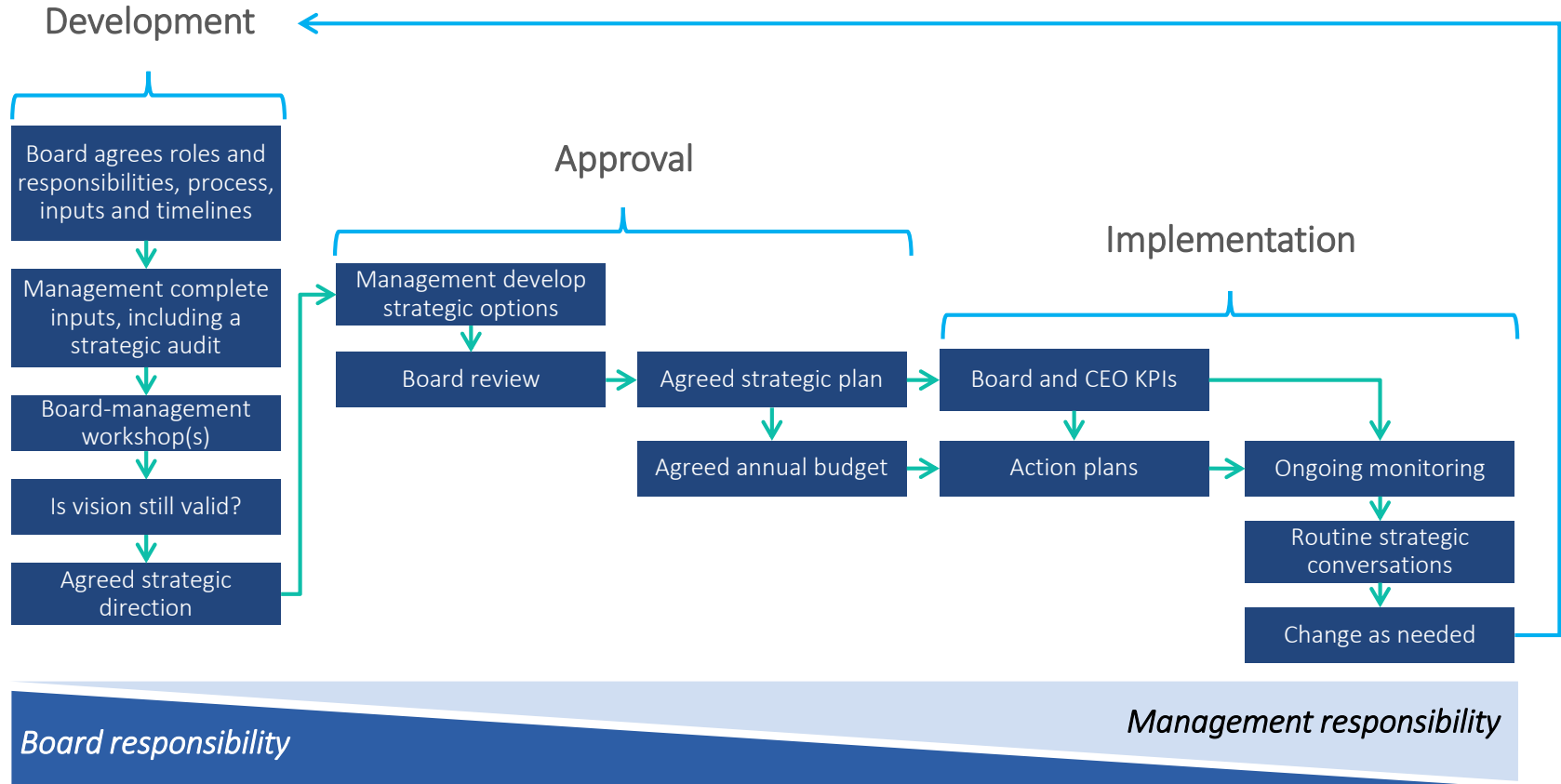


Strategic development

- Joint board – senior management role
- Use of board strategic workshops
- Output = top-level strategic plan



