

SVA CONSULTING

# Quarterly.

## *Avoiding strategy ping pong: The board's role in strategy development*

Has developing strategy ever felt like a game of table tennis between your board and management? To avoid this, David White recommends getting very clear on roles – upfront – and being alert to when and how they might need to change.

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Does it ever feel like the strategic planning process is a game of ping-pong? The board expects management to come up with a strategic direction and feels poorly served when it doesn't, while management feels as if it's continually second-guessing the board, rather than building strategy through thoughtful analysis and constructive iteration.

It is the board's ultimate responsibility to ensure that a strategy is in place. The board's governance role involves setting the strategic destination, formulating the plan to get there, and monitoring the plan's execution. This is an accepted and indispensable part of the board's duties. An organisation is not legitimately governed unless the board deliberates and makes choices regarding strategy.

What is less clear is how the strategy should be formulated – who leads and who does the bulk of the work in developing the strategy.

How can your organisation avoid this ping-pong between the board and management?

### *Be clear about who does what in strategy development*

The best way to avoid strategy ping-pong is for the board to be clear about who is developing the strategy. The board needs to make the decision about what roles the board and therefore management will play in the development of the strategic plan. And it is the board which is the final arbiter on these roles.

Getting to this point of clarity requires the board's explicit and ongoing consideration. This is another example of the insight shared in Issue 1 of the *Quarterly* ie boards that reflect on themselves are best at ensuring that their organisation thrives. A board that takes time to clarify its role in strategic planning, and to ensure that the role adapts as the strategy matures and evolves, will give the organisation a strategic head start.

The board's primary task then is to discuss, agree on and articulate what role it, and therefore management, will play in the strategy process.

### *Better Futures' confusion*

One of SVA Consulting's associates recently reviewed the board of a large and mature non-profit which delivers a wide range of services to disadvantaged communities and individuals. (As many of the issues are still alive, we will call it Better Futures.)

The review revealed that the principal irritant for both board and management was a deadlock around the organisation's future strategic direction. Attempts to date had involved management working with the board in a strategic planning process. Management had then gone away to develop the plan further. What was brought back to the board wasn't what the board was expecting. And so management had to go away to try again. And so the strategy ball bounced back and forth across the board table.

Essentially, the board expected management to propose the direction, while management was seeking more guidance about the board's expectations. Eventually the ping-pong became an impasse.

*The board should be more than capable at resolving our strategic challenge, but we keep getting stuck.*

One director expressed the frustration saying, “The board should be more than capable at resolving our strategic challenge, but we keep getting stuck.”

*Board engagement options*

To help explore the issue, the consultant used a tool that sets out possible roles the board can play.

This tool is not definitive, as there are many variables which impact on the board's role. However, it highlights – in a simple way – the range of options.

In interviews, Better Futures' directors and selected senior executives were asked to indicate where they thought the board was currently positioned, and where it aimed to be. The results were revealing. (See Figure 1.)

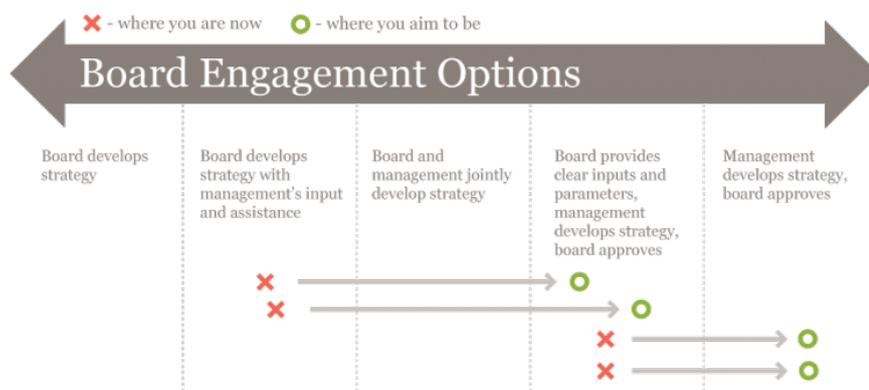


Figure 1: Board engagement options

It was understandable that the organisation was at a strategic impasse; neither the board nor management were sure who was doing what or who ought to be doing what. There were grossly different perceptions.

