The Role of the Board in Strategy & Risk

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Power Breakfast
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How are risk and strategy addressed at your company?
Table discussions

1. At the board-level, how involved is the board with the development of company strategy? Do you take the journey with management or are you simply asked to discuss and approve a finished product? Does board input change and improve the final product?

2. How would you describe the importance of aligning of risk and strategy? In practice do you participate in specific discussions on this point or are you left to raising questions when the alignment does not seem right?
The Deloitte Governance Framework was developed to help boards and executive management assess the effectiveness of the organization’s governance programs.

It defines board and management activities that support effective governance.

Each area of governance can be considered in the context of four attributes:
- Skills and knowledge
- Process
- Information
- Behavior
# Strategic oversight maturity model

An effective board advises management in the development of strategic plans that align with the mission of the organization, the expectations of stakeholders, and an appropriate short-, mid- and long-range focus. The board also actively monitors management’s execution of approved strategic plans as well as the transparency and adequacy of internal and external communication of strategic plans.

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<td><strong>Skills and knowledge</strong></td>
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| **Process** | • Executes a well-documented process to engage at all key points in the strategic planning process:  
  • Understands risks to and risk of the strategy;  
  • Establishes and approves KPIs to monitor strategic execution;  
  • Ensures senior management goals align with strategic priorities;  
  • Ensures management clearly communicates strategic plans internally to employees and externally to other stakeholders;  
  • Approves major strategic, capital or financing transactions and monitors execution;  
  • Clearly identifies the board leader responsible for execution. |
| **Information** | Board receives timely, detailed information on the strategic plan at every meeting; board supplements information received from the architects of the strategic plans with information from internal (risk, HR, marketing, etc.) and external sources; adequate information related to execution and KPIs is shared with the board. |
| **Behavior** | Board and management collaborate on the selection among strategic alternatives; management seeks and the board provides appropriate input that leverages skills and knowledge; the designated board leader encourages open dialogue and ultimately builds consensus around the selected strategy; board exhibits “healthy skepticism”. |
The risk intelligence transformation

Four major risk categories from a senior stakeholder’s perspective are:

1. **Strategic Risks** – risks both to the strategic objectives and of the strategic objectives. The C-suite identifies the top risks through the planning process and obtains concurrence from the Board.

2. **Operational Risks** – major risks that impact the organization’s ability to achieve the strategic plan.

3. **Financial Risks** – include financial reporting, valuation, hedging, market and liquidity risks and credit risks in financial institutions.

4. **Compliance Risks** – unrewarded risks, typically the primary focus for enterprise risk management activities.
Illustrative strategic risks

- Corporate Responsibility & Sustainability
  - Climate change
  - Community investment
  - Energy management and alternative sourcing
  - Natural resource and utilization
  - Project financing
  - Resource scarcity
  - Sustainability strategy
  - Sustainable water quality

- External Factors
  - Competition
  - Credit rating
  - Customer demands
  - Economic conditions/Industry trends
  - External fraud
  - Geopolitical hazards/Catastrophic loss
  - Laws and regulations
  - Markets
  - Third party/Joint venture requirements

- Planning
  - Business Continuity Management
  - Capital planning
  - Knowledge management
  - Operational planning
  - Performance management
  - Scenario planning

- Strategy
  - Alliances
  - Business concentration
  - Business model
  - Customers
  - Extended enterprise
  - Growth
  - Innovation
  - Markets
  - Mergers/Acquisitions/Divestitures
  - Outsourcing
  - Technology

Source: Deloitte Risk Intelligent Map
Questions boards might ask

Does the board…

• Provide “active oversight” in developing the strategy?
• Engage appropriately and regularly on strategic objectives?
• Possess a good understanding of the risks to the strategy—those that may limit value creation or even cause the strategy to fail—and risks of the strategy—those associated with each scenario of the strategy?
• Ask probing questions, including those that challenge assumptions of the strategy presented?
• Have an understanding of the key risk indicators in place to alert decision makers to a strategic risk? What are the key vulnerabilities?
• Assess potential new risks the strategy can create? Can those be managed?
• Work with management to assess preparedness if this strategy fails? What risks and rewards do other strategic paths represent?
Making it real

• Board engagement with Enterprise Risk Management

• Effective board strategy sessions/retreats with a focus on risks of and to the strategy

• Know the risk competitive landscape

• Discuss the “known” to the “unknown”

• Strategic flexibility and value creation
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