Generic strategic planning process

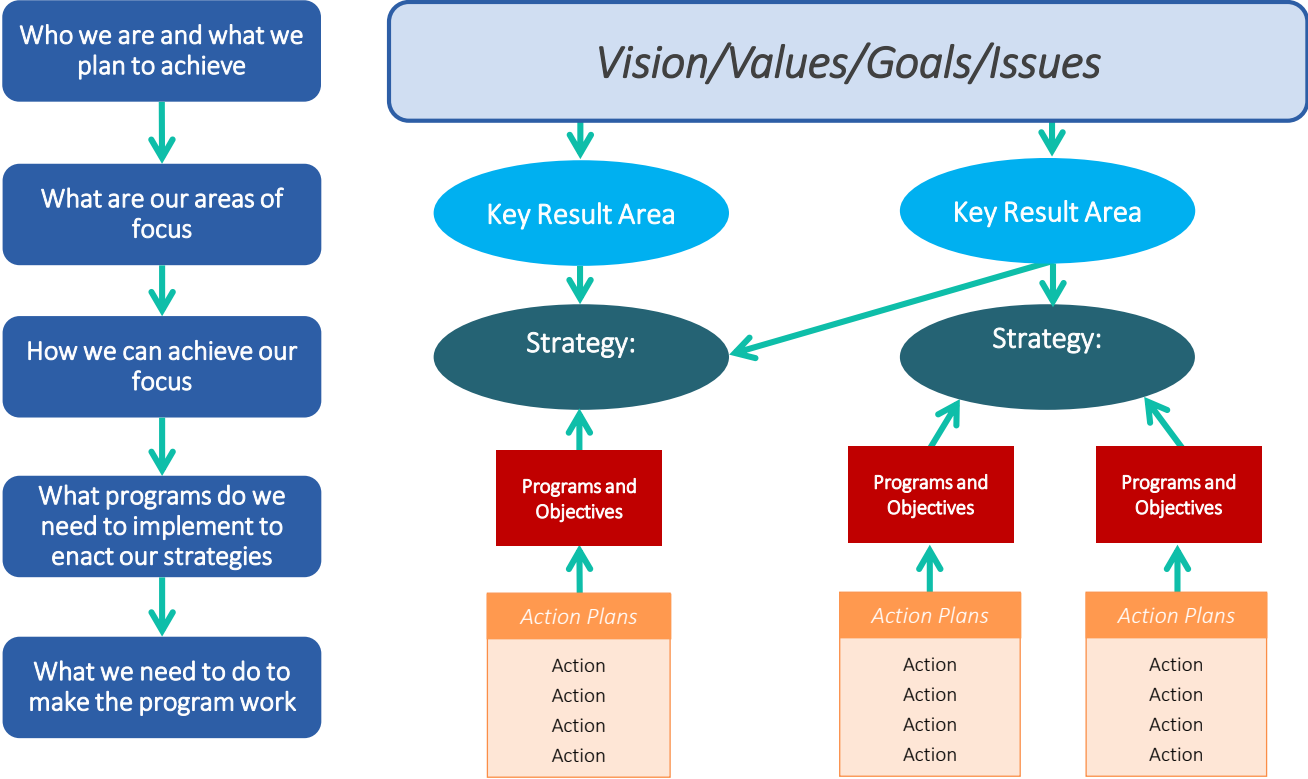


Strategic elaboration

- Senior management role
- Senior management elaborate the agreed strategy
- Outputs:
 - Corporate strategic plans
 - Business plans
 - Operational plans
 - Budgets
- Board's role: approval



