



THE BOARD AND EXECUTIVE PARTNERSHIP: STRATEGY AND ERM

DECEMBER 2020

Presented by
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President and Partner

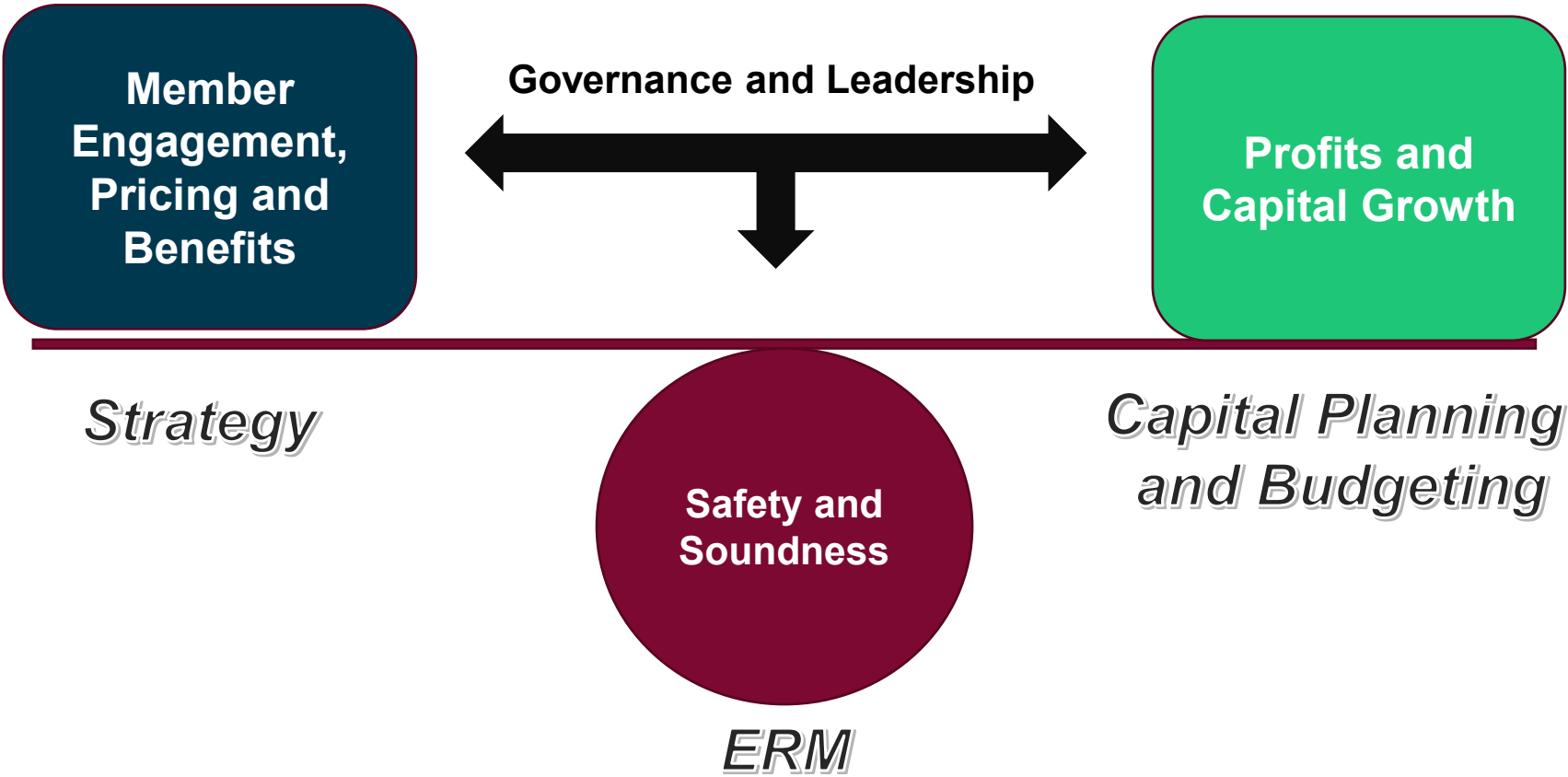
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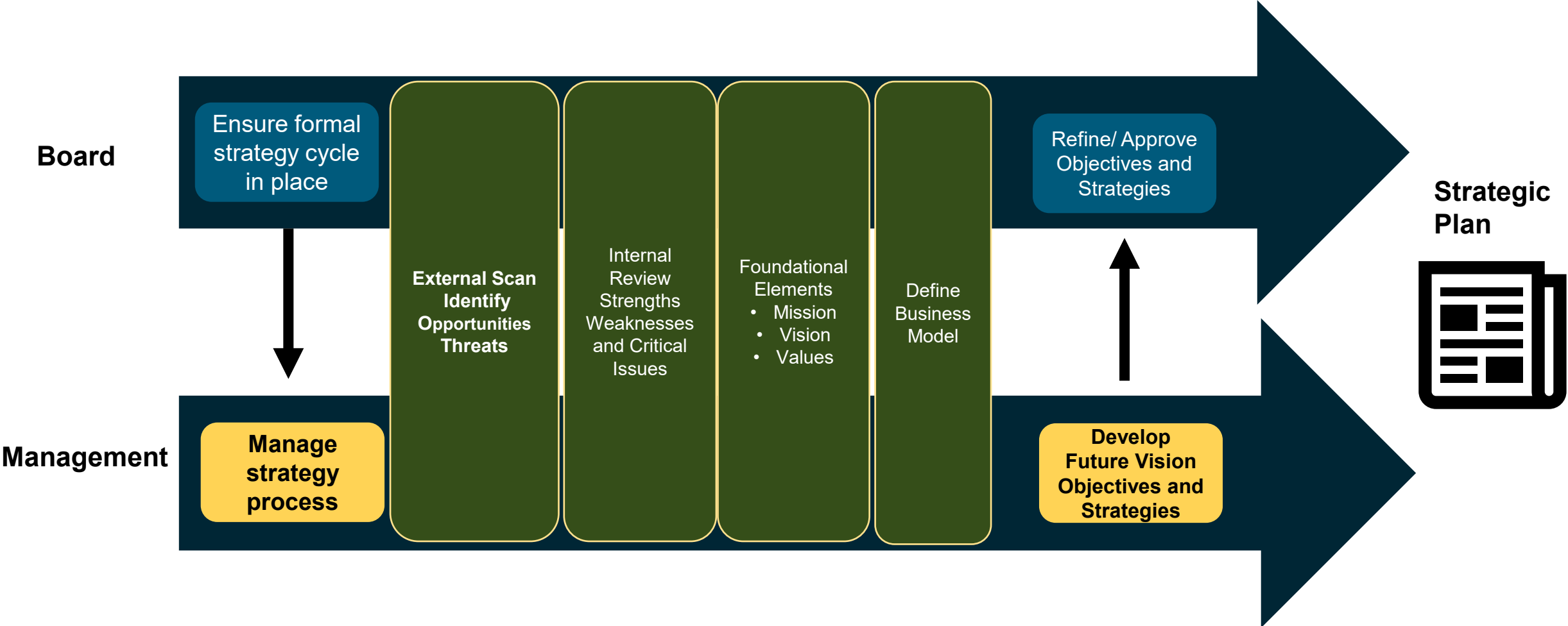
“Strategy is about where to play and how to win”

