



PDA Newsletter September 2015

The Board's Role in Strategy, Risk Assessment, and Corporate Renewal

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5:30 PM to 7:30 PM

Perkins Coie LLP  
131 South Dearborn St.  
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Chicago, IL 60603



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Strategy and planning are management's jobs. The board's role in strategy, risk assessment, and corporate renewal is to oversee and question the work of management. The board must not only question the results of the strategy exercise but also question the process and assumptions that went into the strategy and various analyses.

Some 25 to 30 years ago, when strategic planning was in its infancy, experts would say "the plan" was the main objective of the planning process. After examining many years of failed plans, experts have learned that the important issue is not "the plan" but all of the actions that are taken by management to develop the plan, along with the learning that accompanies development of a plan. It is the so-called "planning process" that is the main value of planning and strategy development.

Therefore, strategy is a comprehensive process for helping the key people in the organization to discover, decide, and communicate: (1) what the business should become; (2) the risk of different strategic alternatives; and (3) how to build corporate value through continuous renewal.

As a process, strategy helps management to create a shared understanding of the environment in which the organization operates and to identify a road map to achieve its goals. It helps bring realism to a leader's vision by identifying opportunities and threats, as well as strengths and weaknesses, and the critical actions that must be considered and accomplished for an organization to achieve its goals. An effective understanding of the environment includes identification of the internal and external risks faced by the organization.

Strategy, once the realm of MBAs and high-priced consultants, is now mainstream. Every organization should be developing and communicating its plans to its people. Unfortunately, this is not the case. Too many organizations still confine strategy to a select few and miss the opportunity to use the strategy process to communicate to those people responsible for implementation. It is also important to build reality into the organization's vision, goals, challenges, and actions. Strategic reality is best accomplished when there is two-way communication between the strategists and line management during the planning process.

Planning is like exercise. Everyone knows they should do it, but few find the time to do it very well. Just as exercise reduces the risk of injury and helps promote overall health, the risk analysis portion of strategic planning and thinking helps the organization strengthen its response mechanisms to the unique risks that every organization faces. Organizations that are generally healthy need a maintenance level of strategic planning and renewal to keep them healthy. Organizations that are financially distressed need a special routine focused on cash flow and understanding the viability of the business, while identifying ways to survive. Just as people postpone exercise until a near-death experience like a heart attack, it sometimes takes comparable corporate stress before management and boards take strategy, risk assessment, and renewal seriously.

The role of the board of directors is primarily one of questioning, guiding, and mentoring management to ensure that the strategy process is robust and comprehensive and results in a value-creating strategy for the organization. To create value, any business organization must produce a financial return to compensate the shareholders or owners for the risk of the business. Other non-business organizations, be they not-for-profit or governmental, need to produce benefits that are greater than their costs. It is the role of the board to ensure that these objectives are met. The list of questions that a director can ask is endless. Those that relate to strategy, risk assessment, and renewal include some of the following:

1. What is the vision of the CEO and key senior management team members? How is it shared by those responsible for performance? Is it realistic?
2. What are our objectives and measures of success for the current year and two to five years into the future?
3. What are the risks and opportunities related to our plans and vision, and how has management approached them?
4. What is the gap between our basic strategic plan and our goals?
5. Since no strategy or plan is perfect, how will we adjust our plans and strategies as we go forward?
6. What process is used to develop and communicate our strategy, risks, and renewal options?
7. Who is involved in the process?
8. Which business units do the best job of planning and which offer the best risk-reward ratio for future investment?
9. What is our planning calendar and method for monitoring our progress against our plans?
10. How do our business results and plans compare to those of our competitors?
11. How will we measure whether plans are achieved? What milestones have been established?
12. How will we mitigate risks and renew the organization?

Always try to ask open ended questions.

*Adapted from Board Perspective Series: Building Value through Strategy, Risk Assessment, and Renewal, by William Hass and Shep Pryor.*