Strategy implementation framework



Barriers to strategy implementation

1. Vision Barrier



The workforce fails to understand the strategy

2. Management Barrier



Executive teams do not spend time discussing strategy

3. Resource Barrier



Organisations do not link budgets to strategy

4. People Barrier



Managers do not have incentives linked to strategy





Monitoring strategy

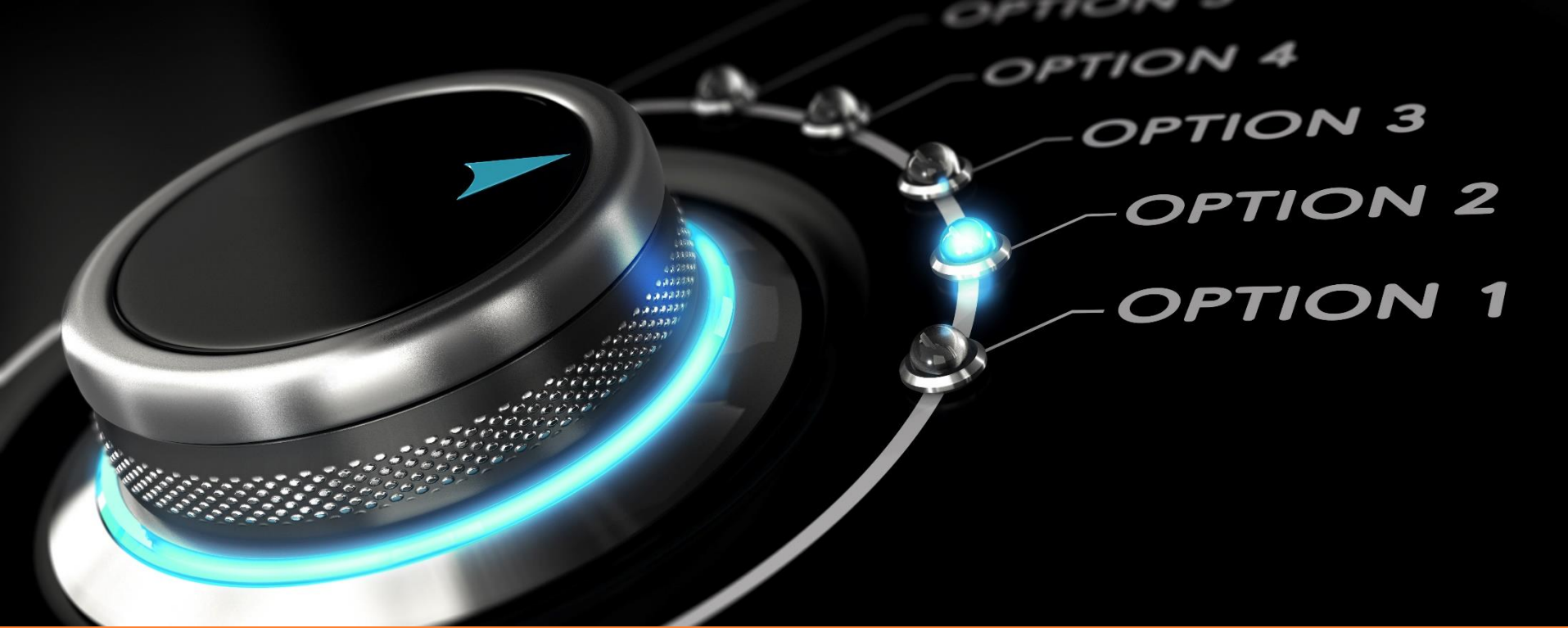
- The board's role encompasses monitoring:
 - Financial and other reporting
 - Progress of major capital expenditure, capital management, and acquisitions and divestitures
 - Implementation of strategic initiatives including:
 - Timelines
 - Budgets
 - Results achieved
 - Organisational performance

Board strategy status report example

Core Strategy	Strategic Program		Reporting Period								
			1	2	3	4	5	6	7	8	
1. <i>Operational Readiness</i>	1.1	Identified successors for all business critical roles	Identify high potential candidates for succession pool	Meets target/schedule	Meets target/schedule	Meets target/schedule	Behind target likely to recover /missed target but within tolerance	Meets target/schedule	Behind target likely to recover /missed target but within tolerance		
	1.2	Time to fill vacancy rate	<8 weeks	Behind target likely to recover /missed target but within tolerance	Meets target/schedule	Meets target/schedule	Meets target/schedule	Meets target/schedule	Meets target/schedule		
2. <i>Engaging Our Stakeholders</i>	2.1	Communications and relationship governance structure	Communications function in place	Behind target likely to recover /missed target but within tolerance	Behind target likely to recover /missed target but within tolerance	Meets target/schedule	Meets target/schedule	Meets target/schedule	Behind target likely to recover /missed target but within tolerance		
	2.2	Image and branding program	Implement plan and build brand awareness	Meets target/schedule	Meets target/schedule	Behind target likely to recover /missed target but within tolerance	Meets target/schedule	Meets target/schedule	Meets target/schedule		
3. <i>Effective and Innovative Systems</i>	3.1	ICT architecture	Infrastructure and application architecture supports the strategy	Meets target/schedule	Meets target/schedule	Behind target likely to recover /missed target but within tolerance	Behind target unlikely to recover /missed target and outside acceptable tolerance	Behind target unlikely to recover /missed target and outside acceptable tolerance	Behind target unlikely to recover /missed target and outside acceptable tolerance		
	3.2	Information security	Confidentiality, integrity and availability of our information is protected from unauthorised access, use, disclosure, modification or destruction	Behind target unlikely to recover /missed target and outside acceptable tolerance	Behind target unlikely to recover /missed target and outside acceptable tolerance	Behind target likely to recover /missed target but within tolerance	Behind target likely to recover /missed target but within tolerance	Meets target/schedule	Meets target/schedule		
	3.3	Business process improvement tools and governance	Embed continuous improvement culture	Exceeds target/schedule or Complete	Exceeds target/schedule or Complete	Meets target/schedule	Meets target/schedule	Meets target/schedule	Behind target likely to recover /missed target but within tolerance		

