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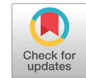
Setting and vetting strategy: Bridging the chasm between CEOs and boards



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Corporate governance;
Organizational strategy;
Strategy meetings

Abstract One of directors' key fiduciary duties is to set the firm's direction and then vet the strategy proposed by the CEO. Despite this, McKinsey reports that the majority of directors feel they do not understand their firm's strategy, and even if they do understand it, they do not feel they have the desired impact on their firm's strategy. This article argues that this shortfall stems from a failure to cross the chasm between CEOs and directors. We propose a framework to bridge this gap and assist board members to better understand and vet their firm's strategy.
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1. A challenge for the board

One significant challenge for board members is to vet their firms' strategies adequately (National Association of Corporate Directors, 2014). This challenge stems from the fact that directors lack either meaningful opportunities to participate in the strategy process or information to make a significant impact. This article reviews the reasons boards often fail to vet their firms' strategies effectively and then proposes a set of steps for CEOs and board members to follow. The proposed strategy setting and vetting process involves boards critically reviewing the CEOs' answers to three strategy questions: (1) Where is the firm today? (2) Where does the firm want to go? (3) How can the firm get there? Using our proposed 5Ps framework to actively work through these questions with CEOs ensures that directors effectively perform due diligence on their firms' strategy. Helping directors' bridge the process and informational chasm improves the quality of their firms' strategies (De Kluyver, 2013; Nadler, 2004) and firm performance (Zhu, Wang, & Bart, 2016). In addition, increasing director engagement

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in the strategy process enhances director buy-in and their satisfaction as board members (Bhagat & Kehoe, 2014; Nadler, 2004). While the proposed strategy setting and vetting steps involve additional effort from CEOs, it also benefits CEOs as increased directors' buy-in and satisfaction also increases CEO tenures (Felton & Fritz, 2005; Kerr & Werther, 2008).

2. Why boards fail to set and vet strategy

Strategy is a set of interrelated choices that CEOs make to serve the firm's target customers profitably (Porter, 1996). A critical, value-creating responsibility of boards is setting their firm's direction and then vetting the strategy proposed by the CEO to reach it (National Association of Corporate Directors, 2014). Although corporate directors need to be actively involved in the firm's strategy process to fulfill their role, McKinsey found that only 43% of nonexecutive directors surveyed felt they had influenced their corporation's strategy (Barton, 2011), and 44% of directors reported that they "simply reviewed and approved strategies" presented by the CEO (Bhagat, Hirt, & Kehoe, 2013, p. 17). These results suggest that many corporate board members are neglecting their duty of care with respect to setting and vetting strategy.

There are several reasons why boards are too passive when setting their firm's direction and then vetting its strategy, beginning with the fact that the typical corporate strategy formulation and approval process is not conducive to board input (Kerr & Werther, 2008; National Association of Corporate Directors, 2014). While boards are responsible for setting direction and vetting strategy, CEOs are responsible for formulating strategy. Some CEOs are reluctant to allow board member input into the strategy process as they are unsure how to constructively engage boards or fear that engaging the board may encourage directors to become more hands-on and micromanage the firm's executive team (De Kluyver, 2013; Roy, 2011). Other CEOs may believe that board members lack information to make a positive contribution to strategy and thus restrict opportunities for board input (Banta & Garrow, 2017; Kerr & Werther, 2008). Given this, CEOs typically present the firm's strategy not as a draft for board review, but rather as a finished product for board approval (Kerr & Werther, 2008; National Association of Corporate Directors, 2014).

For their part, board members may hesitate to be actively involved in the strategy process. A typical board strategy planning session involves presentations from the executive team on the firm's SWOT (strengths, weaknesses, opportunities, and threats), strategic alternatives, and implementation plan. Time is provided for questions from the board, but critically questioning the strategy recommended by the CEO may be viewed as a direct challenge to the CEO, so many board members simply rubber stamp the strategy (Mankins, 2007; National Association of Corporate Directors, 2014).

