

# Boards & Strategy

Prof. Bruno Cassiman

KU Leuven & IESE Business School

(with Prof. Juan Alcácer, HBS)

“If you ask a hundred or so directors whom I know well what they conceive their function to be [as director], 99½ percent will say, ‘To advise the management...’”

- Mace (1971, pp. 179) quoted in Coles et al. (2023)

“A great deal of strategy work is trying to figure out “what is going on”. Not just deciding what to do, but the more fundamental problem of comprehending the situation.”

– Rumelt Good Strategy/Bad Strategy.

Number of days per year directors devote to board work<sup>1</sup>

■ 2015, n = 1,074

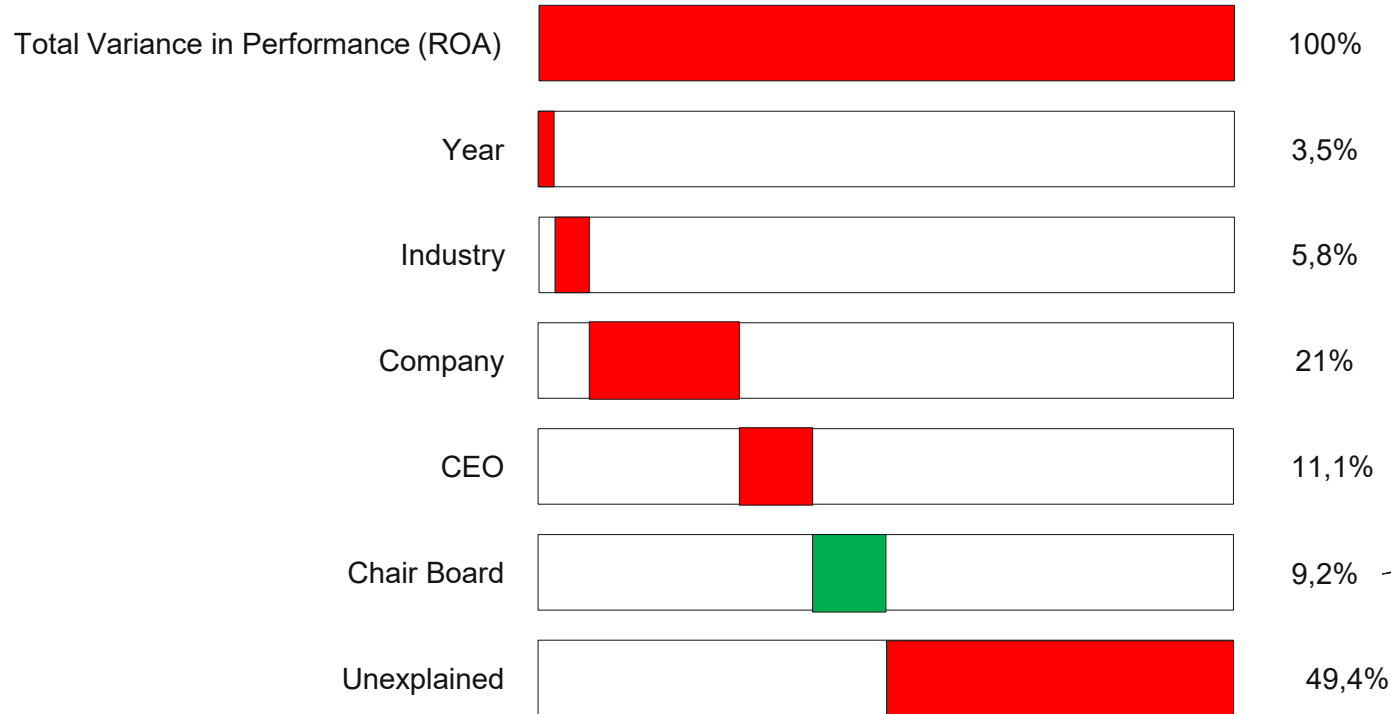
■ 2013, n = 772



Kehoe, Lund and Spielmann, 2016  
“Toward a Value-creating Board.”