Colour Coding

	Exceeds target/schedule or Complete
	Meets target/schedule
	Behind target likely to recover /missed target but within tolerance
	Behind target unlikely to recover /missed target and outside acceptable tolerance



Improved decision-making

If we are all in agreement on the decision – then I propose we postpone further discussion of this matter until our next meeting to give ourselves time to develop disagreement and perhaps gain some understanding of what the decision is all about.



Alfred P Sloan (1875 – 1966)

What affects board decision-making?



- Success or failure of previous strategies
- Organisational history
- People's attitudes and expectations
- Personal goals

- Maintaining status quo
- Overconfidence
- Sunk cost
- Confirming evidence
- Groupthink

Why are boards are prone to bias?

- Ambiguity
- Attachment to organisation/management
- Approval
- Familiarity
- Discounting
- Escalation



Source: Brennan, 2013

Overcoming bias in the boardroom

- Boardroom dynamics that support open and vigorous dialogue has the best chance of reaching decisions that are based on reasoned good judgment rather than bias
- Behaviours that encourage good decision-making and overcoming bias include:
 - Refusing to accept explanations on face value
 - Consistently stating actual views, even if they are unpopular
 - Persevering to get to the real issues
 - Being sceptical of group opinion
 - Committing to core values, even if they are ‘inconvenient’

Other ways of overcoming boardroom bias

1. Management input to the board well in advance of the point of decision, e.g. concept proposal for discussion, proposal for decision
2. Management describing in board papers the process that has been used to arrive at and challenge the proposal prior to presenting it to the board
3. Commissioning independent reviews of management proposals
4. Taking large decisions in stages
5. Introducing a devil's advocate to provide challenge
6. Introducing automatic stops in decision-making in the form of circuit breakers or calling for time-outs
7. Establishing an ad hoc committee, convening additional meetings
8. Recording the pros and cons of the decision in the minutes

Source: FRC, 2011, *Guidance on Board Effectiveness*

Decision-making and board processes

- Good decision-making depends on good meeting processes:
 - Board members having access to the right information at the right time
 - Board members being prepared to ask questions
 - Board members having adequate time for decision-making
- The development of effective and efficient board processes to aid decision-making can be enhanced by boards giving specific feedback to management



Criteria for board decisions

- A board decision should be:
 - Strategic
 - Informed
 - Smart
 - Balanced and fair
 - Sustainable, affordable and legal



Integrating strategy with governance for improved decision-making



Sample board meeting agenda

Board Meeting Date: XXXX
 Location: XXXX
 Commencement Time: XXXX

COMPANY NAME
 ABN XXXXXXXXXX
 BOARD MEETING AGENDA

1. In-camera Session	30 mins
2. Meeting Opening 2.1 Apologies 2.2 Director Conflict of Interest Disclosures 2.3 Previous Minutes 2.3.1 Confirmation 2.3.2 Matters Arising/Action List	30 mins
3. Matters for Decision 3.1 Major strategy decisions (always have board paper and recommendations) 3.2 Routine decisions including capital equipment approval and expenditure (discussed only if requested by a director)	60 – 120 mins
4. Matters for Discussion 4.1 CEO's Report 4.1.1 Current Significant Issues 4.1.2 Matters for Approval 4.1.3 Update on Strategic Plan Implementation 4.1.4 Major Key Performance Indicators 4.1.5 Risk and Compliance Update 4.1.6 Environmental, Social and Governance (ESG) Update	