Boards also need to walk a fine line, as they are responsible for both reviewing the proposed strategy and monitoring the performance of the firm's strategy and its CEO (Kerr & Werther, 2008; National Association of Corporate Directors, 2014). If boards step over the line and force CEOs to adopt their preferred strategies, then it will be difficult for boards to assess the performance of the CEO. If board members are to fulfill their fiduciary duty, boards and CEOs need to cross the process chasm in a manner that allows both parties to fulfill their respective corporate governance responsibilities in a collaborative, rather than adversarial, way (Bhagat et al., 2013; Charan, 2005; National Association of Corporate Directors, 2014).

Another reason board members may do a poor job vetting strategy is due to the significant information asymmetry between the firm's executive team and the board (Beatty, 2012). Whereas most executives spend 2,500—3,000 hours a year on the business, the National Association of Corporate Directors (2016) reported that nonexecutive directors spend an average of 245 hours on the business. Recently, security regulators and large institutional investors have pushed corporations to increase the number of independent board members, who do not have intimate knowledge about the firm, which further exacerbates the information asymmetry problem (Bruni-Bossio & Sheehan, 2013). Given the significant differences in knowledge and time spent on the business, directors may lack information to fulfill one of their most important duties as a board member: performing due diligence on the strategy proposed by the CEO.

One common tactic to overcome the information chasm is to provide board members with a large amount of readings and data relating to the company (Mankins, 2007). However, this presents another cognitive challenge for nonexecutive directors as they must first read and absorb the information before being able to apply it and vet the firm's strategy effectively (Roy, 2011; Zhu et al., 2016). Indeed, providing directors too much information poses as much of a problem as providing them too little information (Nadler, 2004). Even if the quantity of strategy information provided to directors is appropriate, there is no guarantee that

the quality of the information is adequate for directors to vet their firm's strategy (National Association of Corporate Directors, 2016).

Based on interviews and discussions with company executives and board members, we propose a way to cross the process and information chasm: Implement a strategy setting and vetting process that asks CEOs to provide directors with the information and the opportunity to affect their firms' strategies meaningfully. The benefits of our proposed strategy setting and vetting framework are many: Allowing directors to contribute their expertise leads to better strategies (De Kluyver, 2013; Nadler, 2004) and firm performance (Zhu et al., 2016). Directors are more likely to support a strategy that they have understood and actively vetted, a process which enhances director satisfaction (Bhagat & Kehoe, 2014; Nadler, 2004); not surprisingly, this also leads to longer CEO tenures (Felton & Fritz, 2005; Kerr & Werther, 2008). Actively engaging the board in strategy also allows CEOs to seize opportunities as they arise. GE's board quickly approved the acquisition of Amersham and Vivendi Universal as the board had thoroughly discussed GE's potential growth areas and strategic alternatives during a recent strategy planning session (Charan, 2005).

Shareholder activism is rising and boards not actively engaged in the strategy setting and vetting process may be more vulnerable to attack (Barton & Wiseman, 2015). PricewaterhouseCoopers (2016) found that 80% of directors feel shareholder activists are prompting boards to undertake a more comprehensive strategy vetting process. As a recent example from Pepsi demonstrates, actively engaging the board in the strategy process helps shield the firm from shareholder activists. Pepsi's board fought off an attack from Nelson Peltz in 2013, stating that they felt that its CEO Indra Nooyi's strategy of performance with a purpose was a more viable long-term alternative than Peltz's proposal to split Pepsi into two firms—a beverage firm and a snack firm—and then merge Pepsi's new snack firm with Mondelez (George & Lorsch, 2014).

A final advantage of the strategy vetting process is that it may protect board members from potential lawsuits from shareholders and other stakeholders. The courts will protect board members who demonstrate they have exercised due care in vetting strategies proposed by the CEO. However, the courts may be reluctant to protect board members who fail to demonstrate they understood strategies proposed by the CEO or are unable to demonstrate that they undertook a rigorous process to vet these strategies. The remainder of the article proposes a comprehensive framework for presenting strategies to boards and then outlines how the framework can be applied in the strategy setting and vetting process to bridge the information and process chasm between CEOs and boards.