# Do Boards Matter?

Variance Decomposition Board Chair Effect on ROA (U.S.) – Withers and Fitza (2017)



7,88% – 29,03%  
(Krause et al. (2019))

# Why do Boards Matter? Theory

- Agency Theory
  - Board represents Principal and CEO is Agent (Jensen and Meckling, 1976)
  - Role of the Board is Monitor the CEO
    - Chair duality (CEO = Chair of the Board) (see review Banerjee et al., 2020)
      - Enhance monitoring capacity, growth strategies: long term R&D investments, diversification,... but in times of crisis (Dowell, Shackell and Stuart, 2011)
    - Monitoring versus Collaborative Orientation Board Chair (Krause, 2017)
    - Evidence on Monitoring role mixed (Boivie et al., 2016)
- Resource Dependency Theory (Pfeffer and Salacik, 1978)
  - Board provides access to Resources
  - Advice, Council and Legitimacy (Reputation)
  - But information sharing and monitoring CEO (Adams and Ferreira, 2007; Malenko, 2022)
- Information Processing Theory (Forbes and Milliken, 1999)
  - Judgement (King and Kay, 2020; Eisenhardt et al., 1997)
  - Reducing Biases in Decision Making (Krause et al., 2024)

# Boards & Strategic Decisions

Strategy and Strategic Decisions. Van den Steen (2017, 2018)

- A Strategy = Smallest set of Choices to optimally guide (or force) other choices
- A Strategic Decision =
  - High stand-alone importance and confidence
  - Option to commit
  - More prior uncertainty
  - **Number and strength of inbound interactions** – alignment
- Strategic Decisions are **interdependent** with other decisions (Leiblein et al., 2018)
  - Contemporaneously, same focal actor
    - Fit and Trade-offs (Porter, 1996)
  - Contemporaneously, different actors
    - Eco-System (Adner and Kapoor, 2010)
  - Over time
    - Commitment and irreversibilities (Ghemawat, 1991)
    - Asset Accumulation (Diericks and Cool, 1988)

# Boards & Strategic Decisions

## Why are Interdependencies Important?

- Hard to experiment with Strategic Decision
- More complex and harder to copy processes and might be the source of a (more) Sustainable Competitive Advantage (Rivkin, 2000, Porter and Siggelkow, 2000).

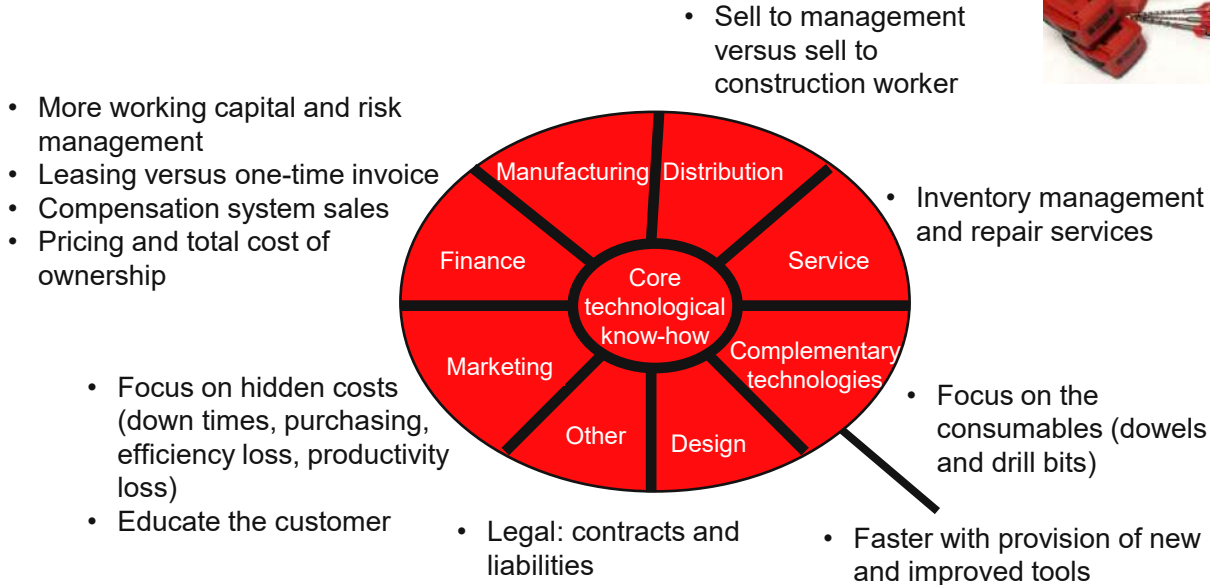
## Why should Boards care?