As a result, it was recommended that the board reach agreement about what the board and management roles should be.

The board reached consensus based on the majority option shown in Figure 1 ie that the board provides clear inputs and parameters, management develops strategy, board approves.

*Board needs to take responsibility for fundamental strategic decisions first*

During the interviews with the board and senior management it also became clear that there was a fundamental decision about future direction that needed to be made before the strategy could be developed.

There was a substantial divide both within board and management over two possible strategic positions the organisation should be working from. The question was whether the service portfolio should be based on maintaining a wide range of services deployed in a smaller group of target communities, or a reduced range of services deployed more widely.

The board realised that it needed to resolve this fundamental question – as it was of underlying importance to the strategic plan. While it required input, insight and recommendations from management, the final decision lay with the board.

Decisions of such significance must inevitably be made by the board.

*No right or wrong position*

There is no right or wrong place to be on this spectrum – it will depend on board and management's capabilities and preferences and the circumstances; this varies from organisation to organisation. The board needs to take into account the respective strengths, abilities and levels of experience of both directors and senior management.

Many non-profits have little management depth or experience around strategic planning, so the board has to take a more active role. If management does have the appropriate background, then they can take a stronger

lead in the process.

### *When management is still building its capacity to lead*

Beacon Foundation works in more than 120 secondary schools throughout Australia inspiring and motivating students to either stay in school and increase their educational attainment, or successfully transition to employment, further education or training.

SVA Consulting reviewed the Beacon board – at its request. The review revealed some important issues.

First, there was no real consensus on what the directors thought the board's role was in the development of strategy. Views were polarised from, "It is up to the board to set strategy and management to implement it," to "The strategy largely needs to come from management. The board doesn't have the scope to do it – meeting four times a year."

In spite of these differing views, all of the directors believed that there was not sufficient experience and/or capacity in the management team for it to take the lead in strategy development. Even those directors who believed that the primary responsibility should sit with management accepted that the board would have to do much of it – based on the fact that the management team was still in the process of building its capabilities and depth of experience.

SVA Consulting then helped the board to find consensus on its role – which of the board engagement options it chose. The result was that the board played a pivotal role at the beginning and end of the process with the CEO and management supporting the process. On this basis, Beacon was able to develop a solid strategic platform to continue its success.

### *When management can contribute more*

At the other end is another organisation working with Australia's youth. The Song Room is a national non-profit organisation that provides free, tailored, long-term music and arts-based programs for children in disadvantaged and high need communities. It had achieved some admirable successes with its program and was looking at further growth.

It called in SVA Consulting to help it develop a new three-year strategic plan.

The board had recognised the capability of the management team led by a highly effective CEO and wanted to involve them in the overall process. As a result, with SVA Consulting, it developed an agreed procedure that enabled the board and executives to play appropriate roles. This positioned the board more to the right of the board engagement options.

The process kicked off with a strategy planning day with the whole board and senior managers. A number of exercises helped to set the scene for the planning. These included:

- Describing how the board and management thought about strategy development
- Some visioning exercises in small groups to help articulate the vision that directors and senior managers already had in their heads
- Critical questions about the planning process.

The board then established a formal steering committee to oversee the strategy development. The chair and another director were on the committee, along with senior executives, so that the board could both have a clear line of sight into as well as contribute to the process.

Having agreed on the high level vision and key growth parameters, the board was content to let the senior executives develop the strategic themes through a series of workshops. Following this, management with the assistance of SVA Consulting developed a detailed plan. This was initially considered by the steering committee who proposed a number of changes.

The board then reviewed the amended plan challenging and testing the viability of some of the key initiatives. Once management explained the assumptions behind these initiatives, the board reached consensus and approved the ambitious growth agenda central to the plan.

The strategic planning process was a success in large part because it allowed both the board and executives to play roles appropriate to their experience and skill level.

### *Caveats on deciding the role*

When there is disagreement between the board and management about who should be doing what, or about which decisions the board must make, it is always the board that is the final arbiter. The buck stops with the board; it has ultimate responsibility.