3. Framework for directors to understand strategy

Directors report that business strategies are not always evident to them as McKinsey found that only 34% of directors fully understood their firms' strategies (Barton & Wiseman, 2015). Grasping business strategy involves understanding four interrelated elements that affect firm profitability: the customers the firm is targeting, the value proposition the firm promises to those customers, and the processes and people the firm will use to deliver the value proposition promised to those customers. These four elements impact profitability as the firm's revenues are driven by how many target customers buy the firm's offering, which in turn is driven by relative attractiveness of the firm's value proposition the eyes of consumers (e.g., Martin, 2014). The firm's costs then are driven by its ability to deliver the value proposition efficiently to its buyers. Profitable strategies align the internal elements that are under firm control (e.g., the choice of the firm's product, customers it targets, processes to deliver the product, and its people) with elements in the firm's external environment that are outside of its control (e.g., shifting consumer preferences, changing regulations, and rivals undercutting the firm by delivering better quality or cheaper offerings).

The first step to bridge the process and information chasm is to break down the firm's strategy into its key components. The framework we use, the 5Ps of strategy, helps directors understand how the strategies proposed by the CEO internally and externally align each of the firm's functional areas to create value profitably:

$$\mathit{Purpose} * \mathit{Product} * \mathit{Process} * \mathit{People} = \mathit{Performance}$$

The 5Ps framework argues that firm performance is a function of the internal alignment of the firm's product/service sold, processes used to make the product/service, the people employed, and the firm's purpose with external factors, such as consumer trends, technological change, rivals, regulations, and macroeconomic conditions:

- *Purpose* outlines the reason the firm exists and its strategic direction. The firm's strategic direction,

which typically is described in its vision, is guided by the board's long-term aspirations for the firm, while the firm's mission outlines why the firm exists.

- *Product* describes the value proposition the firm offers to its target customers and marketing plans to reach those customers. It includes an evaluation of the firm's value proposition relative to rivals' value propositions targeting the same customers. It also includes a description of how the firm generates revenue (e.g., pricing model), its sales channels, and describes the marketing plans and capabilities of the firm's top rivals. It reviews the impact of shifts in consumer preferences on the firm's value proposition.

- *Process* describes the activities that the firm undertakes to efficiently and reliably deliver the value proposition to its customers, such as production, supply chain, process and product innovation, and compliance activities. It outlines the current and future impact of technologies and regulations on the firm's innovation and production activities.

- *People* are the capabilities that employees need to complete the processes. It describes the desired culture, key employees, and includes a review of the skills of the executive leadership team.

- *Performance* measures the firm's ability to align its purpose, product, process, and people with trends in its external environment. Company performance is typically tracked using measures of revenue, profitability, ROI, cash flow, stock price, and indebtedness. It also includes a discussion of macroeconomic factors that impact firm performance.

The 5Ps framework can be applied to understand the reasoning behind the $1.2 billion turnaround plan developed by Maple Leaf Foods' CEO and its board. Maple Leaf processed meats division had a winning value proposition that included many leading brands of prepared meats (Product), but it also had aging production facilities (Process), and an inefficient, lower skilled workforce (People). Protected from American competitors by a weak Canadian dollar, it had underinvested in its meat processing facilities and employee development for decades. As a result, by 2009 Maple Leaf Foods was overleveraged, losing money, and its stock price was languishing (Performance). Maple Leaf Foods' board faced a critical strategy decision of whether to sell or improve its meat processing division. The proposed desired end state for Maple Leaf processed meats division included developing a new antibiotic-free line of processed meats (Product), selling off its bread and pasta divisions, closing the inefficient meat processing plants, refurbishing the others, and constructing a highly efficient meat processing plant (Process) that employed fewer, but higher skilled and better-paid workers (People). By the time it reached its desired end state in 2016, Maple Leaf Foods had zero debt, a 10% profit margin, and its stock price had appreciated significantly (Performance).

