## 5.1.3

# THE STRATEGY CYCLE: BUILDING, UPDATING, IMPLEMENTING

Strategy is the way in which the company uses its mission to achieve its vision, based on its values and on a clear understanding of the company's purpose and the expectations of the shareholders. The Board has to ensure that all the steps of the process listed below are implemented. Management develops and proposes the strategy and implements it once approved; the Board sets the direction, challenges the proposals, approves the strategy and oversees its implementation. The process below sets out the steps in three phases: development, approval and cascade, and implementation oversight.

**Phase A – Strategy development or updating**

1. **Agree the process and the roles.** Before any analysis begins, the Board and management should agree who does what, the strategy horizon (typically five to ten years), the timetable and the working format (for example, dedicated strategy sessions or an off-site meeting).
2. **Confirm purpose, mission, vision and values.** The strategy must flow from what the company exists to do and what it aspires to become. If these foundations are outdated or unclear, revisit them first – otherwise the strategy will lack an anchor and discussions will not be consistent.
3. **Map and understand the stakeholders.** Identify the company's key stakeholders and assess their relative power, interest and expectations and agree how conflicting expectations will be reconciled over time. Understanding the stakeholder map is the basis of effective strategy, and a strategy that lacks the buy-in of key stakeholders is unlikely to succeed.
4. **Conduct a thorough strategic analysis.** Analyse the company and its environment from the inside out, using recognised tools such as SWOT, PESTEL, VRIO, Ansoff Matrix, value chain analysis, Porter's five forces and gap analysis, and others that may be relevant for the company. Invite external experts where the in-house perspective is too narrow. Weak analysis at this stage is the most common root cause of later implementation failure.
5. **Identify and assess risks, and set the risk appetite.** Every strategic initiative carries risks, and these change over time. The Board should ensure that key risks are identified, assessed and matched with mitigation measures, and should define the risk appetite within which the strategy must fit. Without this, the result is a "fair-weather strategy" that works only until the first storm. The

Board should also distinguish the company's risk appetite from its risk capacity – the ability to absorb shocks – and pay particular attention to high-impact, low-probability risks, which are often neglected precisely because they seem unlikely to materialise.

6. **Evaluate industry trends, innovation and disruption.** The Board should consider the latest industry developments, technological change, research and development, and actual or potential disruptions to the business model – both as threats and as sources of opportunity.
7. **Integrate sustainability and ESG matters.** Sustainability-related risks and opportunities – including those identified through the double materiality assessment under CSRD/ESRS, where applicable – should be embedded in the company strategy itself, not treated as a separate strategy document. Further guidance on ESG topics is given in the BICG ESG Guidelines for Baltic Boards and the ecoDa ESG Governance Toolkit.[6]
8. **Develop and debate strategic options.** Crystallise realistic strategic opportunities and alternatives, and test them through scenario planning and stress-testing. Each option rests on certain assumptions. It is the Board's duty to challenge assumptions wisely, because assumptions presented by management carry built-in bias. Challenge contributes to the improvement of the strategy. A strategy adopted without genuine alternatives on the table has not been chosen – it has been assumed.
9. **Make the strategic choice.** Decide which alternatives will be embedded in the company strategy, using explicit criteria: value creation, fit with the risk appetite, available resources and competences. Record which options were rejected and why – this discipline will be valuable when the strategy is next reviewed.
10. **Translate the strategy into goals, objectives and action plans.** Ensure a clear hierarchy:
    - **Goals** – what needs to be accomplished to implement the strategy;
    - **Objectives** – specific, measurable milestones with a timeline for achieving each goal (the SMART criteria apply);
    - **Action plans** – how the company will achieve each objective, with named owners, resources and deadlines.
11. **Align resources and incentives with the strategy.** Verify that the budget, capital allocation, financing and people actually support the strategic priorities,

6 BICG (2022), ESG Guidelines for Baltic Boards – What, Why and How, https://www.bicg.eu/wp-content/uploads/2022/09/ESG-Guidelines-for-Baltic-Boards.pdf; ecoDa (2019), ESG Governance Toolkit for Boards, https://ecoda.eu/wp-content/uploads/2019/08/ESG-Governance-toolkit-for-boards_FINAL.pdf.

and link executive remuneration and key performance indicators (KPIs) to the strategic objectives.

**Phase B – Approval and cascade**

1. **Approve the strategy at Board level.** The Board formally approves the strategy together with its strategic goals, the implementation roadmap and the reporting schedule. Approval should follow genuine challenge and debate, not a single presentation.
2. **Ensure each unit's contribution is defined.** Cascade the strategy so that every business unit has its own sub-strategy (functional strategy) and knows its specific contribution to implementation, reflected in unit-level plans and individual objectives. Cascading does not mean that the creation of strategy is top-down: engagement is an iterative process, and each unit should be given the opportunity to work out what the strategy means for its own work that contributes to the company's objectives – this builds ownership as well as alignment.
3. **Communicate the strategy thoroughly.** Communicate the strategy and its rationale consistently within the company and, where appropriate, its essential parts to external stakeholders. People cannot implement what they do not understand. Boards routinely underestimate how much communication is needed – as a rule of thumb, double what seems sufficient, and then double it again. A concise "strategy on a page", built around a small number of clear strategic themes, is often far more effective than a lengthy strategy document.