4. Matters for Discussion (cont'd) 4.1.7 Innovation Update 4.1.8 Environmental (PEST) Update 4.1.9 Matters for Noting 4.2 CFO's Report 4.3 Discussions concerning forthcoming strategic decisions 4.4 Committee Minutes 4.4.1 Audit 4.4.2 Other 4.5 Other matters for discussion 4.6 Chair's Update 4.7 Presentation by Management (if required)	60 – 120 mins
5. Matters for Noting [discussed only on exception basis] 5.1 Major Correspondence 5.2 Company Seal 5.3 Updated Board Calendar 5.4 Other Matters for Noting	10 mins
6. Meeting Finalisation 6.1 Review Actions to be Taken 6.2 Meeting Evaluation 6.3 Next Meeting 6.4 Meeting Close	10 mins

Sample board paper format

BOARD PAPER	
Agenda Item:	#
Agenda Item:	[Insert Title]
Sponsor:	[Insert Name and Title]
Draft Resolution	[Insert exact wording of proposed board resolution that the Board is asked to pass. The draft resolution must be clear, concise and unambiguous.]
Executive Summary: Explain in no more than four lines what the paper is about and what it is endeavouring to achieve. The paragraph should be clear and concise and should state whether the paper is being submitted for the Board’s information or is seeking the Board’s approval for a contract, action, etc.	
Background: Outline in no more than twelve lines the background to what is being proposed to the Board, providing the information necessary for a non-executive director to understand the proposal who does not have the background knowledge of an executive who has been managing the day-to-day affairs of a particular matter. Summarise any previous Board consideration of the specific proposal. If it is not possible to explain the background to a proposal in the space of two paragraphs, include an attachment and provide further details. Identify any external advice/consultants/information involved in the preparation of the proposal.	
Recommendation: Outline the recommendation in no more than twelve lines. Do not repeat the statements made in the sections above. Mention the options that were considered by management and explain why the preferred option was chosen. Also detail the outcomes that management is seeking to achieve from the proposal. If the implications of the proposal are complex, include an attachment and provide further details.	
Issues	
Strategy Implications Explain in no more than ten lines how this proposal is aligned to the agreed strategic and business plans.	

Sample board paper format (cont'd)

Financial Implications

Explain in no more than twelve lines the expenditure implications of the proposal.* Once again this should take the form of an executive summary approach. If the expenditure implications are complex, include an attachment and provide further details.

This section should include comments on whether the expenditure is budgeted or unbudgeted, the proposed timing of the expenditure and cash flow implications. If a detailed business case has been prepared for a proposal, the major points of the case should be summarised here.

Risk Analysis

Analyse in no more than twelve lines the major risks associated with the proposal and explain how these risks will be managed. This information may be presented using the following pro forma.

Identified Risk	Risk Likelihood (H,M,L)	Impact of Risk (H,M,L)	Strategy to Manage Risk

Corporate Governance and Compliance

Outline in no more than twelve lines the corporate governance implications of the proposal, remembering that it is of considerable importance to the Board that contemporary corporate governance standards are achieved. Therefore, the adoption of appropriate internal risk management and compliance processes will be a condition precedent to the Board considering and approving a proposal.

Outline what KPIs and/or reporting to the board will occur during and after implementation.

Management Responsibility

Identify the manager who will have responsibility for the proposal as well as the executive who will deal with the matter on a day-to-day basis.

Signing of Board Paper

Chief Executive Officer

Sponsor

The following people have been involved in the preparation of this board paper:

[Name and Title]

** This should take the form of an executive summary approach. If the issues are complex, include an attachment and provide further details.*

Strategic CEO's report

- The CEO's report is a key component of the board meeting as it:
 - Keeps directors informed of the organisation's operations and activities
 - Foreshadow strategic decisions
 - Major documentary evidence as to the extent to which directors are kept informed
 - A formal tool to enable directors to effectively discharge their duties

CEO's report – sample headings

Report by the CEO:

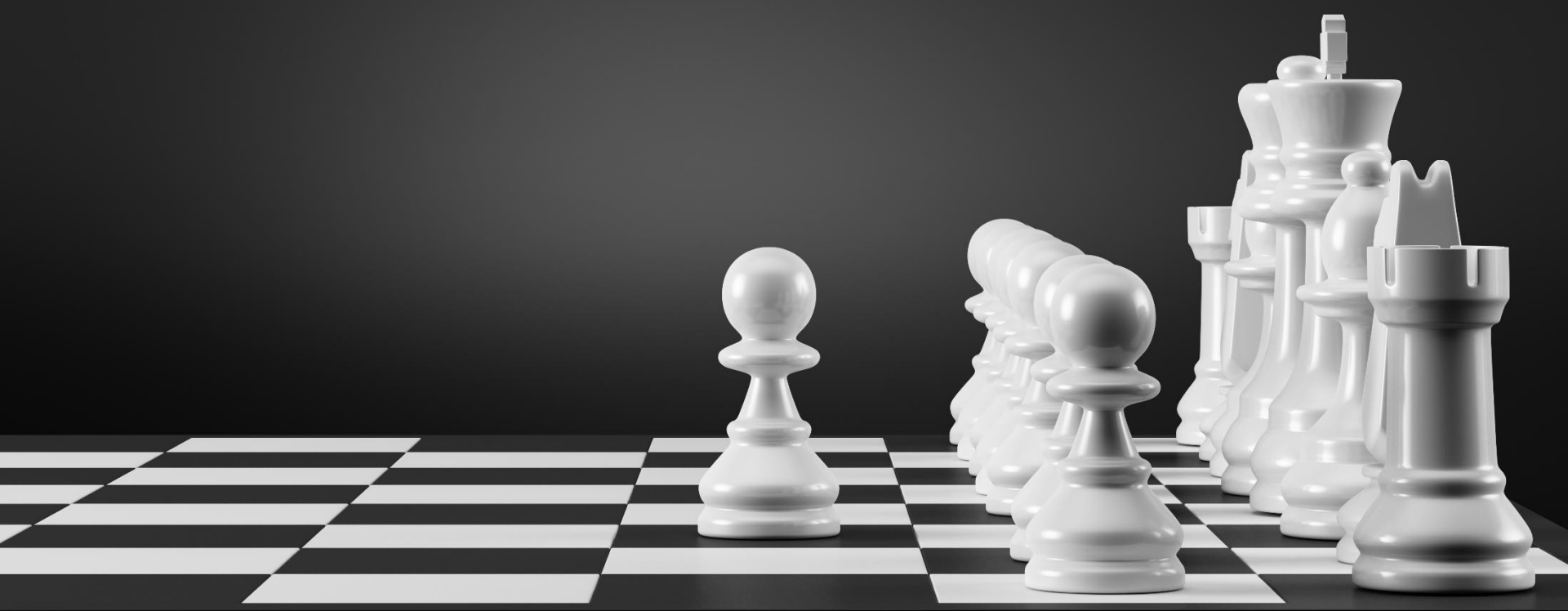
- Current performance including:
 - Overall financial performance including at a minimum:
 - Balance sheet (statement of financial performance) to end of the previous month
 - Statutory profit and loss (statement of financial performance) to end of the previous month;
 - Finance facilities
 - Cash flow forecasts
 - Comments on any significant (5%) variation from budget
- Key performance indicators:
 - Financial
 - Non-financial
- Next year's forecast including:
 - Forecast financial performance
 - Forecast key performance indicators
- Progress on the strategic plan
- Monitoring of the regulatory environment
- Monitoring of major competitors
- Staffing activities
- Marketing activities
- Operational matters
- Compliance report including:
 - Liquidity
 - Financial and secretarial (including ACCC requirements)
 - Tax returns
 - Licences and permits
 - Safety
 - Environment
 - Industrial relations including employment contracts
 - Competition and Consumer Law and the ACCC
 - Quality assurance
 - Privacy
 - Insurance
 - Other significant compliance issues
- Risk management
- Any other significant items

Strategic decision checklist

1. Before Decision-making	
<i>Do not start until this is complete</i>	
Is the matter for decision clear and well formulated?	<input type="checkbox"/>
Are the options well specified?	<input type="checkbox"/>
Do we need to make this decision now?	<input type="checkbox"/>
Has this decision been considered previously? If so, why are we revisiting it?	<input type="checkbox"/>
Do the board and related papers contain sufficient information?	<input type="checkbox"/>
Has the board encouraged honest disclosure of estimates?	<input type="checkbox"/>
Do we need to obtain additional information?	<input type="checkbox"/>
How reliable is the data?	<input type="checkbox"/>
Do we need an opinion from an independent, external advisor?	<input type="checkbox"/>