- Understand the critical interdependencies
  - within the organization – internal strategic interdependencies
  - across the ecosystem and competitive landscape – external strategic interdependencies
  - over time – dynamic strategic interdependencies
- Interdependencies are often implicit or poorly defined.
- Uncertainty makes understanding these interdependencies more important (or any changes)
- Scope and Time Horizon management team. Developing and Executing on a Strategy takes Time

# Boards & Strategic Decisions

Types of Complementarity – Internal Strategic Interdependencies

Case: Hilti. From Selling Power Tools to Fleet Management Service



Teece (1986)



# Boards & Strategic Decisions

Types of Complementarity – External Strategic Interdependencies

Case: Barco. Digital Cinema Projectors

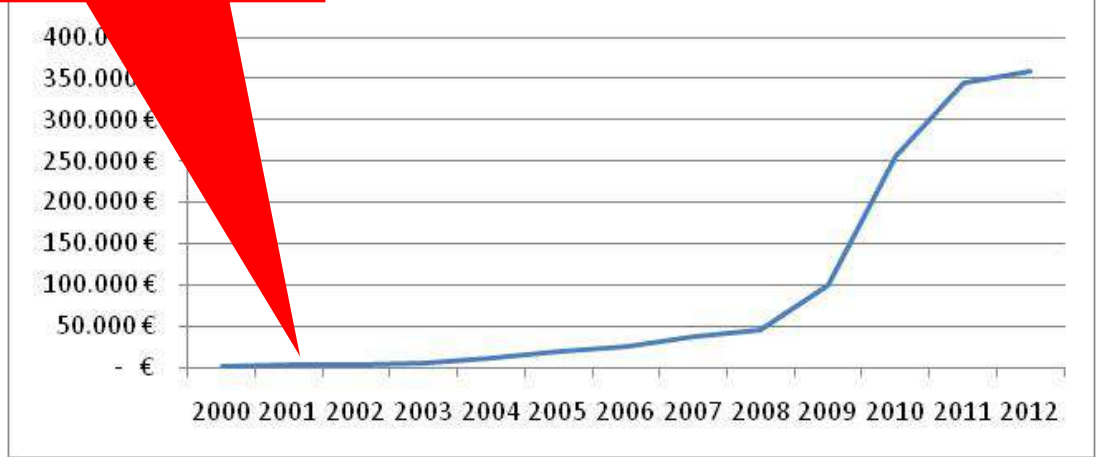


**“...there are signs indicating that the long awaited breakthrough is perhaps just around the corner...”**

**1989: License DLP Technology from TI**



**Digital Cinema Revenue (1000 €)**

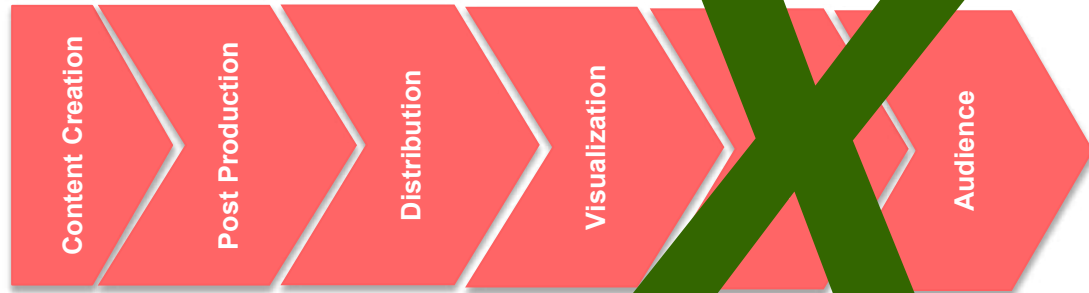


Source: Own elaboration, Barco Annual Reports, various years.

