Strategy development and execution: A boardroom perspective

An Insync Surveys study in conjunction with Board Benchmarking

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Introduction

This is the fourth in a series of boardroom perspectives based on the views of 625 directors who sit on 79 different Australian and New Zealand boards. It deals with boardroom perspectives on whether boards are making measurable impacts on long term performance by making significant contributions to their organisation's direction, strategy and planning.

Little has been known about what happens behind the boardroom door in relation to setting the organisation's direction. This research report now shows that most boards are getting the long term direction pretty much right, but some boards need to do better with their consideration, understanding and sign-off of their organisation's strategic plans.

Key findings

This study has revealed that:

- most boards and management are on the same page when it comes to agreeing on the long term direction for their organisation, with 77% agreeing that is the case (page 7)
- boards need to become better at understanding the key drivers of their organisation's performance, as only 63% of directors agree that they do (page 8)
- similarly, only 53% of directors agree their board understands the actions required to execute the organisation's strategic plan successfully and the key performance indicators of that success (page 12)
- boards are taking too much time to discuss and consider the same matters their executive team has already gone over, with only 38% of directors agreeing that management presents a report on alternatives as part of major strategic initiatives (page 10)
- the largest variation in views among demographic groups is in the age category with directors under 45 years being consistently more critical across the areas surveyed than those over 64 years

About this study

This study is the fourth in a series on board performance. These studies focus on the views of directors regarding the major areas of the effectiveness of boards, based on Board Benchmarking's WhatWhoHowDo™ Framework.

Insync Surveys is an authorised distribution partner of Board Benchmarking's Board Effectiveness Survey.

About the sample

This study is based on the views of 625 directors who sit on 74 Australian and 5 New Zealand boards. They have responded to 120 hard-hitting, best practice survey statements of Board Benchmarking, formerly Leblanc Diagnostics. The boards included in the study represent a broad cross section of organisations ranging from ASX organisations (including in the top 10), to private companies, associations, not-for-profits and government entities.

The data was gathered between January 2006 and September 2008. The majority of directors in the research sample are males and non-executive directors, with the largest age segment being over 64. The sample is almost evenly split between organisations with a profit versus a not-for-profit motive.

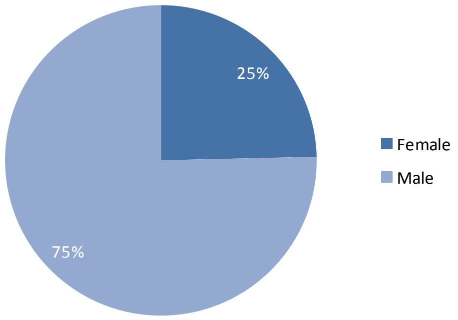
Females are more likely to:

- be under 45 years of age
- be directors in not-for profit organisations
- have less experience as a director

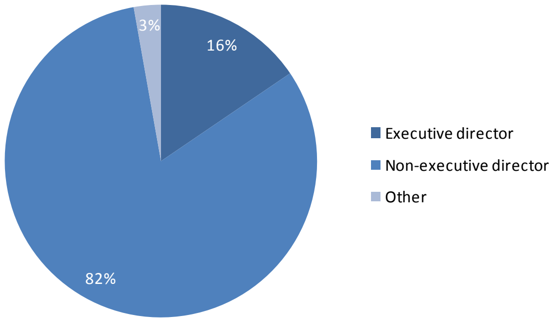
Males are more likely to:

- be over 64 years of age
- hold a director position in a corporate organisation
- have more experience as a director

