

## **BOARDS ENGAGEMENT IN STRATEGY EXECUTION : AN EMERGING TREND IN BUSINESS STRATEGY RESEARCH**

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**ABSTRACT :** *The Board assists in creating successful conditions to ensure the alignment of the strategic plan with the organization's objectives and determines the management's realistic expectations, risks and opportunities throughout the execution of the strategic plan. The purpose of this study is to evaluate the role of Board management in the strategy execution of the organization. The paper examines the significance of the Board to the development, formulation, and monitoring of the decision-making processes within an organization. Theoretical and empirical data within the literature on relevant aspects of organizational management is described in detail. The research methodology is focused on the qualitative design approach that assisted in exploring, analyzing and evaluating the data obtained with respect to the research topic. The paper analyses numerous peer-reviewed journal articles ranging from past to recent period of time to examine the evolving literature on Board and strategy execution. Published articles from ScienceDirect, Emerald, ProQuest, Swetsnet, EbscoHost and Business Source Premier Databases are explored. The results and findings of the study reveal increased focus of the organizations' Boards on strategy execution that indicates progress towards a continuous increase in Board involvement. A conflicting situation arises with the fundamentals of agency theory that considers decision-making control as the basic and sole responsibility of the Board of Directors of an organization. The paper also presents certain recommendations that revolve around the formation of a supportive and constructive framework for the organization with regard to Board and management structure and steps towards improving organizational performance.*

**Key Words:** Succession Planning; Strategy Execution; Corporate Governance; Internationalization; Structure Of Ownership; Organizational Strategies; Effective Leadership; Composition Dynamics, Board Management

### **INTRODUCTION**

The involvement of Board in organizational strategic management holds great import towards successful company performance. Considering its role in the decision-making process of the organization, its existence is of greater significance compared to the CEO of the organization. The Board assists in generating successful outcomes based on the ensured alignment of the strategic plan with the organization's objectives, and determines the management's realistic expectations, risks and opportunities throughout the execution of the strategic plan.

Superintending over strategy execution is corporate governance, a subject that has been enticing multiple scholars in various academic fields. The reason for this interest is the recurrence of corporate scandals and frauds that are being highlighted by the media day by day [2]. Corporate governance is set as a guard over the decision-making approach of the Board pertaining to the objectives of the organization. The systems of corporate governance have undergone major changes over the last few decades. With the increase in globalization and liberation of markets, there has been a rise in the frequency of perfidious corporate conduct, calling for greater scrutiny into the function of Board of Directors and closer monitoring as regards transparency of their role to ensure their consequent accountability [38]. Demand for the increase in Board's engagement has heaved the question of the appropriate responsibility of the Board and the extent of their strategic role [37].

The objective of the research is based on the fact that Board members' duties, which are essentially to yield successful management, are critical in nature. The appointment of Board members brings with it the associated risks of enlisting external talent. The ability of the Board to carry out its responsibilities is contingent on the quality of its composition and effective leadership skills [31]. A major percentage of the Board of Directors believes in the significance of succession planning and considers leadership success as a top priority. Direction for a company is set by its strategy that affects the entire organization's functions. Formulating a right strategy develops a starting point for the organization's success. Strategy formulation is the responsibility of the management that requires effective resourcing, communication, and adaptation [23]. The role of the management is to communicate effectively the strategic plan of the organization to the employees, investors and its business partners. The strategy must be backed with sufficient investment by the Board that also needs to ensure the adaptability of the strategy to the market circumstances [38].

The Board has a vital role in overseeing the development and implementation of strategy by the management. This becomes a challenge for the Board as it requires thorough understanding of the company, the industry, the emerging trends and risks of the market and the assumptions of the management [33]. The of Board of Directors must have adequate and correct information to help them contribute to the strategic plan proposed by the management. The involvement of the Board will ultimately help the company in

adopting the plan suitably and will likely enhance their shareholder value [22].

