Corporate Governance:
The Role of Board in Strategic Planning

Columbus, OH
Kevin M. Kinross
(614) 227-8824
kkinross@bricker.com

Counsel for Boards and Executives
A Bricker & Eckler Practice Group

Bricker & Eckler LLP
(614) 227-8824
100 South Third Street
Columbus, OH 43215
www.bricker.com

INCompliance Consulting
(614) 227-8824
100 South Third Street
Columbus, OH 43215
www.incomplianceconsulting.com
Overview of Discussion

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B. Understanding the Need to Be Involved
C. Governance Refresher: Role of the Board in Corporate Governance
D. Strategic Planning Defined
E. Key Functions of the Board
F. Compliance with Fiduciary Duties
G. Strategic Planning Process
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“If you don’t know where you are going you’ll probably wind up someplace else.”
What is Strategic Planning

- A Strategic Plan is central to a company’s ability to make critical decisions and is the springboard for operational planning. It will help answer the questions:
  - What practices and procedures will be necessary for operating in the future?
  - What issues face the organization?
  - How does the organization communicate its mission, vision, strategic goals, and plans to employees, partners, and policyholders.
What is Strategic Planning

- “Strategic planning" helps avoid mistakes and support the company’s ability to:
  - Apply resources where they are needed
  - Prioritize needs and tactics to provide more benefit
  - Evaluate realistically if a plan, goal, or vision can be achieved within the timeframe identified with the resources available to allocate
  - Examine internal and external forces and drivers that will affect the organization’s policyholders, products and practices; and
  - Link the identified goals with the actions it will take to achieve those goals
Most Common Excuses

- It takes too long...board needs to focus on more critical current tasks
- It's quickly outdated with new information
- It's too visionary or too tactical
- Why take the steps...it's all in our head
The Curious Case of Bill and Hillary
Understanding the Need to Be Involved

- Board needs to understand the importance of strategic planning and their involvement in the strategic planning process
- Failure to do so can lead to disagreements between the Board and the CEO
- Failure to do so can lead to breach of fiduciary duties
Governance—Refresher: Roles in corporate governance

- Governance is the aggregate of . . .
- The highest authority for management of the organization
- Directors function only as a board
- Expectation of a board’s reliance
Governance is the aggregate of

- An organization’s culture, methods, processes, systems, and controls for:
  - Providing *direction* to the business, operations and other affairs of the organization and
  - *Executing* or carrying out that direction

- Because governance of an organization is the aggregate of many things, including its *culture*, what may be appropriate in terms of governance of one organization may not be appropriate for another
The Board’s Has Two Roles to Serve & Protect...

- Maximize/Increase Company Value/Policyholder Surplus
- Protect it through Governance/Oversight
The highest authority for management of the organization

- All authority for
  - *Decision making* as to matters of policy, direction, strategy and governance; and
  - *Oversight* as to matters critical to the health of the organization for its various stakeholders

is to be exercised under the *direction* of the organization’s board
Directors function only as a board

- Directors function only as a board as determined by a majority of its members at meetings in which a quorum is present
- An individual director has no authority to take any action except as authorized by a majority vote of directors at a meeting at which a quorum is present
Expectation of a board’s reliance

- State corporation law expects, and gives protection for, directors’ reliance on officers or employees of the organization as to matters for which they are reasonably believed to be reliable and competent.
Role of the board

• The role of the board in governance is to provide *direction*

• Which it does by:
  – Granting authority and
  – Setting limitations

• E.g., the board establishes benchmarks and grants authority to achieve, and sets limits on how to achieve, those benchmarks
Basic duties of directors

- **Duty of care** – to exercise the care that an ordinarily prudent person in a like position would use under similar circumstances
- **Duty of loyalty** – to act in good faith, in a manner he or she reasonably believes to be in *or not opposed to* the best interests of the corporation [may be *broader duty than for officers*]
The Man Who Shot Liberty Valance
Avoid The Liberty Valance Effect

- The Man who Shot Liberty Valance
  - “This is the West Sir. When the legend becomes fact print the legend.”
- We have all fallen prey to this in our lives.
- Directors have a duty to NOT let a legend become a fact.
Duty of care

- Requires directors to be reasonably informed of all material information available before making a decision
- Requires directors to inform themselves of alternatives to a proposed business decision

**The more important the decision, the greater the need to consider additional information**
Strategic Planning Defined

• Systematic process of envisioning a desired future, translating this vision into broadly defined goals or objectives and a sequence of steps to achieve them
Strategic Planning Defined

• Strategic planning is a tool to help an organization do a better job:
  - to focus its energy;
  - to ensure that members of the organization are working toward the same goals; and
  - to assess and adjust the organization’s direction in response to a changing environment.
Strategic Planning Defined

- In short, strategic planning is a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it, with a focus on the future.
Key Functions of the Board in Strategic Planning

- The Board’s function is to discuss and question management’s proposals, requiring management, where appropriate, to reformulate strategy consistent with guidelines instructed by the Board.