The 5Ps framework owes an intellectual debt to another alliterative management tool, McKinsey's 7S framework. While both frameworks focus on aligning a number of interrelated organizational elements to achieve success, they are intended for different uses. While working as McKinsey consultants, Peters and Waterman developed the 7S framework to help managers achieve organizational change following introduction of a new strategy (Waterman, Peters, & Phillips, 1980). On the other hand, the 5Ps framework is intended to help board members set the firm's direction and then vet strategies proposed by the CEO. Differences in their application mean that the frameworks include different elements. For example, the 7S framework includes elements necessary to affect successful strategic change, such as organizational structure and administrative systems, while the 5Ps framework includes elements necessary for board members to grasp and vet firm strategies, such as product and performance.

4. Three questions for directors to vet strategy

To understand the current strategy and perform due diligence on the strategy proposed by the CEO, directors need to work through these questions with management:

1. Where is the firm today (i.e., what is its current strategic position)?

2. Where does the firm want to go (i.e., what is its future strategic direction and desired end state)?

3. How can the firm get there (i.e., which strategy will allow the firm to achieve its desired end state)?

Sections 4.1.–4.3. describe the information directors need from the CEO to answer each of the three

questions using the 5Ps framework. Note that this article assumes the company is a for-profit firm with only one offering. If the business strategy involves selling multiple offerings to different sets of target customers, then the information needs to be provided for each offering sold to a different set of target customers.

4.1. Where is the firm today?

The first set of information supplied by the CEO should provide directors with a clear understanding of the firm's current strategy and how effective it is. While management needs to perform an external scan of the firm's opportunities and threats and an internal scan of its internal strengths and weaknesses, these scans should not be presented as standalone agenda items. Rather, it is more effective if the CEO provides the strategic analysis of the firm's current environment in the context of the 5P framework.

- *Purpose* discusses the firm's progress toward achieving its stated strategic direction and the relevance of the firm's current vision and mission in its competitive environment.

- *Product* outlines total market size, the firm's market share, its customer value proposition, ranking of attributes of the firm's value proposition against the attributes of key rivals' value propositions, customer satisfaction, marketing plans, description of target customers (e.g., average length of customer relationship, average customer purchase, customer returns, etc.), and sales channels. It also reviews the impact of shifting consumer preferences on the firm's value proposition.

- *Process* describes product cost per unit, efficiency, waste, quality, and cycle time, all benchmarked against key rivals. It includes a review of innovation success (e.g., sales from new products, the product development pipeline), technologies employed, and key suppliers. It discusses the impact of emerging technologies and regulations on the firm's innovation and production activities. The section should conclude with a discussion of what processes the company performs well and those that require improvement.

- *People* outlines the firm's key employees, their capabilities, and discusses the bench strength in key positions. It includes a review of executive team's skills, training and development initiatives to improve employee competencies, and a discussion of firm culture and employee engagement.

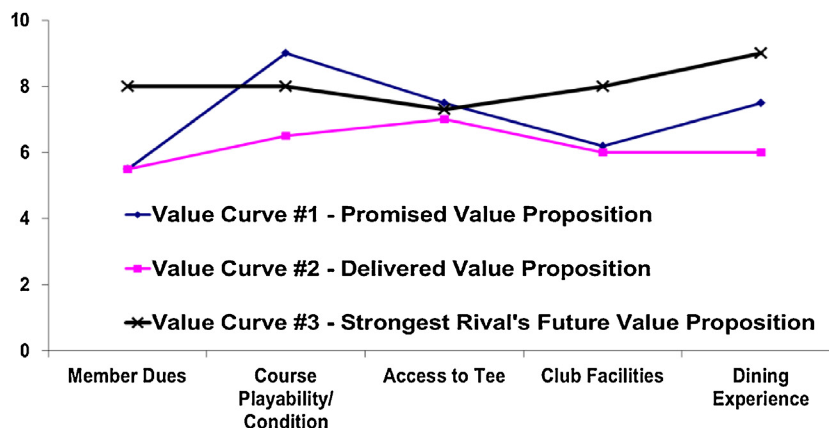
- *Performance* reviews how successfully the firm managed to align the elements of its strategy to the external environment. Firm performance typically is described using key financial ratios (e.g., ROI, share price, EPS, profitability, cash flow, debt). A review of macroeconomic factors—exchange rates, tax rates, commodity prices, and any other factors that have significantly impacted the firm's performance—should be included here.

