

Enhancing Strategy Oversight and Performance Management: The Critical Role of Boards

FCS Dr. Martin Oduor, MBS

Introduction

In the world of business, the adage, “***Without a strategy, execution is aimless. Without execution, strategy is useless,***” as eloquently stated by Morris Chang, Founder of Taiwan Semiconductor Manufacturing Company, holds immense significance. To navigate the complexities of today’s ever-evolving business landscape, organizations rely on well-crafted strategies. However, the development and execution of these strategies require vigilant oversight and management. In this article, we delve into the indispensable role that boards play in overseeing strategy and performance management. We explore their responsibilities, keys to effective strategy oversight, the use of strategic frameworks, and the essential elements of performance contracts. Additionally, we discuss key performance indicators (KPIs) that boards should monitor regularly and propose ways to enhance board involvement in the strategy development and execution process.

The Board's Role in Strategy and Leadership

Effective strategy and leadership are intertwined, and boards are central to ensuring that organizations stay on course. The board's role in strategy oversight includes:

1. **Reaffirming the organization's purpose and values:** Boards set the ethical and moral compass of an organization by reaffirming its core values and mission, thereby guiding strategic decisions.
2. **Providing foresight and strategic direction:** Boards offer insights into long-term goals, market trends, and potential risks, offering essential guidance for strategy development.
3. **Jointly creating a meaningful process and doable purpose:** Collaboration between the board and executive management is essential to create a strategic planning process that is not only meaningful but also actionable.
4. **Approving goals, objectives, targets, and measures:** The board plays a pivotal role in endorsing strategic goals and objectives, as well as the metrics used to track progress.
5. **Overseeing strategy implementation:** Boards are responsible for ensuring that the strategic plan is executed effectively, which includes monitoring the achievement of strategic objectives and metrics.
6. **Monitoring key performance indicators (KPIs) regularly:** Regular reviews of KPIs allow boards to gauge an organization's progress and make necessary adjustments to the strategy.

7. **Approving strategic adjustments:** In an ever-changing environment, boards must be prepared to approve strategic adjustments as needed.
8. **Celebrating achievements:** Recognizing and celebrating milestones and achievements keeps the organization motivated and aligned with strategic goals.

Keys to Effective Board Strategy Oversight

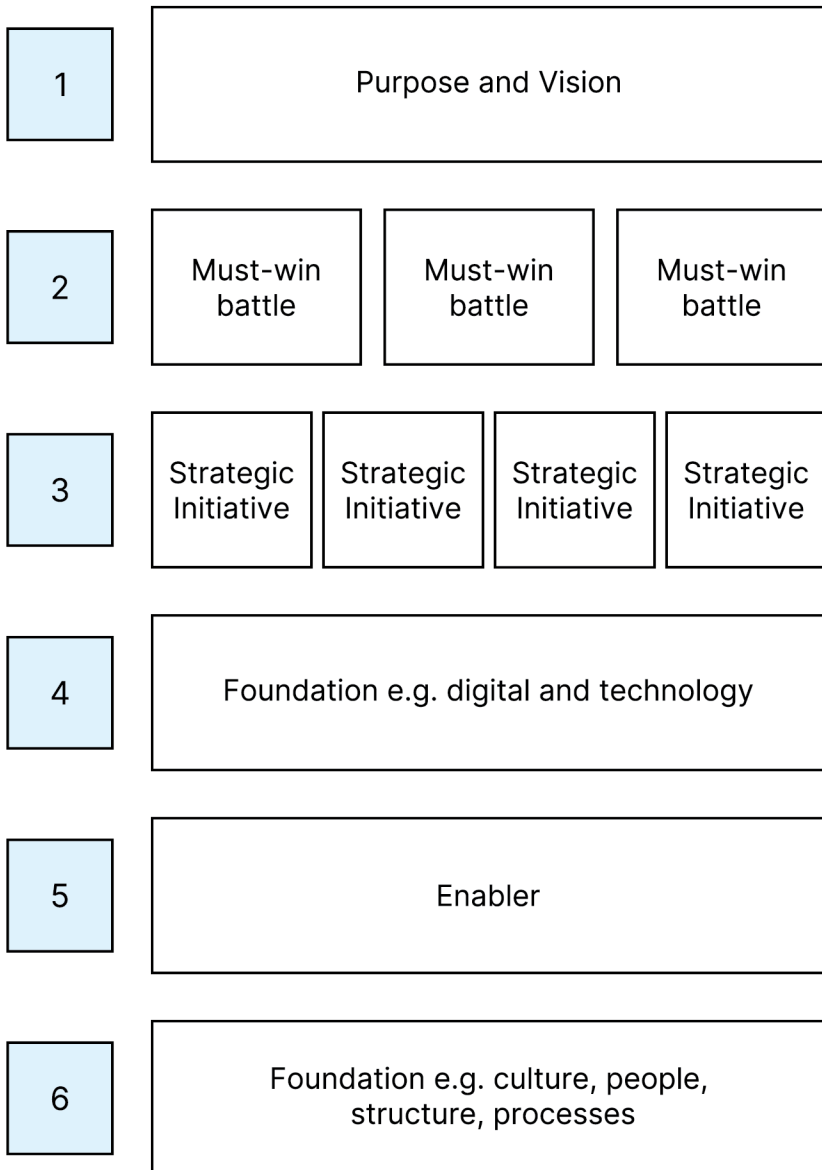
To ensure effective strategy oversight, boards should consider the following key principles:

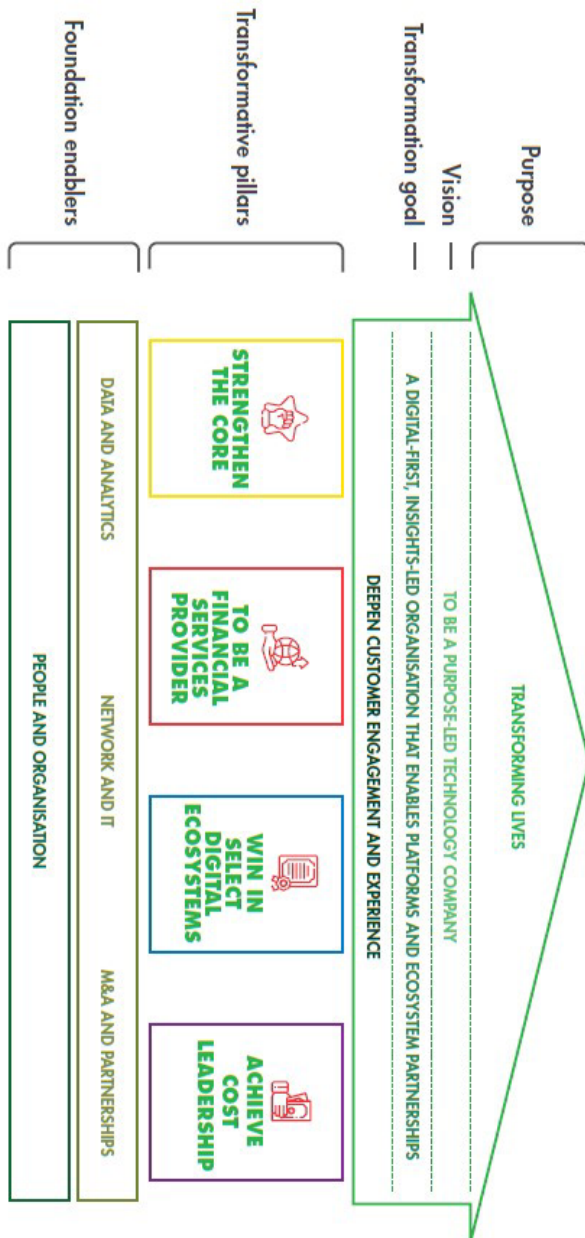
1. **Connecting board composition to strategy:** Boards must comprise members with diverse skills and experiences that align with the organization's strategic goals.
2. **Balancing the short-term and long-term:** Effective boards strike a balance between addressing immediate challenges and focusing on long-term sustainability.
3. **Finding the right frequency to discuss strategy:** Regular strategic discussions ensure that the board stays engaged and informed about the organization's direction.
4. **Measuring progress and knowing when to pivot:** Boards should rely on accurate data to assess progress and be willing to pivot the strategy if necessary.
5. **Challenging management's assumptions:** Constructive questioning of management's assumptions and decisions helps ensure that strategies are thoroughly vetted.