Having said that, when or if the board is not aware – either of a problem in strategy development or of its primary duty to resolve it – management can help get the issue on the table.

There is a role for management to play in prompting and/or provoking the board into action. If management is struggling to progress strategy development, it may be because the board has a different view of what is needed. SVA Consulting has seen a number of organisations where management has shone a light on the issue. Management can help the board by flagging the issues and promoting discussion.

The company secretary at Better Futures had an inkling of the strategy struggles facing both the board and management. This was one of the reasons he suggested to the Chair that our associate undertake the board performance review which eventually revealed the dimensions of the issue.

## *Roles can vary over time and across the strategy*

### *Different roles for different components of strategy*

While the board engagement options is a useful tool to focus boards and management teams on the concept of role clarity, the actual process of developing and overseeing strategy in an organisation is more complex than the diagram suggests. Boards need to consider such variables as the frequency and nature of the interaction between board and management, the matters that the board keeps to itself, and how many iterations are needed to conclude the process of strategy development.

An example of an additional complexity in defining the board's role in strategy development is when different components of strategy require differing approaches.

SVA Consulting's work with Australian Indigenous Mentoring Experience (AIME) highlights this aspect of strategy development.

AIME's dynamic educational program gives indigenous high school students the skills, opportunities, belief and confidence to finish school at the same rate as their non-indigenous peers. The program has dramatically improved the chances of indigenous kids finishing school.

In light of the program's success, the board was keen to expand AIME's reach. So SVA Consulting did some mentoring of its own with the AIME board to see how it could promote the expansion.

One issue that surfaced was the lack of clarity about who ought to be responsible for various components of the strategy: the mentoring methodology, the organisation's growth and its beyond-founder sustainability. In focusing on the question, the board was able to agree that its role would be different for different components. It agreed to:

- Own the strategy for AIME's growth;
- Leave the strategy of mentoring methodology development and review to management;
- Ensure there is a strategy in place for sustainability of AIME beyond the founder's involvement.

With the respective roles clear, AIME's growth has continued at an enviable pace.

### *Agreed position can change*

A board's role in strategy is not static. An agreed choice of board engagement can change as circumstances change.

In the early stages of developing an organisation's strategy, or when some significant shift has occurred or new strategic challenge emerged, the board may well need to be more deeply involved in the planning.

It is typical of newer non-profits that the board has to be heavily involved in strategy development. One such organisation that SVA worked with provided services to children with special needs. The organisation had reached the end of its start-up phase and was looking to expand and needed a plan to fund and fulfill the vision.

However all the staff were engaged at the coalface of service provision which is where their skills lay. There was no resource or capability in management to develop strategy except for the CEO. With the help of SVA, the board acknowledged that it – with the CEO – would have to play that role.

*Who's going to do it but us? If we're going to expand and grow we have to do some planning and get it moving. We have to step up.*

As one of the directors said: "Who's going to do it but us? If we're going to expand and grow we have to do

some planning and get it moving. We have to step up.”

### *Strategic challenges can demand extra involvement*

When faced with significant strategic challenges, the board must not only be clear about its role, it must also be prepared to do the necessary work. In SVA's experience, non-profit directors can expect to spend up to 20 full working days each year if they are doing their job effectively. Strategic challenges can mean a director will be at the upper end of that range, or beyond it in particularly testing times.

In 2011, SVA Consulting was reviewing the board performance of a service provider to indigenous communities across urban, regional and remote Australia. At the same time, the organisation was facing a fundamental strategic decision. Its primary funder had proposed that it enter a joint venture with another organisation.

The board's modus operandi had been relatively hands-off as far as medium-term strategy went. With annual funding, the board didn't see the point of a three-year strategic plan.

With this as a backdrop, the CEO was struggling to get the board to grapple with the challenge of the proposed merger.

Even though during the review process, nearly all the directors expressed the opinion that they should be more pro-active, there was little clarity about what that would look like.

In addition, the board's skills were such that some directors would have needed to invest a considerable amount of their own time to up-skill to deal with the issues presented.

In spite of the review's recommendations to undertake strategic planning around potential scenarios to better position the organisation whatever occurred, the board continued to operate as it had done. The CEO bore the brunt of the responsibility as the merger proceeded, without the support of the board's collective wisdom. The board also missed opportunities for it to play a role in the newly merged organisation.