As part of the review of current strategy, the board should ascertain if the firm is performing to the board's expectations. If the firm is underperforming, there are two diagnostic tools that boards can use to determine potential causes: The 5Ps framework and strategic value curve analysis. If the firm is underperforming (i.e., performance is less than desired in one or more of the financial metrics tracked by the board), then one or more of the other Ps (i.e., product, process, people, or purpose) may be out of alignment with the others or with the external environment. For example, could it be due to the product? Has the firm's value proposition been trumped by rivals or has the target market's preferences shifted? Is the firm's product okay, but the processes that deliver the promised value proposition are inefficient, causing costs to be too high? Could the firm's processes be okay, but the firm has lost key employees and is unable to attract new employees to deliver the value proposition?

If the board is unsure whether the firm's poor performance is a result of poor execution of a good strategy or good execution of a poor strategy, then the board can ask the CEO to present a strategic value curve analysis (Sheehan & Bruni-Bossio, 2015). Value curves visually depict the attributes of the firm's current value proposition (e.g., price, quality, service, location), with each attribute rated low to high.

See Figure 1 for an example of a strategic value curve analysis applied to an upscale golf and country club. The first step compares the club's promised value curve (value curve #1 in Figure 1) to the actual value delivered to the club's members (value curve #2 in Figure 1). If the club's members perceive they are getting less value than what they were promised on one or more of the attributes of the club's value proposition, then strategy execution is an issue that needs to be addressed by the CEO. To see if the club's underperformance stems from a poor strategy, the board needs to compare the value curve promised to

Figure 1. Value curves for an upscale golf and country club and its strongest rival



members (value curve #2 in Figure 1) relative to the future value curve of the club's strongest rivals (value curve #3 in Figure 1). If all or a portion of the club's promised value curve lies below that of the future value curves of its strongest rivals, then the club's promised value proposition needs to be improved as part of the new proposed strategy by the CEO.

The discussion of the firm's current competitive position should conclude with a review of the five most important industry-level critical success factors (i.e., what do firms need to succeed at to be profitable in the industry). For example, key success factors in the bottled water industry are (1) scale of production and (2) delivery. These two factors allow for low cost and the ability to innovate (e.g., vitamin-infused water), which allows for higher prices. In addition, strong relationships with retailers assist in the competition for shelf space. To generate a lively discussion, the board should require management to evaluate and justify their firm rankings for each critical success factor relative to its key rivals (Caldwell & Smith, 2015). This review should provide a foundation for the discussion of the firm's desired end state and help directors understand the areas in which the firm needs to excel if it is to generate above-average performance in the future.

4.2. Where does the firm want to go?

The best way to update the firm's strategy is to first define the firm's strategic direction and desired end state, and then generate strategic options to help the firm reach that end state (Caldwell & Smith, 2015; Rivkin, 2002). It is the board's responsibility to outline the firm's strategic direction and desired end state before turning it over to the CEO to fill in the details using the 5Ps framework. To that end, boards also need to define the time period to reach the desired end state, which will vary by industry. Some companies may define the time period needed to reach the desired end state in years, such as mining firms, while firms in fast-changing industries, such as computer chip manufacturers, may define the time period required to reach the desired end state in months.

Many firms have strategic objectives, such as achieving a market share of 10% within 2 years, and initiatives underway to achieve these objectives. While these strategic objectives and initiatives may inform the firm's strategic direction and desired end state, these objectives and initiatives do not provide enough information for directors to properly vet the firm's strategic direction and desired end state. The CEO needs to provide directors with information on each of the 5Ps so that the board is able to determine if the proposed desired end state is achievable and reasonably attainable within the agreed upon time period.

- *Purpose* discusses whether the firm's stated vision and mission should be updated to align with the firm's future strategic direction and desired end state.