**Phase C – Oversight of implementation**

1. **Assess the company's capability to implement.** A well-implemented average strategy will outperform a perfectly designed strategy that is poorly executed. The Board should periodically assess the organisation's implementation capability across dimensions such as people, organisational structure and resources, understanding of the business case, communication, measures, culture and processes.
2. **Monitor implementation through efficient reporting.** Management reports regularly against the approved KPIs and milestones; the Board reviews progress at an agreed cadence using a concise dashboard that includes leading indicators, not only financial results. Strategy should have a standing place on the Board agenda (2–4 times a year), not appear once a year.
3. **Take corrective action and review the strategy regularly.** Where implementation deviates from plan, the Board ensures that management analyses the causes and adjusts the actions – or, where the environment has

shifted, that the strategy itself is revised. A full strategy review should take place at least annually, and immediately after any material change in the business environment.

### Strategy-setting process: Board and management roles

Often it is not clear to companies what the roles of the Board and management are in strategy development. One common failure is when the Board “rubber-stamps” the strategy: management prepares a 150-page strategy document, the Board discusses it for a few hours, and approves it. Another common failure is the “management Board”, where the Board engages itself in designing products, selecting markets, and developing implementation initiatives – effectively doing the job of executives.

There should be a clear division of responsibilities in strategy development: the Board owns the strategic direction, choices, desired outcomes and risk appetite, while management owns the analysis, development of strategic options, resource and capability planning, and execution of the chosen strategy.

The five stages below put this division into practice, alternating lead responsibility between the Board and the executives, so that strategy is set through structured dialogue rather than by either party alone.

| STAGE | PRIMARY ROLE | WHAT HAPPENS |
|---|---|---|
| **1. Strategic framing** | **Board** | Board discusses and (re)approves purpose, vision, mission and values, clarifies the expectations of owners, shareholders and other key stakeholders, and sets the ambition, key strategic issues, risk appetite and the questions the strategy must answer. Where a strategy committee exists, it prepares this discussion for the full Board. |
| **2. Analysis & options** | **Executives** | Management conducts internal and external analysis (market, competitive, financial and risk) and develops credible strategic alternatives, including underlying, financial implications, risks, trade-offs and how each option addresses the Board's strategic questions. Where useful, scenario planning is used to stress-test alternatives against plausible future conditions. |
| **3. Strategic choice** | **Board** | Management presents the strategic alternatives. The Board challenges assumptions, tests trade-offs and, after a thorough discussion, selects the preferred strategic direction(s). The Board's rationale and any conditions attached to the decision are recorded in the minutes to provide a clear mandate for the next stage. |
| **4. Strategy development** | **Executives** | Management converts the chosen direction into an integrated strategy: objectives, key performance indicators, initiatives, resource allocation, capabilities, financial plans, risk mitigation measures and an implementation roadmap with clear ownership and milestones. |

| STAGE | PRIMARY ROLE | WHAT HAPPENS |
|---|---|---|
| **5. Approval & oversight** | **Board** | Board assesses whether the resulting strategy reflects the agreed choices and risk appetite, formally approves it, and thereafter oversees execution through periodic progress reviews against the agreed KPIs and milestones. Material deviations, changing conditions or emerging risks are escalated to the Board, which revisits Stage 1 as needed – making strategy-setting a continuous cycle rather than a one-off event. |

### Warning signs

- The Board is presented with only one strategic proposal, rather than alternative strategic options and their trade-offs.
- Strategy papers are always approved without challenge or amendment – silence is being mistaken for consent, a classic symptom of groupthink.
- The strategy appears on the Board agenda only once a year, at approval time.
- Unit managers cannot explain their unit's contribution to the strategy.
- Reporting on implementation consists of financial results only, with no leading indicators.
- Sustainability is handled in a separate document that never intersects with the company strategy.
- The assumptions behind the strategy are never revisited once it has been approved.
- No one can say in advance what would cause the Board to reopen the strategy.

## KEY TAKEAWAYS

A. Strategy is set through structured dialogue between the Board and management: the Board frames the direction, ambition, risk appetite and questions; management analyses and develops credible options; the Board challenges assumptions and chooses between genuine alternatives; management develops the detailed strategy; the Board approves it and oversees implementation.

B. Strategy development rests on confirmed purpose, mission, vision and values, a clear stakeholder map, thorough analysis, a defined risk appetite (distinguished from risk capacity), attention to trends and disruption, and sustainability embedded in the strategy itself.

C. A strategy adopted without genuine alternatives on the table has not been chosen but assumed. Options should be tested through scenario planning and stress-testing, and rejected options recorded with the reasons.

D. Approval is not the end: the strategy must be translated into goals, objectives and action plans, aligned with budget, resources and incentives, cascaded to every unit and communicated far more than seems necessary.

E. Implementation should be monitored two to four times a year through a concise dashboard with leading indicators, with corrective action where needed and a full review at least annually or after any material change in the environment.

## QUESTIONS FOR THE BOARD

1. *Have the Board and management agreed who does what in strategy-setting, the strategy horizon, the timetable and the working format?*
2. *Does the Board set the direction and risk appetite before management develops options, or does it react to a finished document?*
3. *Were genuine alternatives presented, and did we test the assumptions behind the option we chose?*
4. *Is the strategy translated into goals, objectives and action plans with named owners, and are budget and incentives aligned with it?*
5. *Can every unit manager explain their unit's contribution to the strategy?*
6. *How often does strategy appear on our agenda, what does our implementation dashboard show beyond financial results, and when did we last revise the strategy in response to a change in the environment?*
7. *Do we know which risks could break this strategy, and how they will be mitigated?*
8. *Which stakeholders must support this strategy for it to succeed, and how do we know that they do?*
9. *How quickly would we learn that implementation is going off track?*