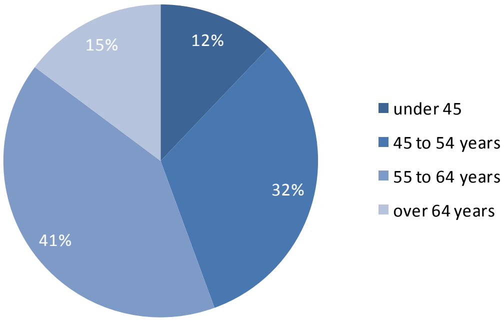
Gender



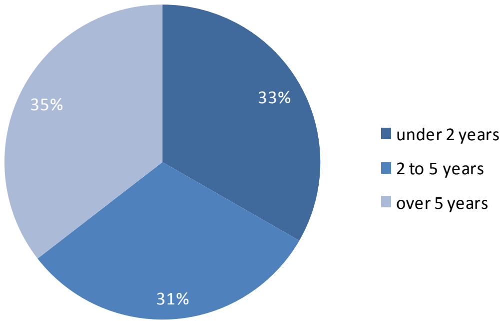
Independence



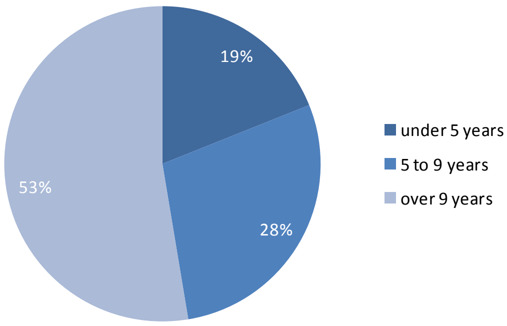
Director age



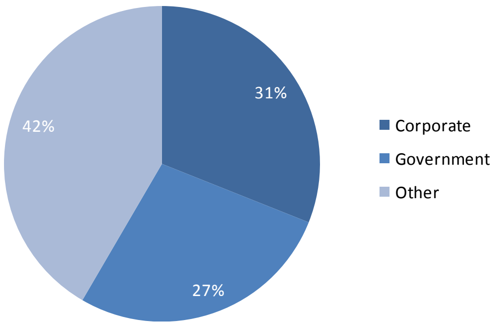
Director tenure



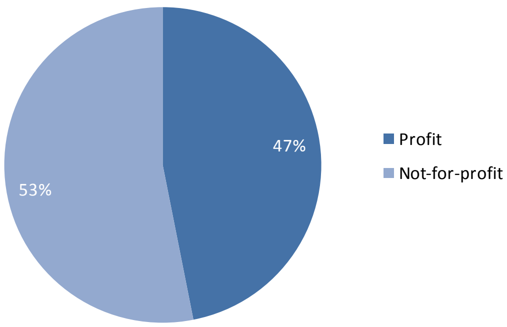
Director experience



Organisation type



Motive



Methodology

Data gathered from the self assessment of directors who completed Board Benchmarking's Board Effectiveness Survey have been used as a basis for this study. The survey is based on Board Benchmarking's unique WhatWhoHowDo™ Framework, as explained at www.boardbenchmarking.com. The Board Effectiveness Survey is used by organisations' boards to highlight areas of strength and areas where improvements can be made. It also acts as a yardstick against which to measure outcomes of improvement initiatives.