The engagement of Board in strategy execution is the most preferred research topic in corporate governance and strategic management. The discussion related to strategic involvement of the board has been heightened and aggravated by multiple background factors, alternate perspectives of theories and unconvincing empirical results [43]. In addition, there has been a lack of agreement regarding the nature of Board's engagement in strategy execution. Brauer & Schimdt [6] offer some possible explanations for the diverse statements made whereby the Board's role in strategy has no clear definition. The involvement of the Board has been narrowly conceptualized in some research studies offering a vague interpretation of strategy and its execution. Brauer & Schimdt [as cited by 6] also state that the research studies addressing this topic have relied on the single theoretical perspective, particularly the agency theory concept, and have not been able to cover fully this multidimensional, diverse and complex organizational phenomenon.

The limited access to the strategic decision-making processes has made it difficult for scholars to validate research findings towards producing deeper insights into the research topic. Many research studies have attributed the strategic involvement of Board from an observation of the consequences and previous circumstances of a case scenario rather than observing the real Board behavior [44]. This has generated a great need to explore ways to investigate the involvement of Board in the strategy execution of an organization. It also leaves space for declaring the Boards' role as of less or no significance to the organizational objectives [12].

This paper presents an analysis of the engagement of Board in the strategy execution of an organization. It also includes a detailed literature review of the theoretical concepts of Board's involvement in strategy execution as well as modern considerations towards this practice in today's volatile environment. The research paper is formulated to devise a methodology to determine the impact of the Board's strategic involvement with the help of secondary data. The qualitative research helps in getting a deeper insight into the research topic by providing efficient data from previous research studies for enhancing knowledge of the subject matter. The study reviews the empirical data, theoretical literature and content analysis of various articles with an aim to gain a broader view of the topic by analyzing point of view of various research scholars and presents recommendations in the light of detailed analysis.

## **LITERATURE REVIEW**

In recent years, worldwide research has projected that the Board of Directors is devoting more time to strategy formulation that is being seen as an important role for Board members [29]. This trend has been driven by a growing concern among practitioners and management regarding the inherent assumption that Board engagement leads to effective organizational management, while the focus of Board has actually been in compliance to corporate governance at the

expense of strategy development and execution. The demand is for relative reforms in the corporate governance system to allow Board to play a more strategic role. Even though there is great support for strategic involvement, the Boards are still struggling to place this aim into practice.

In 1970's, it was observed that the boards of directors in USA were passive in the stir of corporate failures and there was a need for more strategic involvement to restore public confidence in the corporation [8]. Recently, the reforms of corporate governance and investor's influence have reduced the gap between the Board and strategic decision-making [4]. The Board of Directors is now stimulated to even challenge the CEOs and have become more and more involved in the strategy execution decisions that were formerly controlled by the CEO of the organization [15]. In addition, there has also been an emergence of the alternative and conflicting theoretical viewpoints that have led to the debate on this subject matter. Various theories have been under discussion on this topic, particularly the agency theory, resource dependency theory, etc. that have highlighted the responsibilities of the Board towards the execution of organizational strategy [52]. Numerous studies suggest that Board members are now becoming more and more aware of their strategic role [30]; whereas some scholarly researches have found disparities in the empirical researches mentioning the relationship between Board and strategy [19].

The theoretical viewpoint regarding Board's involvement in strategy has been aggravated by the conflict and the consensus theories [52]. In the conflict perspective, managers are conceptualized as the agents of self-interest who need to be carefully monitored. According to the agency theory, Board affects strategic choices when it refrains managers from taking actions with respect to business opportunity, at the expense of the shareholders [40].

With respect to these viewpoints, Boards are not expected to initiate or to implement the organizational strategies but to contribute to ratification and continuous monitoring of the strategic decisions [26]. This seems to be in conflict with the premise of Board involvement in strategy. These theories indicate clear power separation between Board and management and that it is the prerogative of the Board of Directors to prevent managers from going overboard. As such, however, this does tend to make the Board of Directors responsible for taking the strategic decisions that would otherwise endanger the required significant distance between the Board of Directors and the managers of the organization [45].