6. Risk: The other side of the strategy coin: Boards must actively assess and manage risks associated with the strategic plan.
7. Playing the disruption game: offense and defense: Boards should be proactive in exploring opportunities for innovation and responding to competitive threats.
8. Executive compensation checks and balances: Aligning executive compensation with the achievement of strategic objectives can motivate management to execute the strategy effectively.
9. Engaging stakeholders about strategy: Boards should foster communication with key stakeholders to ensure that the strategy resonates with the organization's broader community.

Utilizing Strategic Frameworks: McKinsey Strategy House and Safaricom's Strategy House

Strategic frameworks like the McKinsey Strategy House and Safaricom's Strategy House offer valuable tools for organizations to structure and visualize their strategies. These frameworks help boards and executive teams articulate and communicate their strategic plans effectively.





Safaricom's Strategy House

Key Areas of State Performance Contracts

In the public sector, performance contracts are instrumental in aligning strategy with execution. Key areas of state performance contracts include:

1. **Financial Stewardship:** This involves managing funds, income from various sources, addressing pending bills, ensuring service delivery, implementing citizens' service charters, digitalizing government services, and resolving public complaints.
2. **Core Mandate:** This includes the execution of flagship projects, enhancing the implementation of strategic plans, mainstreaming science, technology, and innovation (STI), productivity enhancement, and specific strategic objectives for state corporations. It also encompasses implementing presidential directives, conducting national tree growing restoration campaigns, promoting affirmative action in procurement, facilitating access to government procurement opportunities (AGPO), and promoting local content in procurement.
3. **Cross-cutting:** These encompass asset management, facilitating youth internships, industrial attachments, and apprenticeships, promoting competence development, adhering to national values and principles of governance, and mainstreaming road safety initiatives.

The Role of the Board Chair in Performance Contracting

In performance contracting, the board chair plays a pivotal role by:

- Leading the board in approving and signing the performance contract, which incorporates strategic plan objectives and targets.
- Ensuring close oversight and monitoring of achievements through a board committee to which management reports quarterly.

Some KPIs Boards Should Monitor Regularly

Effective KPI monitoring is critical for board oversight. Key KPIs that boards should monitor regularly include:

- **Profitability:** Assessing the organization's ability to generate profits, ensuring sustainability and growth.
- **Efficiency:** Evaluating how effectively the organization utilizes its resources in achieving its strategic goals.
- **Capabilities:** Determining whether the organization possesses the necessary resources and capabilities to execute its vision.
- **Business risk:** Identifying and mitigating factors that could negatively impact profitability and success.
- **Solvency:** Ensuring that the organization can meet its long-term financial obligations and debts.
- **Liquidity:** Assessing the organization's ability to cover short-term financial obligations.

Enhancing Board Involvement in Strategy Development and Execution

To ensure full board involvement in the strategy development and execution process, organizations can consider the following improvements:

1. **Training and education:** Boards should receive ongoing training on strategy development, execution, and industry-specific trends to enhance their strategic acumen.
2. **Transparency:** Fostering an open and transparent culture where board members are encouraged to voice their opinions and concerns about the strategy.
3. **Diverse perspectives:** Ensuring board diversity in terms of skills, experiences, and backgrounds to bring a broader range of perspectives to strategy discussions.
4. **Regular strategy sessions:** Scheduling dedicated strategy sessions throughout the year to maintain continuous engagement with the strategic plan.
5. **Alignment with executive compensation:** Tying executive compensation to the achievement of strategic objectives can motivate management to execute the strategy effectively.