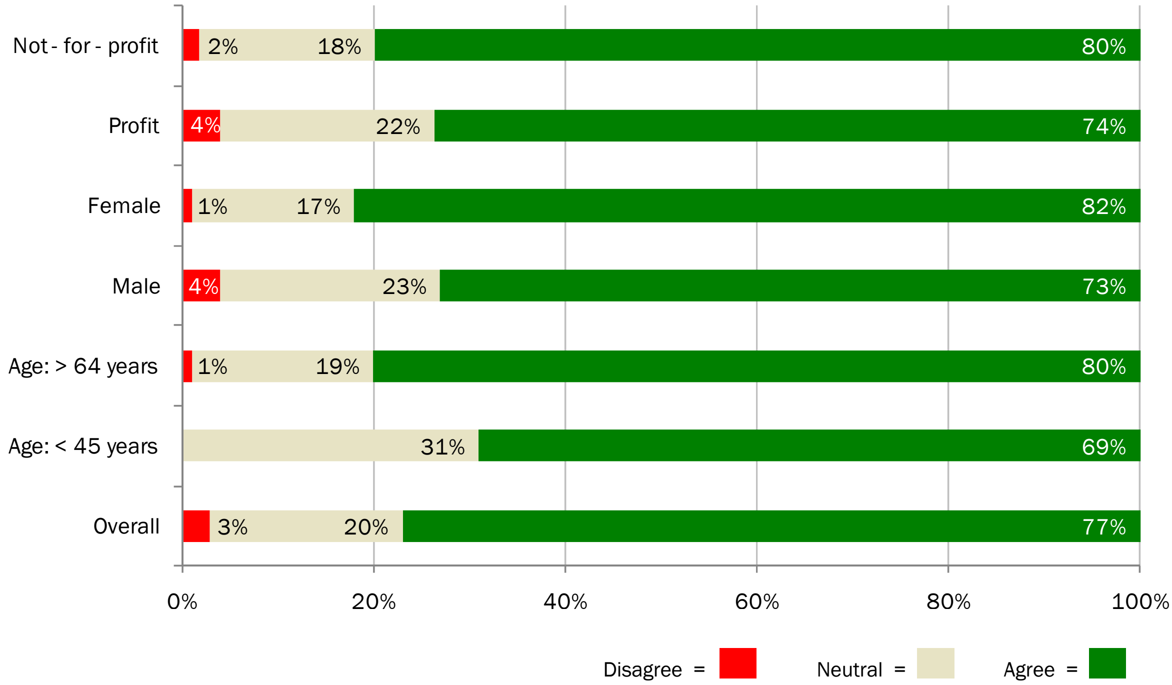
The survey has 120 statements measured on a seven point scale where "one" represents strongly disagree and "seven" represents strongly agree. The survey is unobtrusive and is designed to be completed by directors online within 30 minutes.

This study highlights differences among demographic groups. To do this, the seven rating options are aggregated under the titles of "disagree", "neutral" and "agree" as follows:

Disagree =	Neutral =	Agree =
Strongly disagree (1) Disagree (2)	Slightly disagree (3) Neither agree nor disagree (4) Slightly agree (5)	Agree (6) Strongly agree (7)

1. A shared long term direction

Response to the survey statement: “We (our board and management) are committed to the same long term direction for our organisation”



One of the main foundations for effective development of strategy is a shared commitment to a clearly defined, long term direction for the organisation.

Positively, 77% of directors agree that their board and management are committed to the same long term direction for their organisation, with only 3% disagreeing and 20% of respondents being neutral.

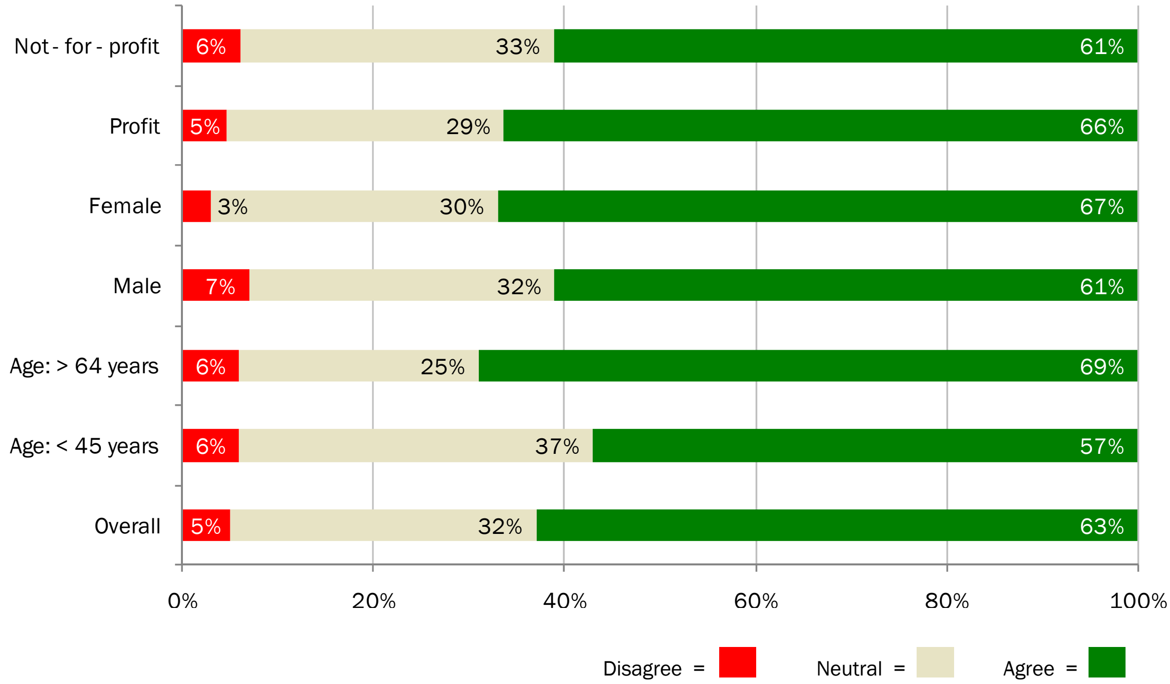
Part of the process of committing to the same long term direction of an organisation is clearly articulating what that long term direction comprises in terms of its aspiration, vision and mission, together with its strategy and the core values that will guide its way.