# Boards & Strategic Decisions

Types of Complementarity – External Strategic Interdependencies

Case: Barco. Digital Cinema Projectors



- *Special effects*
- *Higher quality image*
- *Versioning (subtitles, dubbing,...)*
- *3D movies*

- *Save print and shipping cost (€7.5M/movie, €1.5B yearly)*
- *Piracy protection, better encryption*
- *Worldwide releases*

- *DLP wins: Barco, Christie and NEC can play*

- *Optimize Advertising*
- *Fewer staff to operate*
- *Alternative Revenue sources (World cup, Opera...)*

**BUT**

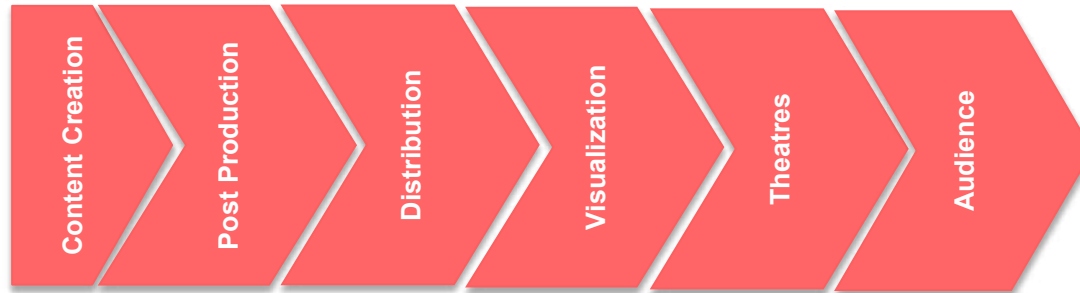
- *€60K / Screen & no money, shorter life span equipment*

- *Enhanced viewer experience: crisper, brighter images*

# Boards & Strategic Decisions

Types of Complementarity – External Strategic Interdependencies

Case: Barco. Digital Cinema Projectors



## Regional Solutions

- US: Virtual Print Fee & Digital Theatre Integrator
- Europe: Leasing Model Projectors
- China: JV China Film Group

# Boards & Strategic Decisions

Types of Complementarity – Dynamic Strategic Interdependencies.

“Jeff [Bezos, Amazon] has also publicly described his decision-making process, notably in categorizing decisions into one-way and two-way doors. **You can only go through a one-way door in one direction, you cannot undo your decision and come back...** Highly useful parts of every board meeting are private sessions of the board with Jeff. We would raise particular questions on our minds, and he would distribute a list of five important issues that were on his mind for discussion. Many of these issues were long-term or technology.”

– Tom Alberg (long time board member Amazon)