- *Product* estimates the total market size and the firm's market share if it achieves the desired end state. It describes the firm's future customer value proposition, target customers, revenue model, and the sales channels that will be employed to reach the desired end state. It includes projections of rivals' value propositions and the customers targeted by rivals as well as a discussion of forecasted shifts in consumer preferences and any salient regulatory changes.

- *Process* describes unit costs, production capabilities, new systems, products to be introduced, key technologies, and the supply chain needed to reach the firm's desired end state. This includes a discussion of key technological and regulatory

changes that may affect the firm's and/or rivals' processes.

- *People* reviews the key employees and capabilities required to reach the desired end state. It provides detailed information on the skills needed within the executive leadership team, including a discussion of executive bench strength and training programs to improve their capabilities, and the culture desired to reach the firm's desired end state.

- *Performance* estimates the key financial ratios (e.g., ROI, share price, EPS, profitability, cash flow, and debt) that will be attained should the firm reach its desired end state. Forecasts of relevant macroeconomic data that may significantly influence the firm's future performance—such as exchange rates, tax rates, and commodity prices—should also be included.

Boards should ensure that the CEO's detailed description of the firm's strategic direction and desired end state agrees with what the board outlined and is comprehensive and aligned across all five Ps. The discussion should conclude with directors asking the executive team to identify the largest obstacles and/or risks that may prevent the firm from achieving the desired end state (Rumelt, 2011). Overcoming these major obstacles and/or risks should remain the focus as the board reviews the strategic alternatives proposed by the CEO that allow the firm to reach its desired end state.

4.3. How can the firm get there?

CEOs are responsible for generating mutually exclusive and comprehensive strategic alternatives that will allow the firm to reach the desired end state. While CEOs prepare and present strategy alternatives to the board, it is important that CEOs not present a fully baked strategy to the board. Rather, to ensure that the board is fully engaged in the strategy process, CEOs should present their strategic alternatives as drafts intended for board discussion.

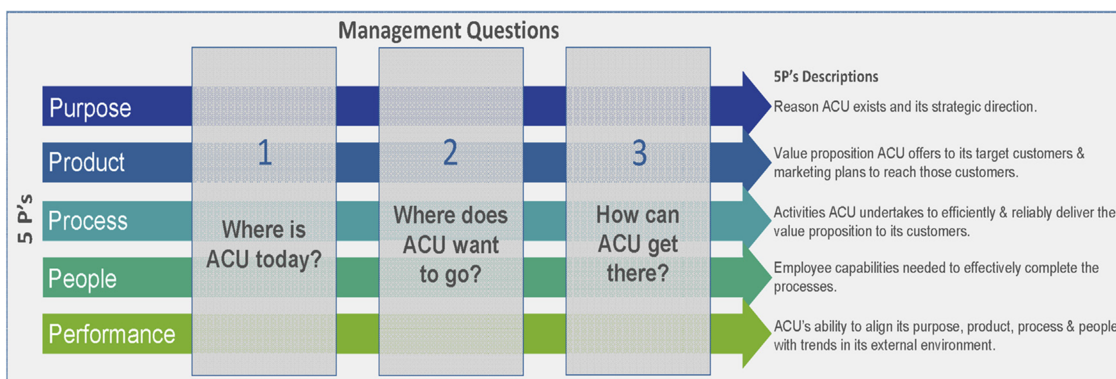
Although it is common to see strategic alternatives presented with brief descriptions, such as sell a low-cost version of the firm's product through online sales channels, directors should insist that all strategic alternatives are presented using the 5Ps framework to ensure consistency and comparability. Directors can only the vet the CEO's strategic alternatives if they can ascertain how well each alternative aligns with the internal dimensions of performance, product, process, people, and purpose with the external trends. The alternatives presented should also outline the risks/rewards, resources needed, and executives responsible so it is easier for the board to follow up on their implementation once approved (Sheehan, 2009). Alternatives presented by the CEO may focus on improving one or more of the firm's 5Ps. For example, an alternative may enhance the firm's product by targeting customers in different markets, or by enhancing the firm's value proposition (see Figure 2 for an example of how ACU, a C$6 billion credit union, plans to use the 5Ps and the three strategy questions to guide its strategy formulation process).

