

The board of directors' changing role in company strategy

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Boards of directors are responsible for company strategy. Yet, how directors engage in strategy has long remained a black box in corporate governance research. Over the past years, we therefore conducted interviews with directors and executives at leading international firms, among them major Swiss health care companies, asking them about their practices of engaging in strategy. The results show that directors actively monitor and engage with management on a host of strategic issues and that a board culture of openness and debate is particularly important for such directors' involvement.

Boards of directors are responsible for monitoring executive management's strategic initiatives on behalf of shareholders and they provide critical expertise when discussing strategy in the boardroom. For a long time, directors have not been in the public spotlight as much as executives – who are monitored by them. However, after a series of governance scandals and tightened legislation in many countries, directors' involvement is coming under scrutiny, and accountability for strategic outcomes is increasing. Our international research project* therefore aimed at examining directors' engagement in company strategy more closely (for the project outline please see info box below).

Key finding 1: Active board engagement in strategy

The growing tendency towards outsider-dominated boards, even in the Anglo-Saxon corporate governance model, places non-executive directors at the forefront of governance. Such directors need to become acquainted with company-specific activities in order to fulfill their duty of oversight. Our research shows that board directors take an active role in learning about firm initiatives to fulfill their duties. For instance, they meet with employees at different organisational ranks, visit company sites and talk to several customer groups. Getting such multifaceted information from different stakeholders inside and outside the company becomes particularly important for directors' oversight of complex strategic matters such as corporate growth initiatives. In addition to monitoring management, many boards actively engage with management on a host of strategic issues ranging from acquisitions and spin-offs to innovation and talent development.

Key finding 2: The critical role of board culture and director networks

We also found that directors regularly contribute to strategy by suggesting new growth opportunities, reviewing capital allocation, raising awareness for industry trends, addressing competitive challenges or discussing major corporate risks. A board culture of openness and debate facilitates continuous director engagement in such critical firm issues. Moreover, non-executive directors use insights gained through their professional networks and from their other board engagements when discussing important matters such as the firm's strategic direction, leadership development, and CEO succession planning.

Key finding 3: Specific findings for Swiss companies

In Switzerland, the board's active role is particularly facilitated by companies' governance model. Swiss directors engage frequently with executive management, and many have developed a working partnership with management, allowing them to jointly leading the firm to success. In several cases, board chairmen even had their offices next to the CEO's and were present at the company headquarters on a weekly basis. This facilitated regular strategic discussions between the chairman and the CEO, enabling the chairman to remain informed about pressing firm issues and to continuously share his expertise with the CEO. Moreover, boards of directors and management were strongly aligned around the company's strategic vision.

In our interviews, directors often raised the importance of addressing strategic issues with different time horizons and varying degrees of risk. On the one hand, boards need to ensure long-term firm survival by addressing

initiatives that secure future growth. On the other hand, they need to pay attention to short-term risks and developments and ensure efficiency in the current business.

However, engaging in multiple strategic issues simultaneously is particularly challenging for directors, since they often face time constraints in boardroom discussions. Moreover, short-term and long-term strategic activities often compete for scarce resources in the organisation. Boards review the resource allocation to strategic opportunities in the existing business and investments into new growth platforms and, therefore, have to balance oftentimes conflicting strategic demands. Yet, this challenge has largely been ignored in corporate governance research.

New research project

In our new research project, we therefore examine how boards manage this challenge. Through a large-scale survey among board directors, distributed by the Center for Corporate Reporting (CCR), we aim at identifying best practices of board involvement in strategies with different time horizons. We thereby intend to reveal the director abilities that are required to effectively influence the firm's strategic direction and performance.

*PROJECT SCOPE

- Research project on "The influential board: How directors engage in company strategy"
- Joint research project of the University of Munich (LMU), University of Geneva (HEC), and the University of Pennsylvania (Wharton School)
- Methodology: interviews with more than 30 directors and executives at 12 firms between 2009 and 2013; sample firms were leading industry players in health care, among them major Swiss companies.
- Follow-up study: interviews with directors and executives at more than 125 large corporations in Australia, Brazil, China, India, the United Kingdom and the United States in a range of industries.

KNOWLEDGE



CALL FOR PARTICIPATION IN BOARD SURVEY

- Research project on "Mastering today and preparing for the future: How boards govern current and future strategic demands"
- Joint research project of the University of Munich (LMU), University of Geneva (HEC), and the University of Pennsylvania (Wharton School)
- We invite the CCR's members to participate in our survey among board directors, which will be distributed in mid-2015
- Findings will be summarised in "The Reporting Times"



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