### *Challenging the strategy assumptions*

As the strategic direction becomes clearer and the big decisions have been made, the board's function shifts to one of making appropriate challenges to that strategy. In this capacity, the board's role doesn't lessen – instead it becomes one of thinking beyond the strategic boundaries and challenging underlying assumptions.

The board needs to be professionally skeptical and be asking: What questions haven't we considered? What is going to change about the world around us? It needs to keep an eye on the overall picture and challenge whether the fundamentals on which the plan is based are still the same.

## *Holding management to account against the plan*

Once strategy is being implemented, the board has a critical role in ensuring that it is being implemented as intended. It needs to have a mechanism to ensure the plan is on track.

Essentially it requires a process for holding management accountable for achieving the plan.

If it's not being implemented as intended, then the board's responsibility is to identify who isn't doing what they should be doing and also what the board will do about it.

Clients have identified that a well structured strategy development process – engaging board and management appropriately – has led to clarity on the high-level key performance indicators (KPIs) for the business. It has had the added benefit of focusing board discussions.

One example of an excellent monitoring process was developed by the Melbourne-based [Centre for Eye Research Australia \(CERA\)](#). After investing significant time and effort in developing a robust and well-defined strategic plan, the CERA board wanted a clear mechanism and set of reports to track the organisation's progress against the plan.

Previously, the board had received a lot of comprehensive information about funding, operations, and research programs. However it didn't have any specific targets against which to track these, nor was the information presented in a concise summary.

To improve on this, the senior management team developed a high level dashboard that illustrated the KPIs that CERA was tracking to (See Figure 2). These four areas: 'people and culture', 'excellence in research', 'financials' and 'collaboration' cover the three main categories: program, operations and finance.

*Measuring strategic impact report card – example*

<b>People &amp; Culture</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Excellence in Research</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Number of staff	#	#	#	#	No. of Publications	#	#	#	#
FTE/ PTE					Impact of Publication	%	%	%	%
Satisfaction score	%	%	%	%	Quality of Publications	%	%	%	%
Staff Turnover	%	%	%	%	Grants submitted	#	#	#	#
Training completed	%	%	%	%	Grant success	%	%	%	%
Mentors matched	#	#	#	#	Commercialisations	#	#	#	#
Number of students	#	#	#	#	Clinical applications	#	#	#	#
Student completion rates	%	%	%	%					

<b>Financials</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Collaborations</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Total revenue	\$	\$	\$	\$	Additional space	m2	m2	m2	m2
Forecasted revenue	\$	\$	\$	\$	S/H satisfaction score	%	%	%	%
Break down					Media coverage	#	#	#	#
NHRMC	%	%	%	%	Media impact	%	%	%	%
Infrastructure	%	%	%	%	Research presentations	#	#	#	#
Philanthropic	%	%	%	%	Events	#	#	#	#
Stakeholders	%	%	%	%					
Other									
Total Costs	\$	\$	\$	\$					
Cost to income ratio	\$	\$	\$	\$					

Figure 2: Example of the dashboard that CERA use

In each case, the KPIs flowed directly from the strategic plan. This meant that CERA's management team and board had a mechanism to understand where the issues were and importantly what they could do to address these issues if needed.

### Conclusion

The willingness of the board to stand back from the transactional imperatives and look at how things are done invariably sets both the board and the organisation up for greater success. This is particularly so in the development of the organisation's strategic direction, the plan to reach it and monitoring its execution.

If the board is clear about the nature of its participation in the development of strategy, and that of the management team, it will avoid the frustration of strategy ping-pong. The board engagement tool assists in gaining this clarity.

As the organisation and environment change, the board needs to be flexible in its role of leading and/or challenging the strategic plan.

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### ARTICLE SUMMARY

- The best way to avoid strategy ping-pong is to ensure that board and management are clear on each other's roles in developing the strategy.
- The board's role in strategy development can be different at different stages of the development of the organisation, and in different circumstances.
- Once strategy is being implemented, the board has a vital role in ensuring that the plan is being implemented as intended.

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### CONTRIBUTORS

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