EY Center for Board Matters

Five essential strategy questions boards should be asking

C-suites have adapted to the tumultuous environment created by the global pandemic, and only a few could have predicted the rebound occurring in specific geographies and sectors so quickly.

While the rapid pace of economic expansion has been a welcome opportunity for certain businesses, the long-term robustness of the recovery could be challenged by uneven events in specific geographies, the unwinding of government support programs, the scarceness of labor, the rise of inflation or the resurgence of COVID-19 variants.

As organizations continue their strategy refresh discussions, the following five questions should be top of mind for board members and management teams to make sure that their strategy adequately focuses on the future while recognizing the past and present stakeholder concerns.

In brief

- Management and the board should define "long-term" and develop a strategy that is focused not on where the organization "is going" but where it "can go."
- It is essential for an organization's talent strategy and environmental, social and governance (ESG) priorities to be aligned and integrated with the overall strategy.
- Innovation and digital transformation are not risk free, but boards can help recalibrate the risk framework to focus on a longer-term horizon and reframe the discussion from risk to opportunity.

How does the organization's strategy put talent and culture at the forefront?

In a survey of 378 US public company board members conducted before the global pandemic by Corporate Board Member and the EY Center for Board Matters, 78% of respondents indicated that their board spends more time on talent strategy than just five years ago. The global pandemic has intensified this focus on human capital and accelerated both workforce and digital transformation, including a sudden shift to mass remote working. Boards and management should consider what changes to the operating model, working methods and culture are temporary, permanent or hybrid.

A shift in strategy may require management to redefine culture to incorporate new behaviors required to drive strategy for the long term. Developing and overseeing a culture and human capital strategy aligned with the overall corporate strategy is essential. Furthermore, the strategy must leverage digitalization, virtual work and automation gained during the global pandemic while confirming the right balance in the workforce portfolio (e.g., traditional, virtual, contingent, digitally enabled) to attract and retain key talent.

Does the strategy identify and redefine key risks as potential opportunities for innovation and expansion?

Based on the results of a recent EY survey of more than 500 global board members, risk management today lacks a focus on emerging and atypical risks. The survey also highlighted the criticality of considering a longer time horizon (ideally more than five years) when assessing strategy and risk — particularly when setting the organization's business strategy, assessing the likelihood and impact of potential trends or disruptors and scenario planning. Eighty-four percent of boards do not believe their organizations have a highly effective risk management strategy and 55% of board members identified that risk management often struggles to keep pace with changes in business strategy.

Boards and C-suites alike have an opportunity to recalibrate their risk framework to focus on a longer-term horizon and reframe the discussion from risk to opportunity. This could include opportunities related to innovations around technology, changing consumer expectations, strategic transactions and evolving business models, all of which could impact how the company is doing business in five years and beyond. Consideration should also be given to the strategic ways technology and data can be used to improve the ability to identify and capture emerging opportunities and accelerate growth.

In one example, the management team of a leading chemicals business identified long-term sector risk for a core division. Facing impending consolidation in the industry and the risk of being left behind, the board and management team acted decisively through a series of transactions to turn risk into opportunity and maximize long-term value. High performance organizations have an agile risk management framework that allows the organization to identify strategic opportunities and take measured risks related to longer-term innovation.

Question 3

How does the strategy embrace the transition to a complete digital enterprise?

In a 2020 study of 570 C-Suite and senior business leaders, we found that organizations at the forefront of digital transformation were 45% more likely than laggards to unlock annual revenue growth of 10% or more. These organizations look at digital transformation as a cornerstone for the future of their business. They put the customer at the center, focusing on artificial intelligence (AI), advanced analytics, innovation, talent development and strong governance to deliver on their journeys. Digital transformation is not without its pitfalls. Therefore, it is critical to be aware of value leakage and mitigate it proactively. Both *Forbes* and the *Harvard Business Review* have found that as much as 70% of digital transformation efforts fail to meet their goals, many failing due to a lack of focus.[1]

As digital transformation transcends customer-facing digitization to more holistic enterprise-wide digital transformation, both the opportunity and the complexity of these efforts will increase. The concept of collective intelligence (e.g., bringing together the best of AI, machines, digital and human efforts) will fundamentally shift the future of work. Boards and management must balance this extension of human cognition with increasing uncertainty and complexity and the significant amount of data generated. Organizations should develop robust strategies that consider these concepts and their short and long-term implications on their businesses.