Board clarity about the organisation’s long term direction is critical, not only as a precursor to the development of an organisation’s strategy and business plan, but also as it explains to shareholders and other stakeholders why it exists and what it aspires to become. Shareholders and other stakeholders don’t like to invest their time, effort and money in an organisation based on certain expectations, only to be surprised that it heads down a different track.

The 3% of directors who disagree, and even the 20% who are neutral, need to ensure that appropriate discussions occur around the boardroom table with management so they can all get on the same page. If a director cannot commit themselves to the long term direction chosen for the organisation, they should seriously consider resigning from the board.

2. Understanding key performance drivers

Response to the survey statement: "Our board has a full understanding of the key drivers effecting our organisation's performance"



It is disappointing that 5% of directors consider that their board does not understand the key drivers effecting their organisation's performance, with 31% of directors being neutral in that regard.

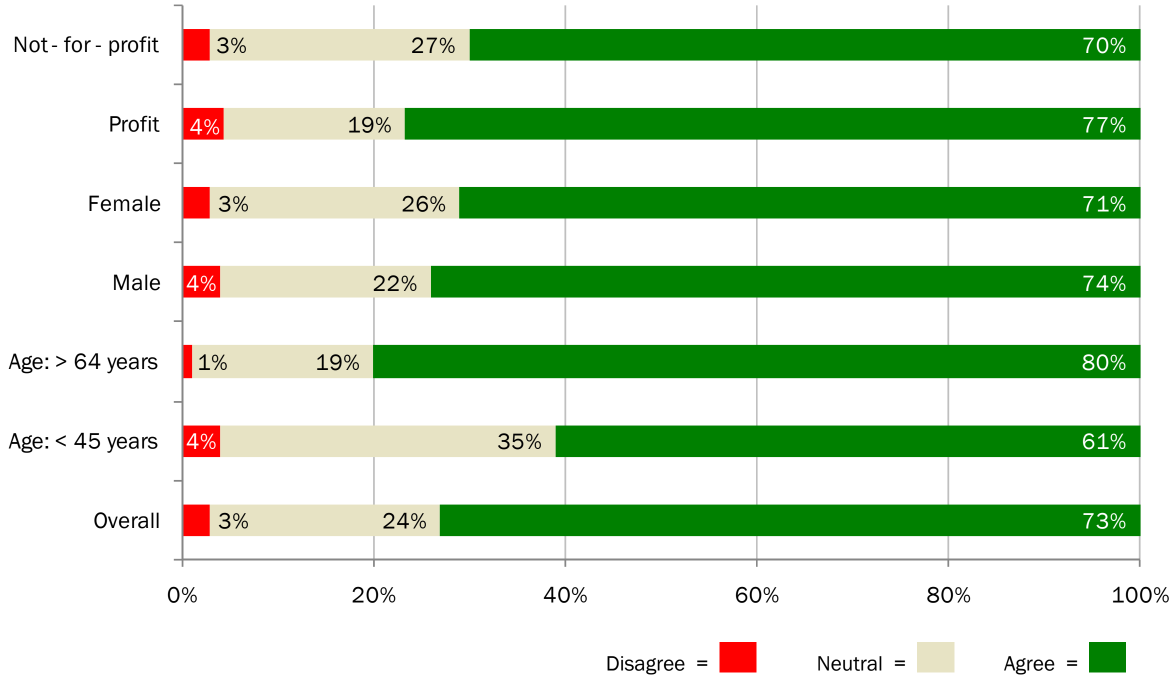
This survey statement gets down to one of the core roles and the essential characteristics for a board member – that is, to have sound commercial judgement and a detailed understanding of the key drivers, including the risks effecting the organisation's performance. That should extend to understanding the competitive, financial and other strategic challenges of the organisation.

