There is a significant shift taking place in the role boards are being urged to play in strategy formulation. This is a response to the impacts of the financial crisis and the fast changing, uncertain world we live in. This shift is clearly evident in the emphasis placed on strategy in the recent UK Corporate Governance Code (The Code) and Guidance on Board Effectiveness, as well as the financial services regulatory focus.

A board that engages deeply with the strategy and the business can better apply their skills, experience and expertise. This enhances the development of a clear, sustainable strategy, helps create a fuller picture of potential risks and supports faster adaption of the strategy when required.

A cohesive focused approach to strategy interventions can support the board in making this shift whilst keeping it practical and timebound. With the increasing load from risk and compliance rules it is easy for boards to become more internally focused without some guided support. As we approach the year end it might be a good time to think how you can support your NEDs to engage more with strategy and the business next year.

Why is there a move for boards to be more involved in the strategy?

In the world we live in today we are experiencing shorter and shorter innovation cycles. This means our technology and the way we create value can quickly become outdated, new competitors can enter our markets and our customers are more demanding.

This speed of change means even well-known household names have failed to survive. In its exploration of "Why companies die" the Imperial College of Science, Technology and Medicine noted three reasons: “they fail to anticipate or react to new technology, new customer demands or competitors with new business models, products and services.”

A deep understanding of our environment, challenges, opportunities, customers and our business model is required by our directors. The Code clearly states that it is the board’s role to "promote the long-term sustainable success of the company" and strategy plays an instrumental role in this area.

To help our organisations to be sustainable in the future strategies need to:

- Show how we meeting our current clients’ needs and be building capability to meet our future clients’ needs
- Demonstrate how we create value for our own organisations whilst delivering value to the customer
- Be adaptable when evidence is received that shows a pivot to the strategy is required.
Why do we need to support our boards to engage with the strategy in a way that underpins sustainability?

As the board engages more deeply with strategy it is important to be fundamentally clear that it is the executive’s role to develop strategy, the board’s role is to be able to test and probe it using its range of experiences and skills.

But here in lies the challenge for the board. Where directors are truly independent of the companies they serve, they generally lack the wealth of knowledge about the industry or business that their senior executive counterparts have. Added to which they have limited engagement with the company, meeting maybe six to eight times a year.

This leads to a knowledge gap:

A mere 34% of the 772 directors surveyed by McKinsey in 2013 agreed that the boards on which they served fully comprehended their company’s strategy. Only 22% said their boards were completely aware of how their firms created value, and just 16% claimed that their board had a strong understanding of the dynamics of their industries.

These statistics show the importance of taking proactive actions to support the NEDs to better fulfil their roles.

What the NEDs need to know

Every organisation’s approach to supporting their NEDs will be different, depending on their environment, organisation and culture. But there are some fundamental areas that should be considered.

- **Business basics** - this is frequently assumed, but a surprising number of board members that I have talked to admit that some of the NEDs don’t understand the basics of the organisation and the industry. This is the foundation stone on which any additional knowledge will sit.
- **External factors** - focused on the areas that are most likely to impact on the organisation, such as technology advancements or competitor and challenger actions and how this may impact on the organisation.
- **The business** - its current customers and their needs and its future customers and their needs. This is supplemented by an understanding of changes required and timeframes to achieve this shift.
- **How the strategy interacts with risk**
- **Where the business needs to be excellent at in order to deliver value for the customers and the shareholders.**

**Key interactions that support your NEDs**

There is no desire to create additional interventions, but to obtain more from each interaction through better focus and phasing. For example, by carefully selecting a programme of relevant deep dives prior to a strategy day the discussions and progress on that day can be greatly enhanced. Equally, ensuring the agreed strategic objectives flow overtly into committee agendas continually reinforces the focus.
Organisations have benefited from a more systematic approach in the following areas:

1. **Onboarding:** Often onboarding programmes assume a basic knowledge. But someone sitting on the board of a building society who then joins an insurance company board may not fully understand the complexity of that industry. Do your INEDS have the foundations of knowledge upon which the nuances of the organisation and its approach can be added? Casual conversations can be an effective way to enhance this.

2. **Deep dives:** Regular deep dives on external forces are common, but ensure they are useful and not just interesting. First, ask whether the deep dives focus on the areas most likely to impact your business, rather than the latest popular topic. Secondly, check that they are tailored to the specific aspect of that topic that may affect your organisation. Don’t just bring in an expert to deliver a Cyber Crime talk, but take time to explore the specific areas where your organisation might be at risk. Enough time should always be given to exploring the implications for your business and what more you want to know.

3. **Business knowledge:** Visits to the organisation to get a greater understanding of the business are a wonderful way to better understand the organisation, the customer and its culture. This knowledge can be greatly enhanced by supporting boards to hear the voice of independent 3rd parties such as the customer. Understanding how the organisation measures up to competitors and where it is succeeding or falling short can greatly help understanding of the business.

4. **Strategy away days:** A common complaint is that strategy days can be a ‘dog and pony show’, where Management present the strategy to be given approval by the board. But this is to miss out on a wealth of skill and experience that could enhance the decisions taken. Directors have found that a successful way to approach this is to have a two-step process.

   a. This first away day examines the economic environment and what is happening from an industry perspective, such as competitors, challengers or changing business models. The objective of this day is to ensure that the board has a high level of understanding when they go on to discuss strategy.

   b. At the second day the Executive bring the plan for what they want to do and why. The board discusses alternatives, and further debates issues and risks. The strategy includes what we want to achieve and how we will achieve it, including discussions on required investments, capacity and culture. This second day promotes board involvement. The debate ensures engagement and alignment, so everyone leaves the room agreeing on a course of actions and timelines.
5. **Quarterly strategy reviews:** Reviews of financials, progress against a plan, pages of measures do not facilitate an understanding of progress against strategy. An alternative approach that organisations have found more useful is the simple depiction of the story of the strategy and key KPIs that measure its progress. It facilitates a conversation focused around issues, external changes and an exploration of “are we doing the right thing?”

6. **Overt link to strategy in board meetings and committees:** A real reinforcement of the decisions made in the strategy meeting is their obvious, rather than implied, inclusion in the various committee meetings such as Risk, Remuneration and Nomination.

What next?

There is no turning back the clock, the shift towards boards having a greater role in strategy is here to stay. And achieving it brings great benefits enabling the various skills and experiences around the table to be fully utilised. With a focused and comprehensive approach, you can support the board on this journey without added burden to the directors or the organisation.

*If you are thinking about how you can support your INEDs to become more engaged with the strategy, then please get in touch with sarahwicks@bpandeglobal.com. This might be to discuss creating a coordinated programme of interventions or enhancing one specific aspect.*

*Sarah Wicks is a director of BP&E Global and heads up strategy and leadership. She has facilitated successful strategy management and execution programmes at corporate, divisional and business unit levels across four continents within the financial services sector. Her client base consists of some of the larger well-known organisations as well the smaller, up and coming challenger companies of tomorrow. Sarah began her career as a Chartered Accountant with KPMG, complementing this with a Change Agent Skills and Strategies Diploma from the University of Surrey.*