- The Board’s commitment to the process sets the “Tone at the Top” and is vital to its success.
Key Functions of the Board in Strategic Planning

• Board’s function Includes:
  – Overseeing the processes that management has in place to identify business opportunities and risk;
  – Consider the extent and type of risk that is acceptable for the company to bear;
  – Monitor management’s systems and processes for managing the broad range of business risk; and
  – Review with management, how the strategic environment is changing, what key business risks and opportunities are appearing, how they are being managed and what, if any, modifications in strategic direction should be adopted
Compliance with Fiduciary Duties

• To comply with its fiduciary duties, Boards need to play an integral role in all levels of the strategic process including:
  – *Strategic thinking* process;
  – *Strategic planning* process; and
  – The *oversight of the execution* of the strategic plan
Compliance with Fiduciary Duties

• To comply with their duties, Boards need:
  – A strategic plan in which management has fully identified and evaluated the risks as well as the opportunities
  – To ask the tough questions that challenge the validity of assumptions and strategies, and to hear the answers, views and opinions of senior management and experts in addition to those of the CEO
Compliance with Fiduciary Duties

• To comply with their duties, Boards need (continued):
  – A clear understanding of the potential effect of strategic actions on the organization's financial condition
  – Evidence that the strategic plan is realistic, executable, and linked to the operating plan
  – A commitment by management to provide regular feedback to the Board on the progress of the plan and the status of the principal business risks identified in the strategic planning process
The Strategic Planning Process

Strategic Planning Process:

Thinking...
Planning...
Execution/Oversight...
Strategic Planning Process

- We are going on a journey...
- One example to keep in the back of your mind as the company embarks on the process.
“Trying to predict the future is like trying to drive down a county road at night with no lights while looking out the back window”

– Peter Drucker
Strategic Thinking

- Strategic Thinking: Think of the outcomes the company desires most and the obstacles to achieving them.
- The strategic thinking process involves:
  - collecting and analyzing the current status of your industry, competitors and the position of the corporation.
- Boards need to collaborate early with management in this process and provide an outsiders’ perspective and expertise to test management’s thoughts.
Strategic Planning

• The Strategic Planning Process takes the strategic thoughts developed by the Board and management and develops priorities, actions and objectives for the core components of the strategic plan.

• Boards need to understand the core components of the plan and the potential legal, financial, reputation and operational risks to the organization that the plan may create.

• Boards need to provide additional considerations, question management and, when comfortable, approve the plan.
Strategic Execution/Oversight

• Boards can fulfill their role of oversight to the organization by reviewing the process and progress of implementation of key initiatives and core components of the strategic plan by management compared to established benchmarks and objectives
Steps for Creating and Critically Evaluating the Strategic Plan

1. Agree upon the elements that are going to be considered in the process — which includes the background, experience and expertise among management and the Board to achieve the strategic direction

2. Management should lead the process by suggesting the mission, goals, vision, and strategies for consideration
Steps for Creating and Critically Evaluating the Strategic Plan

3. Management is responsible for data, collection, and analysis of information with respect to the areas of the strategic plan
4. Management should take the lead in drafting the written strategic plan
5. The role of the Board is to ask essential questions regarding each strategy
6. Management may need to refine or reformulate the strategy, consistent with the guidelines given by the Board.

7. Management will then lead the process for implementing and reporting the progress to the Board.

8. Board is responsible for monitoring the implementation and execution of the plan.

9. Determine the background, experience, and expertise that will be needed among management and the Board to successfully implement the strategic plan - *Structure follows Strategy*.
Steps for Creating and Critically Evaluating the Strategic Plan

- Before a Board can approve a strategic plan, it needs assurance that:
  - Strategies are aligned with market conditions, regulations, mission, values, and stakeholder expectations
  - Actions are aligned with strategic direction
  - Assumptions are valid and relevant
  - Financial projections are reasonable and realistic
  - Processes and adequate resources are in place for efficient and effective core business activities
  - Significant risks inherent in the plan are identified, addressed and communicated
  - Allocation of resources is adequate to achieve the strategy and develop capabilities
Steps for Creating and Critically Evaluating the Strategic Plan

Information to evaluate in a strategic plan:
1. Vision, Mission & Values
2. Objectives
3. External Environmental Analysis
   - Political, economic, technological and social demographics analysis;
   - Market research related to identifying and satisfying policyholders
   - Potential market demand/growth/profitability
   - Nature and degree of competition
   - Position of competitors and their degree of product/service differentiation
Steps for creating and critically evaluating the strategic plan

4. Internal Resource Analysis
   • SWOT analysis
   • Key success factors
   • Plans for overcoming critical weakness or strengthening advantages

5. Methods of entry (or exit) in from areas

6. Risk Analysis

7. Major Strategic Alternatives

8. Rationale for the Proposed Strategy

9. Financing and other measures
Board’s Perspective

- What is the Board’s Perspective of the Company’s Strengths, Weaknesses, Opportunities and Threats: How do you as directors view the Companies position in the following areas (and Management’s pre-analysis position):
  - Key Factors:
    - Competition
    - Regulation
    - Market demographics
    - Technology
    - Communication
    - Economy
Board’s Perspective

- Key factors (continued)
  - Employees/Staff
  - Marketing
  - Financial Position
  - Surplus
  - Expenses
  - Distribution Channel
  - Policyholders
  - Policyholders services
  - Brand recognition
  - Public Perception
Board Involvement is a “Whole”: Avoid the Perils of “Group Think”