

## ORGANISATION

# Strategic plan development

### Why do organisations need a strategy?

Every organisation has a purpose reflected in its goals. Strategy is the process of refining the organisational purpose, selecting the organisation's goals and developing ways to achieve them. It is typically characterised by being long term and uncertain. It is also an iterative process where different ways to achieve an organisation's goal (goals) are tried and refined in an effort to become more effective. Most organisations exist in a competitive environment and must win by achieving their goals more effectively than their competitors.

Boards are responsible for governance. Broadly speaking, this includes oversight of organisational performance and compliance with all legal and regulatory requirements. There are three areas of importance related to an organisation's performance for boards to consider: strategy, risk and corporate outcomes (for example, financial results).

In a governance context, strategy refers to the decisions made by the board and management that determine how an organisation will meet its goals while responding to changes in its environment and allocating resources to meet those goals.

The process of strategic planning assists an organisation to enhance its understanding of the environments in which it exists, where it is going, how it is going to get there and how it will know if it has been successful in achieving its aims.

### What is a strategic plan?

Having a clear strategy is only the beginning. An organisation must also have a detailed plan for implementing the strategy and a set of measures to indicate how well the implementation is going.

A strategic plan is a document setting out the organisation's aspirations and how it will achieve them. It can be defined as a roadmap to sustainable value creation based on the best possible information available at the time. It addresses the long-term direction of the organisation by describing what it's going to do and how.

Generally, a strategic plan's time horizon will be three to five years. However, the planning horizon will depend to a large extent on the industry: a high tech company in a rapidly changing area may have a horizon of 18 months whereas established utilities (for example, a water authority) may have a planning horizon out to 40 years, given the long payback period of the investments required.

## What is the role of the board in strategy?

The *Corporations Act 2001* (Cth) s 198A (1), provides that:

*The business of a company is to be managed by or under the direction of the directors.*

Given the importance of strategy, it is not surprising that good corporate governance requires that:

*Generally speaking, the board of a listed entity should be responsible under its charter for... overseeing management in its implementation of the entity's strategic objectives, instilling of the entity's values and performance generally.<sup>1</sup>*

Strategy development may be shared between the board and management, but detailed planning and implementing the strategic objectives are usually the preserve of management. The board will monitor that management has a plan, that the plan will advance the organisation towards its strategic goals and that implementation of the plan is delivering the desired results. In short, the board must own the strategy.



Generally, the board's main role is to collaborate with management in setting strategic direction, with consideration given to risk appetite. However, the final approval of the strategy must rest with the board.

Justice Neville Owen summarised that role as follows:

*Generally speaking, it is for management, rather than the board, to propose strategy. This is not an impediment to the board taking the initiative in an appropriate case. But management is best able to dedicate time to strategic thinking and is likely to have greater industry knowledge and experience. Nevertheless, it is the board's responsibility to understand, test and endorse the company's strategy. In monitoring performance, the board needs to measure management proposals by reference to the endorsed strategy, with any deviation in practice being challenged and explained.<sup>2</sup>*

To some extent, the board's role will also depend on the size and nature of the organisation. An owner operator business will have an owner who is usually more knowledgeable than other board members about the business and the industry. He or she will be best able to set goals and strategy but the board as a whole can add value by instilling a rigorous process and ensuring the plan is implemented. In listed companies, the detailed strategy development is normally delegated to management and the board adds value through workshopping major strategic questions, review, challenging, monitoring and oversight functions.

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1. ASX Corporate Governance Council, 2019, *Corporate Governance Principles and Recommendations*, 4th Edition, February, Recommendation 1.1, <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf>, (accessed 7 August 2019).

2. N Owen, 2003, *The Failure of HIH Insurance Report*, Vol .1, HIH Royal Commission.

Boards work to identify strategies that can move their organisations from their current state towards a desired future. Boards must work with management to identify and agree:

- the process which will be adopted to develop and review strategy;
- the organisation's goals (What does the organisation want to achieve? Is it trying to be the biggest, the most profitable, and/or focused on a particular area?);
- the organisation's present position in relation to its strategic goals; and
- what steps need to be taken if the organisation is to move closer to achieving its goals.

The old perception that boards simply 'rubber stamp' strategic decisions made by management has been replaced by a clear expectation that boards will be actively engaged in shaping their organisation's strategic direction.

Every board should formally approve their organisation's strategic plan. This will normally be a written document that can be used as a base for management's operational or tactical planning as well as a benchmark that can be used by the board to measure how well management has implemented the chosen strategy.

It is possible for the level of board involvement in the development of strategy to change over time. For example, it is likely that a board will have greater involvement during times of strategic crisis (for example, the sudden decline in organisational performance) or major organisational change (for example, the replacement of chief executive officer). Large businesses tend to have a strong and highly skilled executive team who can formulate the essence of strategic direction. In this case, the board's role will centre on questioning, challenging and clarifying.