It is also important that the chair, in exercising leadership, ensures that each member of the board has a common and clear understanding as to what the key drivers are for the organisation's performance. That common understanding is important for the board to ensure their organisation's strategic and business plans are appropriate. These plans need to be aligned with the organisation's appetite for risk as determined by the board.

A common understanding of the key drivers of an organisation's performance will also form the basis of setting appropriate KPIs and other performance measures for the CEO and senior management. They will also direct the focus of reporting to the board on the organisation's performance.

3. CEOs welcoming board input

Response to the survey statement: “Our CEO welcomes the board’s constructive input into our organisation’s strategy”



Boards that work well have a very open, candid and transparent relationship with their CEO and in particular, between the chair and the CEO. That relationship should be built on mutual trust and respect. It should include an appropriate amount of creative tension and not be too “cosy”. It is also important that the CEO encourages a culture of transparency and openness from direct reports.

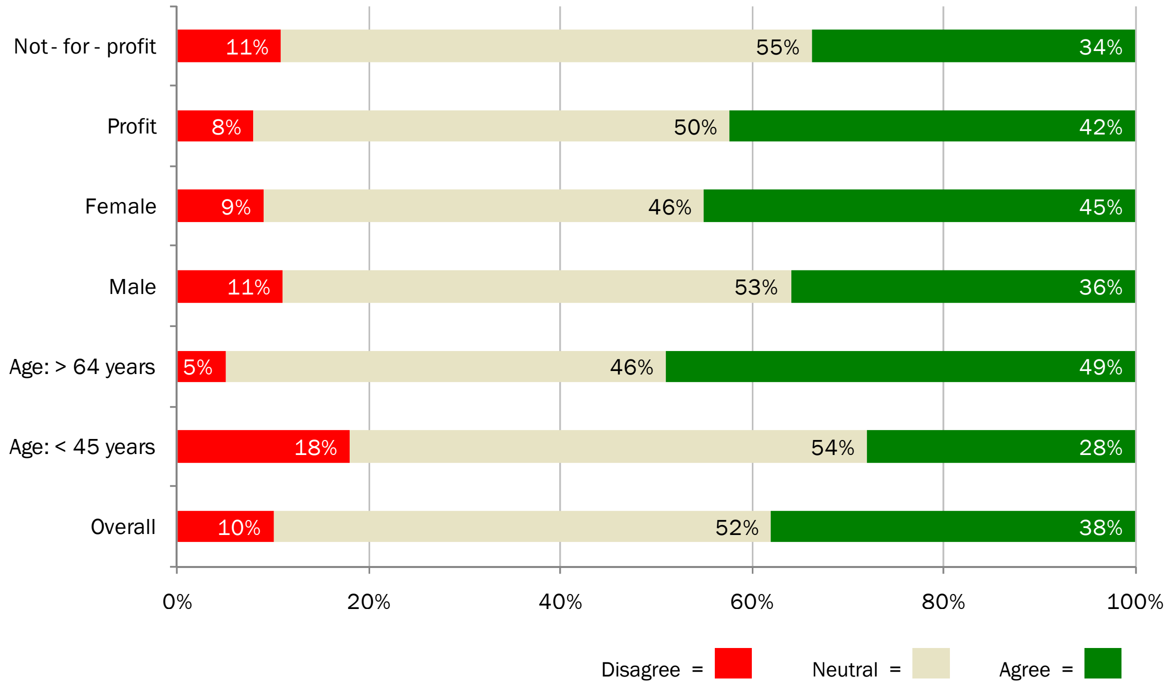
The fact that 73% of directors believe that their CEO does welcome the board’s constructive input into their organisation’s strategy is very pleasing.

