

Strategy

How Boards Can Stay Ahead: Strategic Governance in Six Practical Steps

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Boards have a lot of demands on their time. Most boards want to increase their focus on strategy, but many have difficulty putting that principle into practice. Companies and management teams need thoughtful input on strategy in day-to-day operational matters as well as significant transactions or challenges. The best boards are proactive and attuned to the strategic direction of the company and overall industry.

In our experience, the following practices are simple, practical suggestions for boards to become more strategically engaged and to increase their effectiveness.

1. Prepare for and learn about the strategic issues affecting the company. Board members should seek out opportunities to become knowledgeable about the company's industry and trends affecting the company and its competitors. This knowledge will help the board evaluate management actions and prepare for situations when the company might have an opportunity to engage in a significant transaction or has to prosecute or defend a significant litigation matter.

2. Review and discuss updates on strategic initiatives as part of every board agenda. Every board agenda should include topics of strategy and allow sufficient time for discussion. Doing so ensures that strategy-related issues will receive the board's and management's attention and allows the board to view the company's financial results as part of the its overall strategy. Boards should request a strategic update at every board meeting, including discussion of new or planned initiatives and any industry updates.

3. Hold a board retreat to set strategy. To encourage creativity, dialogue, and active debate outside of the format of the board meeting, companies should plan a strategy retreat for board members to discuss the company's strategic vision, with director education sessions on relevant business and industry topics. Or, in lieu of a retreat, boards can informally accomplish similar objectives over dinner or at offsite locations.

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4. Continually assess how short-term results match long-term goals. Regular board meetings generally focus on short-term results, while board strategy retreats focus on long-term goals. At each board meeting, directors should focus on the connections between the two and assess the company's activities between the short-term results and long-term goals.

5. Question assumptions and initiatives relating to strategy. Board members should feel comfortable discussing concerns about the company's direction and strategy. Boards should play an active role in challenging underlying assumptions so they can effectively monitor management's implementation of the company's strategy. Independent governance and risk management reviews by outside consultants can encourage frank discussions to identify and question management's assumptions and initiatives.

6. Focus on strategy constantly, not just at meetings. Effective directors know that board service means more than attending meetings. Businesses operate and face issues year-round, and effective directors must keep pace. In addition to preparing for meetings, directors should communicate regularly with management and other board members about the company's overall strategic vision.

We believe these six steps provide concrete actions that boards can take to more effectively prioritize responsibilities, identify problems earlier, and focus on implementing strategy in light of the company's competitive environment.

Every company faces a unique set of issues internally and externally. Boards, however, must look beyond the issues of the moment to focus on strategic decisions and direction. Using a step-by-step framework can establish a process for strategy to take the forefront. The practical steps we describe can help board members increase their understanding of the company, provide better oversight, and help achieve strategic goals.

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