### Questions the board may ask in relation to strategy might include:

- What is the strategic intent?
- Have we considered all options?
- Have we thought 'left field'?
- What are our cost constraints?
- What is our position relative to our competitors?
- What can we learn from other organisations?
- How can we be more innovative?
- Do we have the capacity (for example, human and financial capital) to implement our strategy?
- Is the strategic plan considering what we need to do in the short, medium and long-term?

### How to develop and operate a strategic plan?

A strategic plan is not only a record of what an organisation wishes to achieve but also an assessment of the organisation and its business environment. It creates a basis for matching resources to opportunities and threats. Developing a strategic plan is a process which usually involves four steps – formulation, approval, implementation and review. Each of these steps may involve the board.

#### Formulation

The first stage of plan formulation involves understanding the organisation's current performance and competitive environment, usually done with the assistance of strategy tools. There are numerous tools which can be used to understand the complex nature of the organisation's external and internal environments. Frequently used tools include the Five Forces Framework (also known as Porter's Industry Competitive Framework), the General Electric Grid, the BCG Growth Share Portfolio Matrix; a DuPont Analysis;

a Pareto Analysis, Business Activity Mapping; Blue Ocean Strategy; SWOT analyses and Key Issues Analysis. There are many other such tools. The overall purpose of these strategy tools is to make complexity understandable and to highlight the major strategic issues from the vast amount of facts and figures which can be generated during strategic planning.

In the second stage of formulation, the board needs to confirm the organisation's vision, purpose and objectives.

Third, the board needs to determine where it wants the organisation to be in the medium to long term (strategic intent). This involves the setting of goals and objectives. Fourth, a strategy to take the organisation where it needs to go must be developed.

Finally, some key measures of performance must be set to monitor progress with implementation.

### Approval

The final decision on approval of a strategic plan rests solely with the board as the board is ultimately responsible for an organisation's performance.

### Implementation

This must involve both accountability (someone is responsible) and authority (responsible person has the power to get things done). Communication of the plan to staff is vital – if they don't know about it or don't understand it, a plan will fail.

### Review

A strategic plan should be reviewed by the board at least annually or wherever there is a drastic change in the organisation's or the industry's circumstances.

Risk and strategy are interrelated, as such risk management should underpin all aspects of strategic planning. The challenge for boards and management teams is to integrate these two essential roles of the board. The strategic plan should clearly document the risks faced by the organisation and demonstrate management's ability to achieve the strategic direction set by the board.

## What are some strategic planning models?

There are a number of different strategic planning models which are commonly used by boards, including:

**'Basic' strategic planning** – This is a simple 'entry level' model which involves identifying a purpose, a mission statement, then identifying the objectives that must be met to achieve the mission. It is often used by small companies or a company which has not previously done strategic planning.

**Goal planning** – This concentrates on defining more specific goals. Strategies and action plans are then developed and the necessary roles and responsibilities for implementation are established. This often follows on basic strategic planning.

**Alignment model planning** – This emphasises the evaluation of programs that already exist, the resources that are currently available and the need for additional support. This is primarily for fine-tuning.

**Scenario planning** – This focuses on 'what if' discussions. This is often used to assess the organisational impact that external forces can have – for example, competition, regulatory changes

**'Organic' planning** – With this planning method, a global vision is determined, then there is an ongoing dialogue about what processes may be necessary to achieve it.

## What is a strategic planning workshop?

One of the most common ways to undertake strategic planning is to have a workshop or 'retreat' where the board and senior management meet offsite for a couple of days to focus purely on strategy. Workshops are regarded as being effective practice tools to engage in strategic thinking and strategy development. They are most beneficial when conducted after an initial review or audit of an organisation's strategic landscape and key data.

To ensure that optimal results are obtained, board retreats are most effective if the following steps are followed:

- Before the retreat – management should collate and develop materials such as competitor analyses and industry trends for discussion well in advance of the retreat.
- Conduct targeted analysis prior to the workshop, and then develop a clear agenda focused on achieving specific outcomes and resolutions in key decision areas.
- During the retreat – management presentations at the retreat should be concise and factual. The objective of the retreat is to stimulate discussion of strategic issues, not to spend time listening to lengthy presentations by managers or invited guest presenters. Assign a note taker to capture discussions and decisions succinctly.
- After the retreat – management will incorporate the decisions made at the retreat into strategic options, detailed objectives and strategies for board review and approval. This will then be followed by the annual implementation plan and budget.

### Monitoring strategy

Developing and implementing strategy is an ongoing process. A board cannot just ‘set and forget’. Rather, a board must:

- regularly review and assess the implementation of the organisation’s strategy by management;
- if appropriate, provide advice on the tactical approaches selected by management for implementing the strategy chosen by the board.

The board will usually make an assessment of the degree to which management has succeeded in implementing the strategy as part of the board’s normal oversight of management activities. However, it is possible for the board to place greater emphasis on the achievement of strategic objectives by:

- consideration of general organisational strategy as a standing agenda item at board meetings;
- making it compulsory for each board paper or presentation provided to the board by management containing a recommendation for further action for board approval to explicitly detail how the action proposed in the paper or presentation will impact upon the achievement of the organisation’s strategic objectives.

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