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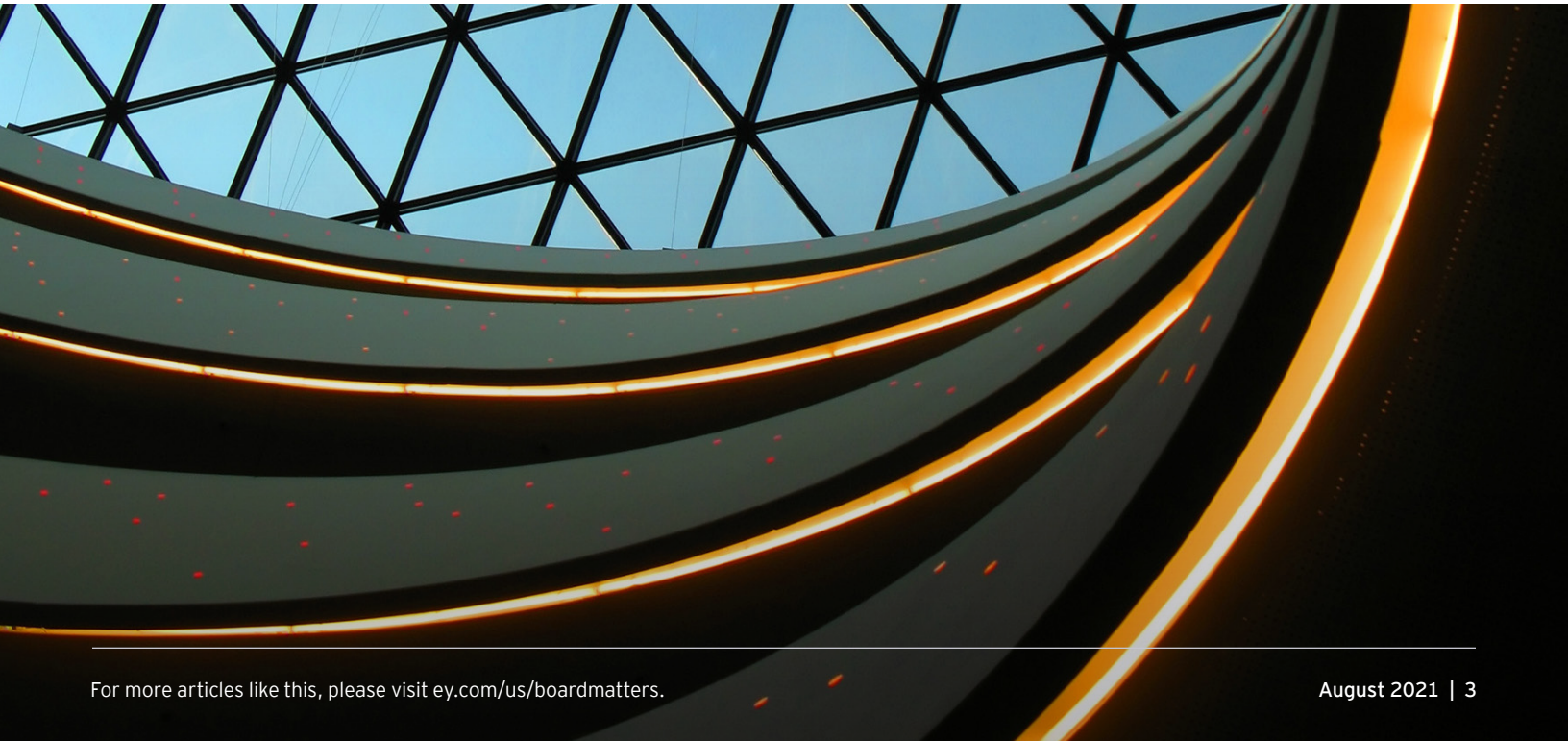
[1] Kirk Girard, Vernon Irvin, Ed Lam and Behnam Tabrizi, “Digital Transformation Is Not About Technology,” *Harvard Business Review website*, 13 March 2019, ©2019 Harvard Business School Publishing; Blake Morgan and “Companies That Failed At Digital Transformation And What We Can Learn From Them,” *Forbes website*, 30 September 2019, ©2021 PARS International Corp.