The reasons a CEO may not welcome the board’s constructive input into the organisation’s strategy, can often be a result of factors outside the CEO’s control. A CEO will often become guarded and less candid when a board or a number of individual directors are overly prescriptive, controlling, aggressive and/or persistently critical of the CEO’s actions, views or proposals.

If such a culture has built up between a board and the CEO, it is important that the chair, or one or more change agents on the board, take appropriate action to rebuild an open, transparent and candid culture.

4. Considering and reporting strategic alternatives

Response to the survey statement: “As part of major strategic initiatives, management presents a report on alternatives considered”



Only 38% of directors agree that management present reports on alternatives considered as part of major strategic initiatives, with 9% disagreeing and 52% being neutral. The difference in views between those aged over 64 years and those aged under 45 years is significant.

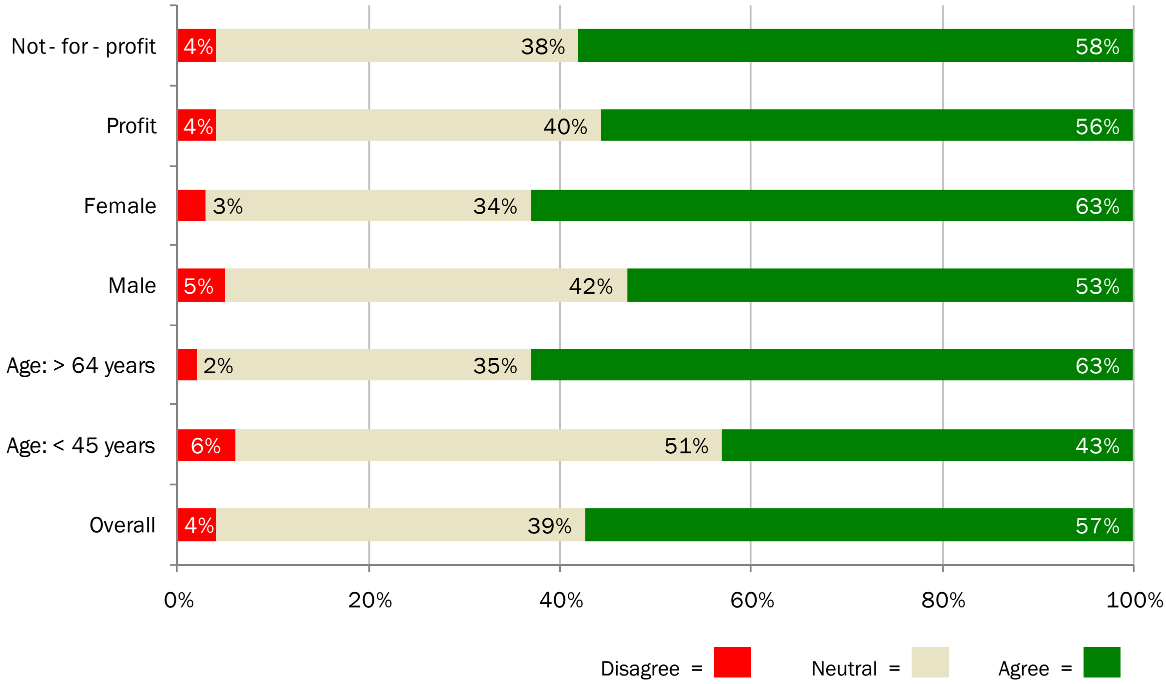
The reporting by management on alternatives considered when they present major strategic initiatives is a simple discipline they can adopt to significantly improve their board’s understanding, constructive deliberation and approval of major strategic initiatives. Good reporting practice would also involve the management setting out scenarios and sensitivities considered and reasons why particular alternatives were rejected.

Many directors say they spend, or waste, a significant amount of time discussing the same alternatives that management have previously considered and rejected. Such time could be saved, or considerably shortened, if management included the main alternatives they considered as part of their reporting of major strategic initiatives, including the reasons they rejected each alternative.