# Companies with higher levels of capital reallocation experienced higher average shareholder returns.

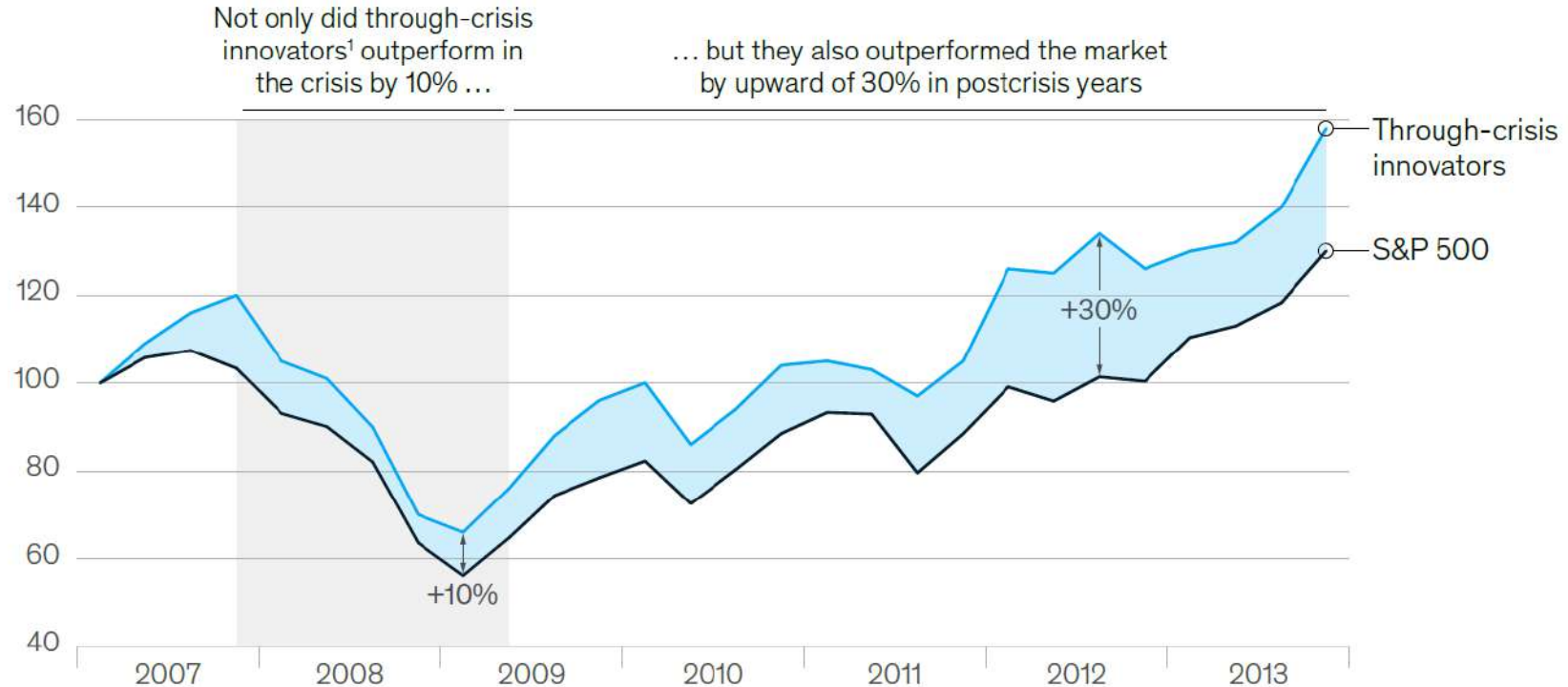
**Companies' degree of capital reallocation**  
(n = 1,616 companies)

**Total returns to shareholders,**  
compound annual growth rate,  
1990–2005, %



# History suggests that companies that invest in innovation through a crisis outperform peers during the recovery.

Normalized market capitalization, index (Q1 2007 = 100)



# Boards & Strategic Decisions

Types of Complementarity – Dynamic Strategic Interdependencies. Asset Accumulation.

## Resource Allocation Principles

- **Stocks and Flows** (Pennetier, Girotra and Mihm, 2019; Flammer, Ioannu, 2021)
- **Critical Mass and Discontinuities**
- **Time Compression Diseconomies** (Pacheco-de-Almeida, Henderson and Cool, 2008)
- **Adjustment Costs** (Doms and Dunne, 1997; Bloom, 2007; Bloom, Van Reenen, Bond, 2007; Baruffaldi and Gaessler, 2019)
  
- ⇒ different dynamics of resource allocation – (in)tangibles and capabilities

# Conclusion: Should Boards discuss Strategy?

- Role of the Board in Strategy is to understand the breadth and depth of Strategic Decisions and challenge the Management Team with focus on
  - Interdependencies across the Organization, Eco-System and Time
- Developing and Executing on Strategy requires time. The Board (and strategists) should incorporate this time dimension in its Strategic Thinking.
- Strategy Tools unfortunately not yet sufficiently developed to uncover interdependencies and how changes in the environment might affect these interdependencies.



# Thank you



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