According to the consensus perspective, managers are conceptualized as the inherently motivated agents that act in the best interest of the firm [20]. Moreover, various theories define Board members as the organizational bodies that have the power to support the empowered managers of the organization in the formulation and implementation of an organizational strategy [43]. The resource dependency theory proposes that the Board members are in an excellent and a favorable position to make contributions to the strategic decision making of the organization as they can grant access to the resources upon which the organization depends [17].

The rationale of the agency theory is challenged by the stewardship theory that argues that the collision of Board members and managers' interest is not necessary [49]. According to this perspective, the Board's role is to facilitate and to empower the managers fundamentally and in the strategic realm. The stewardship theory clings to the perspective that the Board does not necessarily own the organization and the managers, if empowered, can act as the reliable stewards of the assets that they tend to control [4]. The theory considers that the most feasible path of achieving the effectiveness of the Board and the performance variation is the inured degree of dependency of Board with increased involvement of the executive directors who are presumed to have the required information about the organization's functions and workings and are therefore in a more suitable position to monitor and control the strategic role [25].

In recognition of the details related to the fact that organizations operate within an environment that is made of various interest groups, keeping the immediate owners aside, the stakeholder theory suggests that there is need to consider the interests of other elements in the corporate decision making. According to the theory, the constituent elements are not affected by the strategic choices of the organization [40]. Maintaining harmony in corporate relationship with the constituent groups has a high strategic importance that tends to add value to the firm as well as become a source of success delivery in the marketplace for the firm [39]. The Board of Directors and the management of the organization have the responsibility of aligning the diverse interest groups by efficient analysis of the perceived disparities of interest and adopting suitable corporate strategies that will help in balancing and improving performance to satisfy all [11].

The Board is considered as the "heart" of corporate governance for the firm that is responsible for determining the outcome of the firm [10]. A corporate board of an organization controls the management from unprincipled behaviors [13]. The Board is regarded as the intermediary arm of the organization having ownership and control that manages and administers the relationships between the managers and the stockholders [48]. According to literature, the basic task of Board is to ensure that management, in the absence of owners, discharges their duties to the valued shareholders of the firm faithfully and bridges the gap between the two extremes [51].

Apart from theoretical debates, empirical findings have also presented mixed results in respect of Board's involvement in strategy execution. Scholars have emphasized the existence of a wealth of uncertain findings in the last few decades [19]. Studies showed that the behavior of Board has been passive and is subjected to the dominance of the CEO and the executives [16]. Moreover, additional evidence suggests that when the Board is involved in strategy, it might destroy value [35].

Other scholarly researches, however, show that Boards are becoming more involved and active in organizational strategy [6]. The significant rudiments of strategies affected by the board are scope of the organization [37]; novelty and

entrepreneurship [32]; change in research and development strategies and also globalization.

It is further supported by the study of Collum, et al. (2014) [as cited by 12] that the role of Boards of Directors greatly affects the financial performance of the organization. The study is based on an analysis of the hospital industry in USA that reveals that the impact of the Board's management in the profitable aspects of total margin, return on assets, and operating margin was in affirmation of the agency theory; the results demonstrated the personal interests of the management rather than the organizational interests to be focused [1].

Furthermore, the study conducted by Siegfried, H. [as cited by 47] negates the studied concepts of Ireland, et al. [as cited by 35] in the way that Board management does not destroy the resources or the market value of the organization, but it enhances the resource development by contributing sensibly in the phase of execution. Besides other resources of the organization, the talents, skills and experiences of Board members are of significant worth in this regard.

The research conducted by Jaskyte, [as cited by 36] also does not favor the concepts of Dalton, et al. [as cited by 16] and challenges the role of Board demonstrated as passive in the progress of organization. It is noteworthy here that Boards hold equal prominence in the decision making process of the organization with respect to that of CEOs. Today, in this era of competitive environment, the development of an organization is seemingly contingent on the involvement of its Board members [5]. The ambiguity of their role needs to be eradicated; the current research seeks to highlight the effectiveness of Boards and their role in favor of both the profit and non-profit organizational innovation.