To properly vet the alternatives proposed by CEOs, boards should submit each strategic alternative to three tests (see also Hambrick & Fredrikson, 2005):

Test 1: Is there external fit?

- Has the new strategy identified an attractive set of target customers and do these customers see value in the proposed customer value proposition?

Figure 2. The relationship of the 5Ps framework and the three questions for the CEO and management team



*ACU is an acronym for a C$6 billion credit union that used our framework to explain a new strategic planning process to its board of directors.

- Will the proposed customer value proposition win against rivals who are targeting the same set of customers?
- Does the new strategy address future threats or risks to the proposed customer value proposition (e.g., new rivals, substitutes, regulations, or new technologies)?

Test 2: Is there internal fit between product, process, people, and purpose?

- Are the people and processes aligned to deliver the firm's proposed customer value proposition efficiently?
- Does the proposed strategy fit with the firm's purpose?

Test 3: Is the strategy implementable?

- Does the firm have the resources and capabilities to execute the new strategy?
- Can the new strategy be implemented at an acceptable level of risk?
- Will key stakeholders support the new strategy?
- Is the current management team capable of implementing the new strategy?

The directors' role when vetting the strategic alternatives is to tap into their experience to probe, test, and critique each alternative as part a constructive dialog with the CEO. If the board decides there are no alternatives proposed by the CEO that will allow the firm to reach its desired end state, the board has three options:

1. Ask the CEO to come back to the board with new alternatives;
2. Revise the firm's desired end state; or
3. Review the suitability of the CEO and executive team.

Using a strategy setting and vetting process allowed Telefonica's board to play a value-adding role in its strategy setting and vetting process. A multinational telecom firm, Telefonica was privatized in 1997 and is now is one of the world's largest telecom providers. It was struggling in the wake of the dotcom crash of 2001 as it had taken on too much debt to increase network infrastructure capacity (process) and acquire companies in related industries (product; Canals, 2014). The board and CEO worked together to restructure the company, which meant divesting its media interests (product), restructuring management (people), and enhancing its customer value proposition to increase market share (product). As the economy recovered and Telefonica's fortunes improved, it expanded its core offerings in new markets (product) by acquiring telecom firms in the U.K. and Germany.

5. The board's strategy vetting process

Assuming the board has already provided the CEO with a broad outline of the firm's desired strategic direction and end state, the strategy vetting process should occur over a minimum of two board meetings to allow board members time for discussion and reflection. In the first meeting (or set of meetings), the CEO should use the 5Ps framework to present detailed information on the firm's current status and its desired end state. As part of the discussion of the current strategy and desired end state, the board should challenge management's assertions as executives may overestimate their firm's capabilities, or underestimate their firm's weaknesses or their rivals' strengths (Collis & Rukstad, 2008). Furthermore, since the firm's executives may suffer from commitment bias that makes it difficult for the executive team to consider reversing the course of their current strategy, the board should be prepared to play the role of devil's advocate. To ensure that the board hears contrary opinions, the chair of a major Canadian bank, the Canadian Imperial Bank of Commerce (CIBC), routinely brings sell-side analysts into the boardroom to challenge the executive team and board's strategic choices. Beatty (2017) recommended that boards go a step further and seek out activist shareholders to present their strategic analysis and recommendations in person or in writing.

The second meeting (or set of meetings) features a presentation and discussion of strategic alternatives to reach the desired end state. The second meeting should allow for a fulsome discussion of the risks/rewards offered by each of the alternatives. As a way of ensuring management has explored all alternatives, the board should challenge any of management's assumptions regarding competitors, capabilities, technology, and regulatory regimes. Once the new strategy is vetted and approved by the board, it is prudent for the board to have an in camera session to discuss whether the current management team has the requisite capabilities to

implement the firm's new strategy (see Figure 3 for an example of a strategic planning timeline. Note that TBC in the diagram means the date of the third meeting to discuss potential alternatives for the firm to reach its desired end state is to be confirmed).