2. Decision-making	
<i>Evaluate each decision here</i>	
Is the decision aligned with the organisation's vision, mission and values?	<input type="checkbox"/>
Will the decision assist us to achieve the organisation's goals?	<input type="checkbox"/>
If the question was framed another way, would we make the same decision?	<input type="checkbox"/>
Are one or more people strong advocates for a particular course of action? Have counter arguments and alternatives been adequately explored?	<input type="checkbox"/>
Has a balanced case been made for the proposed course of action?	<input type="checkbox"/>
Is this a case of potentially continuing to back a failed decision?	<input type="checkbox"/>
Have one or more board members taken a 'black hat' role in the discussion?	<input type="checkbox"/>
Have we been given sufficient time to discuss the decision?	<input type="checkbox"/>
Do we know the maximum, minimum and most likely outcome of this decision?	<input type="checkbox"/>
Is the return on investment realistic?	<input type="checkbox"/>
Has the impact of this decision on all stakeholders and the organisation been considered?	<input type="checkbox"/>
Do we understand the maximum potential loss of this decision?	<input type="checkbox"/>
Have all the risks associated with this decision been considered?	<input type="checkbox"/>

3. After Decision-making	
<i>What happens next</i>	
Has the best approach for communicating the decision been decided?	<input type="checkbox"/>
Do all parties understand the communication protocol for the decision?	<input type="checkbox"/>
Has someone been assigned responsibility for implementation of the decision?	<input type="checkbox"/>
Have KPIs been established to monitor implementation of the decision?	<input type="checkbox"/>
Do we need to review the implementation or the decision? If so, when?	<input type="checkbox"/>



Summary and conclusion

7 tips to get the board thinking strategically

1. Recognise that strategic thinking is an important aspect of the board's strategy role. It is about challenging assumptions and developing strategy for the future

2. Involve both the board and management in strategic discussions



3. Give the board the opportunity to think strategically—in board meetings and at strategic retreats



4. Bring in external perspectives (e.g. industry experts) to stretch the board and management's thinking



5. Ask the right questions about the organisation, its environment, capabilities and resources as well as risks and opportunities



6. Use different strategy tools such as scenario planning to stimulate thinking



7. Get more strategic thinkers on the board



Governance documentation links

Strategic agenda template

<http://www.effectivegovernance.com.au/wp-content/uploads/2015/07/eG-Meeting-Agenda-Template-2015.pdf>

Board paper template

<http://www.effectivegovernance.com.au/wp-content/uploads/2015/07/eG-Board-Paper-Template-2015.pdf>

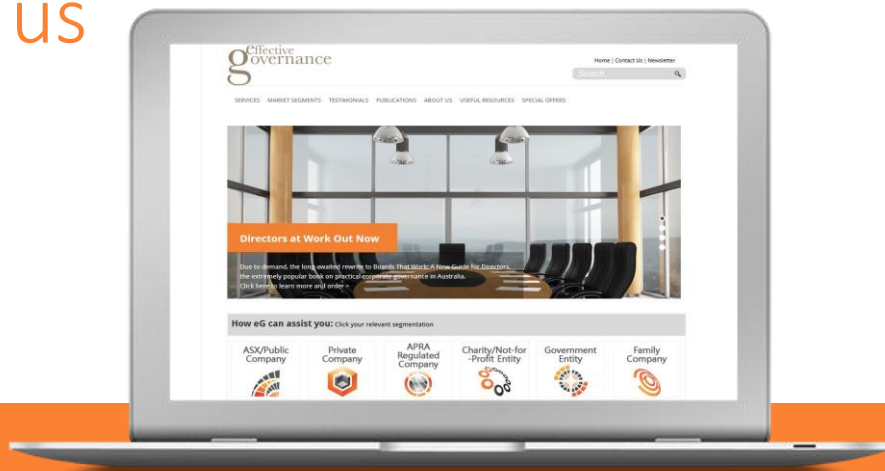
Strategic CEO report template

<http://www.effectivegovernance.com.au/wp-content/uploads/2015/07/eG-Strategic-CEO%E2%80%99s-Report-2015.pdf>

Strategic decision checklist

<http://www.effectivegovernance.com.au/wp-content/uploads/2015/07/eG-Strategic-Decision-Checklist-2015.pdf>

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