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Achieving Long-Term Strategic Alignment Between Boards and Management

A new session of Egon Zehnder's Directors Development Program looked at executive strategy in the boardroom and how companies can best prepare themselves as they face a rapidly shifting economic landscape. Egon Zehnder's Sonny Iqbal and Harvard Business Publishing's Ireena Vittal led the discussion, which touched on key strategic considerations as board directors evaluate their roles and responsibilities.

Board Strategy in a World of 'Unknown Unknowns'

The session started with participants broadly speaking on the board's role in a company and its relationship with management. Iqbal noted the importance for directors to take both a short-term and long-term view of company prospects when it comes to decision-making: "What are the facts that are emerging that are going to be meaningful in the future for the next three to five years that we didn't know before? And what are the possible encumbrances that could come our way?"

This long-term view is especially vital when it comes to the "unknown unknowns" that inevitably arise to upset a company's strategy, particularly with so much economic and social upheavals across the globe. "Unknown unknowns" are the issues or disruptions that leaders aren't prepared for—and more specifically, those that they don't even know they aren't prepared for.

Vittal added: "Even if I look at the 10 years that I've been on boards, the kind of areas that you explore today on boards are so different," she said, mentioning areas such as cybersecurity, fintech, diversity, and ESG. "A whole bunch of things that normal folks like me had no clue about 10 years ago."

She recommends that boards bring in external experts on a regular basis to teach directors about such topics and up their knowledge—a 30-minute lesson at the end of every second session, for example. "Things like this are the only way I have seen boards bring everybody to the same speed," she said. "But there are two discussions: One is how do you bring everybody up to a common vocabulary, and then the second is in which area do you need a deep domain expert that can guide the CEO and the chair?"

Establishing a common vocabulary and gathering deep expertise lead directly into board strategy when looking into the future of the business. But it's important to define "strategy" as not just the company's goal, but the journey to get to that goal.

"One of my mentors told me that the mistake you make in strategy is to make it about the endpoint," Vittal said. "Strategy is actually about the path to getting to the end. Because anybody can describe the endpoint. But the heart of strategy is defining the path, and whether you take a high-risk path or low-risk path often depends on the resources you have and the risk you can take."

The Importance of Alignment Between the Board and Management

When setting a path toward a long-term company goal, it's crucial that boards coordinate purposes among the directors themselves as well as corporate management. Iqbal summed this up in a single word: "alignment." Internally within a board, this can be done by appointing clear leaders overall and for specific areas of focus. "Invariably there is a chair who is at the helm of helping establish this alignment, or there could also be individuals who in some organizations are termed 'lead independent directors' who rise to the occasion of being the knowledge-holder or the champion on certain initiatives," he explained.

Thinking externally in terms of directors' alignment with management, it's first important to understand the boundaries of responsibility between the two. Vittal said that she considers risk and compliance, succession planning, and strategy as the three most important duties that a board assumes. Management, meanwhile, should be focused on day-to-day operations first. Alignment happens when the board can support the CEO and other top management to take a pause from those day-to-day responsibilities and think long-term.

"What will make you continue to remain relevant to customers and will make you continue to remain compliant with regulators in three years, five years, 10 years?" she said. "You're providing a place for management to stop talking about just a quarter or a month, and to look at it from the lens of customers, intermediaries, competition, regulators, and asking what is still relevant, what should we keep, what should we change, what should we add, and more importantly, what's the path to getting there? That discussion is very difficult for even the most brilliant of CEOs to do without the day-to-day operations taking over, and that's where I think a board plays a crucial role in stepping back, looking at context, taking a different horizon and forcing a debate where management then decides what they want to do."

Iqbal echoed this statement: "Boards and management should talk about shared purpose. What are the goals, both when things are not going well and when things are going well?"

When boards and management lose that shared purpose—or directors lose shared purpose between themselves—strategies become misaligned. There can be several culprits for this problem, and establishing which one it is can guide the way to solutions. For example, directors and management might not be looking at the same set of facts or data or may be interpreting them differently, leading to misaligned strategies. Certain individuals within or outside the board may value one metric over another, leading to clashes over where to pursue growth or change direction. Finally, people may be looking at completely different time horizons: The objectives and milestones for a five-year plan will inevitably look very different from those of a 20-year plan.

Misalignment over these issues can lead directors and management into emotional debates rather than logical ones, Vittal cautioned. It's important to pinpoint and remedy the cause of misalignment so company leadership can work together rather than at odds with each other.

The Changing Nature of Boards

The nature of boards and directors' responsibilities has changed measurably from decades past. What was once a rather "laissez-faire" operation, in the words of Vittal, has shifted into a crucial component of a company's ability to function in the modern world. And with that modern world still rapidly transforming, board directors' duties aren't likely to relax anytime soon.

"I think the role of a board to make sure that the companies do not collapse has become even more critical, just given the volatility and change in the environment," Vittal said.

The composition of the board is also much different than in the past. "I think a lot of it is becoming about competency and about expertise that you can bring, rather than just being an old boys' club where you are there because you knew each other," she continued. This can actually lead to companies taking more substantial risks, as the focus on competency and expertise for directors can spur those companies to pursue more ambitious strategies than they did in the old "laissez-faire" days. And with higher risks comes higher potential rewards.

"I don't know of a single company that is not revisiting its business model," Vittal said. "This is an exciting time."

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