Roger Martin – Rotman School of Business




STRATEGIC LEADERSHIP IN A COOPERATIVE



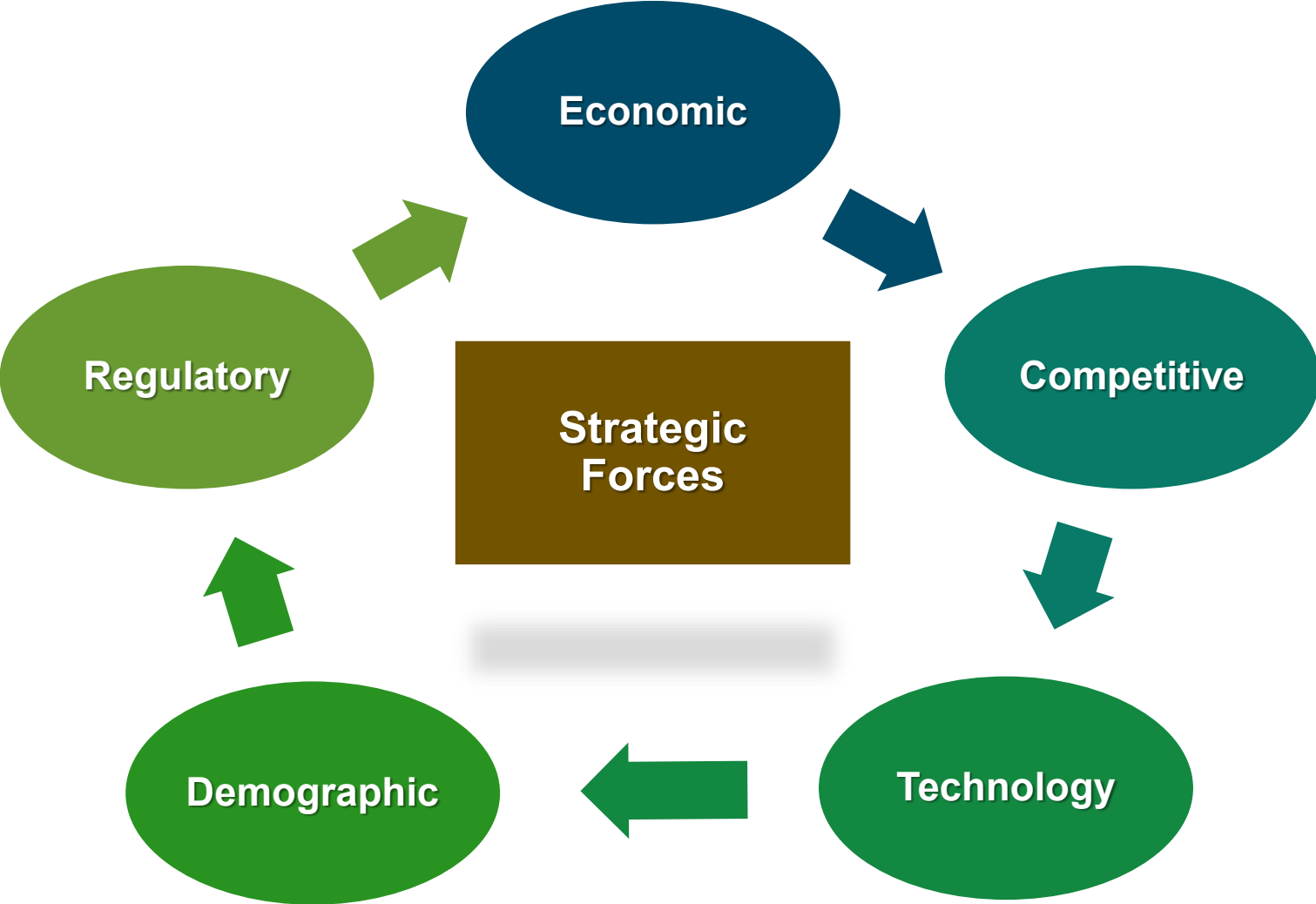
THE BOARD AND MANAGEMENT IN STRATEGIC PLANNING



HOW THE BOARD WORKS WITH MANAGEMENT IN THE STRATEGY PROCESS

	Where Are We?	Board and Management collaboration on external and internal analysis – Find the brutal truth!
	Where Could We Be?	<ul style="list-style-type: none">• Board and Management define business model and mission, vision, values• Management proposes Future State objectives for Board approval
	How Do We Get There?	<ul style="list-style-type: none">• Management Develops Strategic Plan for Approval with execution accountability• Board maintains risk appetite statements and policies to act as plan “guardrails”
	What is the Strategic and Financial Impact?	<ul style="list-style-type: none">• Management provides rolling financial forecast and annual budget• Management provides quarterly dashboard reporting for Board oversight• Management provides regular updates to ERM risk index reporting