Some management believe that advising the board of all alternatives considered might be a sign of a lack of boldness and decisiveness. Some board members might, on the other hand, consider that only including the preferred option may infer that management already consider the initiative approved before the board has even seen the detail. The inclusion of alternatives considered by management in board papers should demonstrate appropriate thought and diligence, with both the board and management benefiting accordingly.

5. Rigorous review of strategic plans

Response to the survey statement: “Our board approves a strategic plan only after conducting a rigorous review”



This survey statement gets to the heart of the way the board goes about its activities. If boards simply accept what management puts forward, they might as well not exist. The fact that 4% of directors disagree that their board only approves the strategic plan after conducting a rigorous review, with 39% being neutral, is disappointing. The difference in views between those aged over 64 years and those aged under 45 years is also significant. Younger directors appear to be more critical.

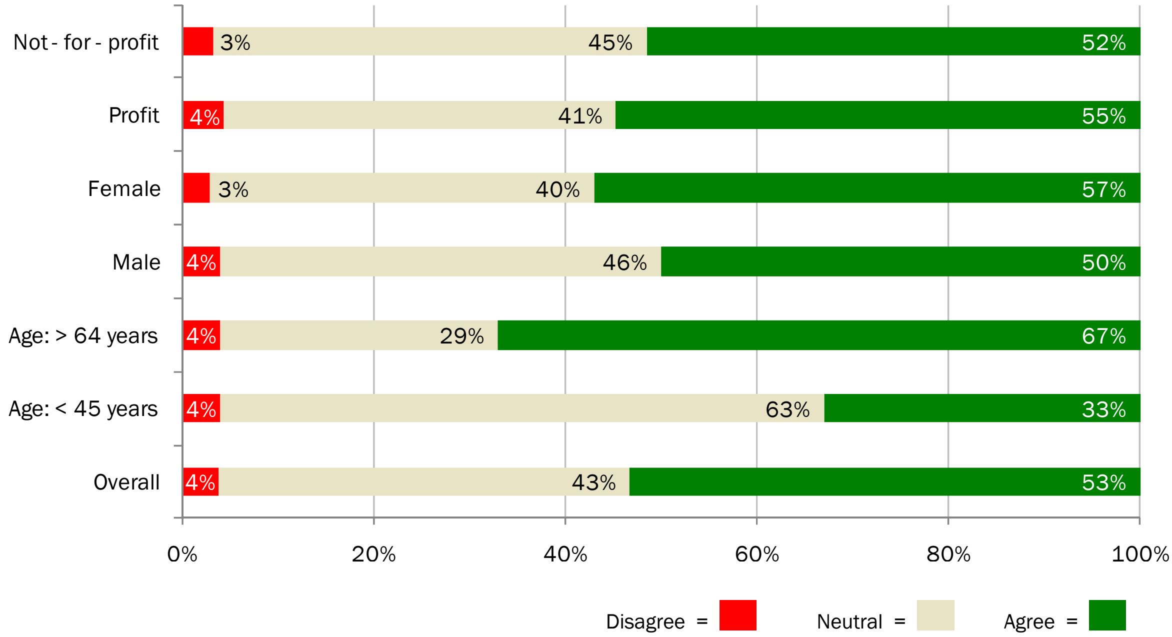
Shareholders and key stakeholders expect boards to give full and appropriately considered input and involve themselves in a rigorous review process of strategic and business plans.

Key stakeholders also expect boards to ensure that their strategic and business plans are aligned with the long term direction and sustainability of the organisation. They also expect alternatives for achieving their organisation’s aspirations to be fully considered.

Stakeholders expect boards to conduct robust discussions with probing questions and going into the appropriate detail when reviewing the organisation’s strategic plan. They also expect board members to have a proper understanding and appropriate discussions of the actions required to execute the strategic plan and deal with risks within the plan. This is explained further in the next section.