The roles and responsibilities of the non-profit and community Boards are determined by their involvement in the strategic activities. An important aspect of strategic decision-making is the operational details that need to be presented in such a way as to help in enhancing the strategic function of the organization. The authors have explored three possible areas that influence strategy ; institutional influences (context), inputs (skills and experience) and processes (organization and functioning).

The strategic role played by the Board within the corporate surroundings is defined by scholarly interpretations as the fusion of strategic functions with strategy development. The identified aspects of strategic activity are strategic planning, strategic decision-making, strategic thinking and strategic execution [42]. The result of a recent study indicates that the Board's strategic function involves critical decision making specifically in relation to strategic changes to make the organization adaptive to the environmental changes. The involvement of the Board in the entire organization strategy cycle is the vital part of the strategic capability of the Board. According to McNulty and Pettigrew [as cited by 41]; "To understand strategy, we need to know more about the strategists. To better understand boards, we need to know more about the behavior of those who sit on boards".

Supporting the involvement of Board in the decision making process of the organization, the recent researches of

Chambers, [as cited by 9]; Carneiro, [as cited by 7]; and Erbschloe, [as cited by 21] negate the research outcomes of Collum, *et al.* [as cited by 12]. While the Board is responsible for an objective and logical approach to decision making according to organizational expectations, management's limitations and relative issues must be taken into consideration in order to avoid any undue blame or accusation. The organization must ensure transparency in its processes and management system that demands equal and active cooperation of the Board of the organization [28].

## **METHODOLOGY**

The research is conducted to examine the impact of Board's engagement in strategy execution. The methodology adopted in this research is based on qualitative research design, which allows the researcher to explore, analyze and evaluate the data obtained with respect to the research topic. This paper focuses on more than 14 peer-reviewed studies in published journals from 1990 to 2015 to examine the evolving literature on Board and strategy execution. The databases used for the search of published articles include ScienceDirect, Emerald, ProQuest, Swetsnet, EbscoHost and Business Source Premier. The use of these databases helped to identify the articles referring to the debate on Board and its contribution in strategy execution.

The paper has thoroughly reviewed various scholarly articles that are relevant to the subject matter. Papers referring to board games, a letter from the editor, book reviews, and across-the-board term papers were excluded from the study. The methodology is based on content analysis strategy by which the various selected articles have been analyzed independently on the basis of article type, main topic of research, setting of research, sources of data collection and definition of the concept. This framework for analysis rests on the following precepts ;

### **Main Research Topic**

Based upon previous studies [34-48] and the most recent studies [7-9-21]; papers were retrieved by subject search, starting from main subject to specific topics related to environmental characteristics, structure of ownership, composition of Board and mechanism of incentives to determine different levels of Board's strategic involvement. The articles selected for the study have addressed the impact of Board characteristics on the strategic results related to innovation, diversification and internationalization of the organization. The papers have explored the participation of Board in the process of strategic decision-making and have discussed the desirable or undesirable involvement of the Board in strategy execution. The articles are germane to the main subject of research in providing evidence for the perceived behavior of the Board of Directors in this respect and have explored the level of their strategic involvement together with the consideration of risk management within the organization.

### **Definition of the Topic Concept**

The concept of the topic cannot be defined and interpreted from the literature in a single perspective [41]. The paper has defined the concept of the topic via two categories or

approaches. The first category includes the assessment of studies referring to the subject of the impact of Board's engagement on the common strategies of the organization [52]. In the second category, the papers are investigated to discover the contribution of a Board in the results of specific strategies executed. The papers included in the study aim to detect and distinguish the effects of Board composition on the outcome of strategy execution. The research papers have helped in exploring the effective participation of Board in various aspects of decision-making in the organization. The papers selected for the study are recently published articles that have aided in enhancing the concept of the subject matter.

### **Use of Theories**

The paper has overtly referred to the theories regarding Board involvement in order to study the theoretical development of the subject matter. The paper has relied on the literature of multiple theories such as agency theory, stakeholder's theory, resource dependency theory and stewardship. The research explored the concepts of theories through the available collection of detailed literature and has examined their application on Board and strategy.