BOARDS BRING THE OUTSIDE AND DIVERSE PERSPECTIVE



STRATEGIC SCENARIOS

Scenarios are built on three time-tested principles:

- **Use outside-in thinking:** Start with the broader contextual environment—what’s going on in society or technology, for example—and focus on what is going on in the world rather than just within a particular industry or organization
- **Embrace diverse views:** Seek out and learn from people who see things differently and can call upon a variety of different roles, backgrounds, and experiences
- **Take the long view:** Look out beyond current events to consider how today’s trends can turn into something surprising in the future

Source: Deloitte

BEST PRACTICES IN BOARD STRATEGY OVERSIGHT

Approve the Strategic Plan with “one voice” and clear commitments



Use quarterly Strategic Dashboards to track high level measurable objectives and completion of milestone outcomes (e.g. new product rollout)



CEO provides brief update on any key strategic items as part of monthly Board package summary



Allow time at Board meetings for strategic discussion and questions from Board



Maintain a “Strategic Calendar” for guest speakers, management presentations and topical discussion.



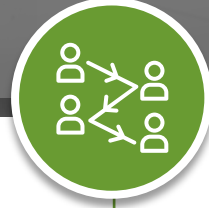
Build a habit of overseeing that management is occurring vs. contributing management recommendations.



Keep a transparent discussion cadence with the CEO. Don't let sub-groups grow outside of the Board



Revisit the external environment and internal assessment annually and if any material change occurs.



BOARD DASHBOARDS ALLOW OVERSIGHT WITH DIGGING INTO MANAGEMENT

WORK HARD TO UNDERSTAND HOW YOUR BUSINESS MODEL IMPACTS THE NUMBERS



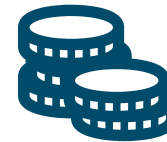
Current measure



Measure last
quarter



Measure same
quarter last year



Goal/budget/policy
for this measure



Peer/benchmark
measure

THE BOARD CONTRIBUTES AND THE CEO LEADS

- The right approach is an iterative process in which the CEO is in charge, because it is the CEO's job to formulate strategy, but the CEO wisely gets the maximum amount of advice and useful insights from the board.
- A CEO clearly in charge with a board helping to provide sage advice is the perfect combination for boards and strategy.


Roger Martin – Rotman School of Business

BEST PRACTICES FOR ONGOING STRATEGIC DIALOGUE

Necessary
Relevant
Timely



Reports and Information
from **Management**



Questions and Information
Requests from the **Board**

Appropriate
Substantive

COSO RISK MANAGEMENT DEFINITION

A process, effected by an entity's Board of Directors, management and other personnel, that is applied in strategy setting and across the enterprise.

Its goal is to provide *reasonable assurance regarding the achievement of organizational objectives* by identifying events that may affect the entity and managing risk to be within the entity's risk appetite.



NCUA ENTERPRISE RISKS

- Credit Risk – Risk of default on expected repayments of loans or investments.
- Interest Rate Risk – Risk that changes in market rates will negatively impact the income statement and balance sheet.
- Liquidity Risk – Risk of an inability to fund obligations as they come due.
- Transaction Risk – Risk of fraud or operational problems in transaction processing that results in an inability to deliver products, remain competitive, and manage information.
- Compliance Risk – Risk of violations and non-compliance with applicable laws and regulations resulting in fines, penalties, payment, or damages.
- Strategic Risk – Risk of adverse business decisions through management's actions or inactions.
- Reputation Risk – Risk of negative public opinion or perception leading to a loss of confidence and/or severance of relationships.

THE SIMPLE WAY TO TALK ERM AT THE BOARD LEVEL

- Always view your exposure to a risk in terms of what percentage of your members' capital could be at risk. For example, a loan portfolio that is 10% of total assets can be 100% of total capital.
- Try to frame risk discussions in terms of:
 - A. Likelihood of loss
 - B. Impact of loss



BOARD REFLECTION: WHAT'S MOST IMPORTANT?

Board Sharing

