How Boards Can Own the Company Strategy Without Acting on It

“What is strategy?” asked Ashish Nanda to board members attending Egon Zehnder’s Directors Development Program. Nanda, who is a senior lecturer at Harvard Business School and the former director of the Indian Institute of Management, Ahmedabad, noted that when it comes to company boards and how they operate alongside management, the answer is not always obvious. Defining and executing a strategy requires board directors to think carefully about tough decisions and the long-term direction they’re pursuing and at the same time evaluate where they can have the most impact while not impeding on management’s responsibilities.

Defining Strategy and Your Role in It

Early in its history, Stanford University announced its intention to become “the Harvard of the West.” Similarly bold statements throughout corporate history have included Nike’s goal to “crush Adidas” and Microsoft’s aim to put a computer in every home. So, Nanda asked participants at the DDP session, were these declarations “strategy”?

The answer is no. “These are statements of vision or goals,” said Nanda. “It’s important to have a vision, but this is not a strategy. Because strategy doesn’t just tell you the goal, it also tells you how to get there.”

Nanda then brought up more specific types of declarations: cutting overhead, selling direct to consumers, or partnering with a major market player, for instance. Are these “strategies”?

Again, the answer is no. “Where the earlier one was too macro to be a strategy, this is too micro to be a strategy,” said Nanda. “This is the execution plan for strategy.”

So how does Nanda define “strategy,” and how does it relate to board directors’ responsibilities?

“Strategy is something that bridges the gap between vision and tactics,” he said. “Vision is something the board develops in consultation and discussion with other stakeholders and then shares with management. Tactics are something management resorts to. Strategy is something that the board owns and is presented by the management and then management executes on it. And you hold management responsible.”

More broadly, Nanda continued, strategy helps a company clearly define where it is headed, what it values, and what sets it apart from competitors. “Having a clear strategy helps your customers understand what you stand for,” he said. “It helps your executives understand where you are headed. It helps your shareholders understand what you are doing. It helps your recruits understand where you’re headed.”

It’s also important that strategy balances internal choices with the external environment and sustains that over the long run. This can help companies through tough choices and business climates, keeping executives and staff on the same page while avoiding the inevitable challenges that may arise.

Decision Rights Versus Control Rights

An important part of developing a company’s overall strategy involves the distinction between “decision rights” and “control rights,” according to Nanda.

“Decision rights are basically rights to run the organization,” said Nanda. “Control rights are to make sure that people who are running the organization are doing it in an effective manner. And good governance generally requires that in an organization, decision rights and control rights are separate.”

Broadly speaking, management owns the decision rights and board directors own the control rights. In executing that ownership of control rights, directors must evaluate how well management is handling their decision rights in service of the company’s strategy. But issues can arise in this dynamic if directors get too bogged down in the intricate details that are normally part of management’s portfolio. The reverse can also be problematic: Directors who keep themselves so far from the action that they aren’t fully aware of what’s happening on the ground level.

“The challenge for a board member is, if I’m going to be effective, I don’t want to do very nitty-gritty small simple things,” said Nanda. “On the other hand, I don’t want to not be informed. I want to know where we are heading. So given that challenge, what you really have to understand is what the vision of the organization is and if are they executing on strategy properly.”

Nanda emphasized that boards should own a firm’s strategy. But acting on that strategy is management’s responsibility. “For all this to hold, one of the basic requirements is that as a board member, you should have a very firm grasp on the strategy of your organization,” he said. “It becomes a very interesting balance between ‘How do I ask the right questions?’ and ‘How do I hold management responsible for what is most critical without actually becoming management?’”

One way to navigate this challenge is through sub-committees that directly focus on certain areas, such as capital investment, nominations, or e-commerce. “So, what you do is you take the major initiatives or the major commitments that your institution has, and within your board you identify a subgroup of people who will do the deep dive in that area. And they will present to the rest of the board a kind of summary perspective of where they are,” said Nanda.

What to Do When Strategic Plans Go Awry

Directors can craft the strongest strategy possible, but that won’t stop outside events from upsetting their plans. Nanda explained although we live in “a culture of five-year plans, the world is not like that.”

For an example, look no further than the COVID-19 pandemic, which rapidly altered the global economic landscape and put plenty of firms permanently out of business in a matter of weeks. But even during such an unprecedented event, companies that had developed adaptable, responsive strategies were able to survive—even thrive. Nanda spoke about the restaurant industry, where the in-person dining side of those businesses was clearly devastated by the pandemic. But new opportunities arose for the delivery side, allowing businesses that could transition resources there in both the short and long term to find their footing and expand.

This points to two important facets of a strong strategy. The first is understanding that even a "long-term" strategy needs steps in the short and medium terms to guide it and measure progress. The second is instituting regular "strategic reviews" (potentially on an annual basis) to understand what's changed over the preceding time period and how the strategy can be adapted to those and future changes. In the case of a sudden, dramatic change (like the pandemic), having this process in place also allows board directors to call for an immediate strategic review so that plans can be changed right away.

As part of this discussion, Nanda also discussed a tool called "scenario-planning," first used by large institutions during the 1970s oil crisis. "What you tell management is: Come up with at least three different scenarios," he said. "Optimistic, likely, and pessimistic. And tell us in each scenario, what will we be doing, what is common across these scenarios and what is different."

No one can predict the future, but by crafting an adaptable, resilient strategy, firms can respond to volatility rather than being stuck in an unwinnable economic situation.

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