To ensure that they have not missed anything, the board may retain a strategy-consulting firm to review the CEO's analysis of the firm's current strategy and its desired end state. They may also want to employ a consultant to review if the current senior leadership team is capable of executing the proposed strategy. It is also acceptable for the CEO to hire a strategy consultant to audit the firm's current strategy and desired end state as well as help with analyses. However, if the CEO proposes hiring consultants to formulate the firm's new strategy, the board needs to review whether the CEO's strategy formulation capabilities are a good fit with the board's long-term aspirations for the firm.

5.1. Timing of information to the board

In considering the timing of information given to the board, the following should be taken into account:

1. *Where is the firm today?* This information on the 5Ps should be provided by the CEO in advance of the first meeting to allow directors to review and reflect on the firm's current strategic position.

2. *Where does the firm want to go?* Detailed information on the desired end state using the 5Ps framework should be provided by the CEO at least a week in advance of the first meeting to allow board members to review it. If the board revises the firm's strategic direction and desired end state in discussions with the CEO, information on the changes should be sent prior to the second meeting along with information on the strategic alternatives.

3. *How do we get there?* The information on the strategic alternatives should be provided by the CEO to the board in the 5Ps format at least a week prior to the second strategy review meeting.

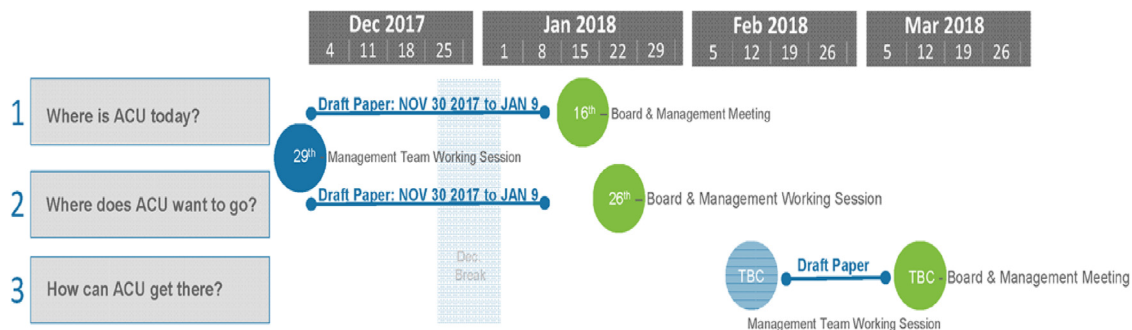
4. *Review the strategy's progress to the desired end state*. Strategy is not a set and forget task for boards. Best practice is for the board to regularly review and discuss the strategy's progress toward achieving the desired end state in camera and with the CEO at every board meeting (Siciliano, 2002; Townsend, 2007).

6. Final summary

Directors' ability to fulfill their duty of care with respect to strategy hinges on having the right information and opportunities to contribute to their firm's strategy. The strategy setting and vetting process described in the article outlines the rules of engagement between CEOs and boards. CEOs are responsible for formulating strategy but to ensure boards get the right information on strategy we ask the CEO to present the firm's strategy in a comparable, consistent, and comprehensive format that naturally lends itself to the board's strategy vetting process. Boards are responsible for setting the firm's strategic direction and then vetting its strategy. To ensure boards get the right opportunities to contribute to the firm's strategy we clearly describe how and when the board should be involved in setting and vetting the strategy.

Boards have three key responsibilities: hindsight, oversight, and foresight (Beatty, 2012). Hindsight involves ensuring the accurate reporting of financial information, while oversight involves monitoring management's activities and ensuring compliance. Foresight involves managing risk, developing the firm's talent pool, and ensuring the firm's strategy guarantees long-term firm viability. Of the three responsibilities, foresight has the greatest impact on firm performance, but is the task boards typically struggle to master. Our proposed strategy setting and vetting process ensures the board has done its due diligence and thus fulfilled its responsibility.

Figure 3. Example of a strategic planning timeline



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