Conclusion

In today's dynamic and competitive business environment, the role of boards in overseeing strategy and performance management is indispensable. Boards must actively engage in strategy development, oversight, and execution to ensure organizations thrive and adapt to evolving challenges. By adhering to best practices and continuously improving their processes, boards can effectively guide organizations toward their strategic goals and celebrate their achievements. As Morris Chang wisely noted, "Without a strategy, execution is aimless. Without execution, strategy is useless." It is the board's

responsibility to bridge this gap and transform strategy into reality.

Open Discussion – Group Discussions

How does your board ensure full involvement in the strategy development and execution process? What improvements would you propose to enhance this process and the outcomes?

Group 1

Group 1 raised important points regarding how their board ensures active participation in the strategy development and execution process. They emphasized collaborative efforts between the board and management in crafting and reviewing the strategy. Additionally, they highlighted the significance of quarterly meetings between the board and management to monitor progress.

In terms of enhancements, Group 1 proposed allocating adequate resources for executing the strategic plan and aligning the national strategy with the organization's strategy for a more holistic approach.

Group 2

Group 2 provided a comprehensive strategy development and execution approach. They emphasized the importance of preparing a zero draft, conducting strategy meetings or workshops, allocating resources, defining the mission, vision, and values, and implementing a monitoring process.

To enhance the process and outcomes, they suggested quarterly reports, annual retreats for progress evaluation, midterm reviews, addressing challenges, and assessing the performance of the strategic plan. They also recommended aligning the strategy with performance contracting and work plans.

Group 3

Group 3 highlighted board involvement in strategy development, including the use of external consultants for guidance and engaging stakeholders in the strategic planning process. They stressed the importance of regular reviews, especially in response to changing circumstances such as government transitions and emerging issues like climate change and environmental, social, and governance (ESG) considerations.

To improve the process, they recommended benchmarking, revenue allocation, and reviewing the medium-term plan.

Group 4

Group 4 emphasized regular communication and updates from relevant committees to the board. They stressed the importance of periodic strategy reviews and the establishment of feedback mechanisms from both internal and external stakeholders.

Their proposed improvements included holding strategic meetings for performance assessment, capacity building,

and enhancing communication channels between the CEO, chairperson, and other directors.

Group 5

Group 5 advocated for a structured approach to board involvement in strategy development and execution. They suggested forming ad-hoc committees with delegated mandates, involving experts in strategy development, and implementing an accountability framework with quarterly reviews.

To enhance outcomes, they proposed mid-term and end-year reports to relevant authorities, budget provisions, risk consciousness, and maintaining the strategy as a dynamic, living document.

Group 6

Group 6 emphasized the pivotal role of the board in strategy development and suggested that management can fill any gaps. They recommended organizing retreats to facilitate strategy creation and creating a clear structure for strategy development.

In terms of execution, they highlighted the importance of a clear dashboard for monitoring implementation, a strong CEO-chair relationship, open lines of communication with other directors, and resource mobilization.

Group 7

Group 7 outlined the board's responsibility in formulating the organization's vision and strategy. They underscored the

importance of board oversight in strategy execution, including regular reporting and resolution of any execution gaps. They emphasized a collaborative approach with management throughout the process.

Group 8

Group 8 emphasized continuous reporting on the implementation status of the strategy and staying attuned to the evolving environment. They stressed the need for board composition that aligns with the entity's objectives and adapting to new realities, including compliance with environmental, social, and governance standards.

To enhance the process and outcomes, they recommended resource mobilization, internalizing and identifying with the strategy through board retreats involving management and senior managers, and reviewing the existing strategy to ensure alignment with the organization's mandate.

In summary, these groups collectively offered valuable insights into board involvement in strategy development and execution, highlighting the need for collaboration, regular reviews, stakeholder engagement, and adaptability to enhance the process and achieve successful outcomes.