Question 4

How does the strategy accelerate the ESG ambition faster than the competition?

A recently convened roundtable of public company board members highlighted the need to focus on long-term societal impact, environmental sustainability and inclusive growth in the strategic agenda. Driven by, among other factors, the current climate emergency, a focus on social injustice and a realization that ESG priorities, including diversity, equity and inclusion, can be financially beneficial, investors are focused on companies' ESG strategy and performance. Assets in sustainable funds continue to hit record-breaking heights and investor stewardship goals increasingly relate to business-relevant environmental and social priorities.

To inform their investment decisions and stewardship, investors are looking for companies to provide standardized and rigorous nonfinancial data and any expectation gap between companies and investors could come at a significant price, including companies finding it harder to access capital. At the same time, pressure from other stakeholders to address ESG is also growing. Consumers want to understand the impact their choices are having on the world, employees want to understand whether their company is driving sustainable progress and regulators and governments around the world are also taking action.

In this business environment, making ESG a strategic imperative can help companies positively differentiate themselves from competitors, become more attractive to the key stakeholders on whom they rely and sustain lasting profitability as sustainability risks accelerate. To support its oversight of strategy, it is essential for boards to understand the key forces shaping tomorrow's business environment, how ESG investing and stewardship trends are impacting access to capital and relationships with investors and the ESG factors that are material to the company's business.

The strategy refresh agenda should include identifying and prioritizing the ESG issues that are most relevant to the business through a sustainability materiality assessment. Once identified, the board can help guide the design of those ESG priorities into an ESG strategy aligned and incorporated into the organization's overall strategic plan. The board's role also includes overseeing ESG goal setting and metrics, providing for transparent ESG governance structures, supporting the integration of ESG with ERM and overseeing how the company tells its ESG story.

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How does the strategy incorporate shock absorbers that enable the organization to remain resilient?

Recently, a significant automobile and aerospace components manufacturer faced falling profitability and a significant drawback of its share price, driven by a combination of factors, including an oil price decline and several unforeseen economic and technical events. The executive team at this organization turned to scenario planning to identify, catalog and address events or pivot points that could impact their business through 2040.

Building strategies based on crucial pivot points help establish that organizations are ready for a mix of both internal and external shifts that may impact that end state. The most resilient strategic planning efforts are underpinned by implementing shock absorbers (e.g., internal systems, processes and policies that can limit impacts of unforeseen events) and a thorough effort to prioritize which scenarios to prepare for. Organizations often elicit input from external experts to provide an outside-in and in-depth view of those pivot points and potential shock absorbers. While it is unrealistic to plan for everything, finding the right balance of preparedness can help an organization navigate today's increasingly uncertain times.

Boards should consider the role of advocates and questioners to help management focus on a strategic vision that drives long-term sustainable value. Boards should also challenge management to define "long-term" based on the circumstances of the organization and develop a strategic plan focused not on where the organization "is going" but where it "can go." Finally, consider appropriate governance processes to enable timely review and implementation of the strategic plan and related organization shock absorbers across now, next and beyond.

Conclusion

In conclusion, ensuring success in the strategy refresh process is about balancing the roles of the board and management, prioritizing issues and asking probing questions. In the face of continued global economic uncertainty, being future-ready will be the difference between those organizations that merely survive and those that thrive in a post-pandemic world.

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US SCORE no. 13555-211US
CS no. 2108-3839029

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