6. Understanding what it takes to execute a strategic plan

Response to the survey statement: "Our board has a full understanding of what actions are required to execute our organisation's strategic plan successfully"



Many CEOs and senior management complain that boards don't understand the complexities of implementing some of the decisions that boards make. Many board members will also be acutely aware, through experience and the myriad of research on the subject, that many strategic plans fail to be successfully executed as planned.

This is a double-edged sword. Boards should ensure that they understand these matters, but it is also important that the CEO and senior management articulate the actions required, including setting out the full costs and risks of the actions needed to successfully implement the plan.

As shown above, 4% of the 625 directors disagree that their board has a full understanding of the actions required to successfully implement their organisation's strategic plan, with 43% being neutral and only 53% agreeing with that survey statement.

This low percentage of agreement could be a result of the fact that many directors haven't had CEO or senior management operational experience, or if they did have that experience, it was a long time ago.

The difference in views of those under 45 years and those over 64 years is significant. This could be a result of organisations becoming significantly more complex over the last decade. Those under 45 years may believe they have a better understanding of such complexities than older directors.

Again, it is an important role of the chair to ensure that the CEO articulates and that directors understand the complexity of actions, risks and the costs required to successfully implement the organisation's strategic plan, such as how it cascades through business planning at an operational level (i.e. business unit planning and budgeting).

7. Board Effectiveness Review to increase performance

Board responsibilities can be divided into two main areas: adding value and oversight. Many boards get stuck in the routine of overseeing performance against a budget and their extensive compliance obligations. Too often little time remains for the important role of adding value through well thought-out strategic plans and other performance initiatives.

It is important that boards ensure they effectively consider and understand their organisation's strategic plans before sign-off. This is an important core function that periodically needs to be evaluated to ensure that the board is performing that, and other key functions, effectively.

Most people understand the importance of a regular health check to determine whether they have any risks to their health and if they are operating at their optimal capacity. Even if there are no obvious signs of ill-health, most people after a certain age ensure they have an annual check-up.

They do that check-up with a competent doctor who knows dozens of the most common areas of poor health and early warning signs of disease. Such doctors know what blood tests, scans and other tests to carry out. Occasionally, extra tests are needed if certain initial tests are not conclusive.

In a similar way, Insync Surveys recommends a regular check-up for boards and board and management committees to determine if there are any risks to their "health" and if they are operating at their maximum capacity or contrary to accepted practices.

Insync Surveys offers the following world class surveys that determine the extent to which boards, committees and directors are effective.

	Individual matters covered	Time to complete (mins)
Board Effectiveness Survey	120	30
Audit Committee Effectiveness Survey	120	30
Board Risk Survey	75	25
Board Risk Committee Survey	98	30
Management Risk Committee Survey	98	30
Director 360 Survey (of all directors)	24	30

Other surveys important to boards include:

Organisation Alignment Survey (for employees)	120	25
Employee Risk Culture Survey		
senior employees	56	15
all employees	27	7

Feedback from users of these surveys commonly include … "easy to complete"… "searching and comprehensive questions" … "focuses things quickly" … "hits the mark".

Further details are available at www.insyncsurveys.com.au and www.boardbenchmarking.com.

About Insync Surveys

Insync Surveys has one of the largest suites of leading edge integrated benchmarked stakeholder surveys in the world. Its surveys are distributed in over 30 countries and in more than 15 languages. Its surveys are for employees, customers, boards, community groups and many other organisational stakeholders.

Insync Surveys has carried out surveys for some of the largest public, private, government and not-for-profit organisations in Asia Pacific. It is based in Australia and has representatives in New Zealand, Asia, UK and North America. Insync Surveys' technology also powers the surveys of Board Benchmarking.

Visit: www.insyncsurveys.com.au
Contact us: info@insyncsurveys.com.au

About Boards Insync

Boards Insync is the specialist board survey division of Insync Surveys. It has one of the largest ranges of integrated board surveys in the world, including the Board Effectiveness Survey, Board Risk Survey, Audit Committee Effectiveness Survey, Risk Committee Effectiveness Survey and the Director 360 Survey.

Its world class board surveys are available globally and have been carried out for numerous large public, private, government and not-for-profit organisations.

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