### **Research Setting**

Comparative corporate governance theories emphasize the institutional contexts that exist between the various countries that create an impact on the structures and practices of corporate governance. The paper focuses mainly on the theoretical and empirical settings of the constituents of the study. It also examines the empirical setting describing the conduct of research on Board and strategy. The articles in this study have been categorized by geographical setting; those that utilize data limited to the United States and the others that utilize data from multiple countries including the United States.

## **RESULTS AND FINDINGS**

Evidence from the last few decades indicates there has been an increase in interest in studying the subject of the relationship of the Board of Directors of organizations with the organization's strategy and strategy execution. Many research scholars and practitioners have discussed the desirable and undesirable contribution made by the Board towards the organization and strategy. The availability of massive literature on the subject proves to be evidence that it has been a major area of interest for the researchers who have contributed towards providing pertinent theoretical findings. The paper has reviewed the theoretical and the empirical findings of the research scholars and practitioners and has provided insight into their research work contributions. The paper illustrates the way by which the literature regarding the subject has evolved in the past years and emphasizes the aspects of implications of the literature for the scholars and the practitioners by highlighting the important methods found in the studies on Board and the strategy of an organization.

The results of the paper illustrate that the studies on strategy development and the Board of an organization have adopted cognitive and behavioral approaches. Early studies on the subject of Board and strategy execution tend to discuss only

the desirability of the Board to be involved in strategy development and execution. Studies that are more recent have recognized the Board of an organization as the decision-making team that should continuously improve its internal processes and external framework for better strategy development for the organization. This change in aspect has modified the studies on strategic management by considering Board and strategy as a process and context rather than studying it as mere content [21].

The paper highlights the methodical aspects of the study by which insights into Board and strategy relationship are derived. Empirical studies used in the study have referred to the agency theory stating that Board must not initiate decisions but must contribute in the monitoring of the overall organizational strategies. These studies have examined the role of Board in strategy development and execution and have described various strategic outcomes associated with the involvement. A few studies limited to analysis of non-US organizations have presented their findings on the need for essential participation of Board in the organizational strategic decision-making process [19].

The paper presents and highlights the theoretical implications of the study. The results disclose that the participation of Board members in the strategic processes of the organization helps build effective interaction between them and the organization's management and the shareholders [50]. A number of researchers have argued in a study that the role of Board is, and should, not be limited to only ratification and monitoring; rather they must be involved in all the strategic phases of the organization [7-9-21-24-47].

The theoretical concepts of the studies have underlined the conflicting requirements faced by the Board of Directors of an organization in complying with the role of monitoring and role of strategy. The study has obtained the investigative findings of scholars regarding the impact of Board dynamics, structure, working style and the strategic issues faced by the Board [34]. In addition, the studies also predict that the ability and motivation of the Board towards contributing to organizational strategy formulation and execution is affected by the abilities, expertise and network ties of Board members as well as by their capacity to impact the owners of the organization [27].

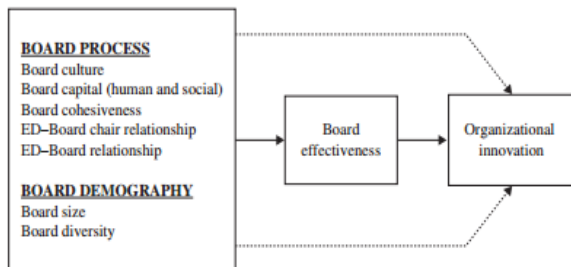


Figure 1: Board Involvement in Organizational Processes

The paper has discovered a few articles holding opposite views on the subject of the research. In one article, the author asserts that previously, the Board of an organization was considered the main player of the strategic decision-making

process although it was not expected to develop and formulate the strategies. In another article, the author emphasizes that the position of the Board has always been perfect in searching for the various alternative organizational strategies. Another author carrying differing opinion has argued that the Board of the organization must take the responsibility to resolve with management in the event that the outcomes might deviate from the expectations in the context of strategy [18]. Results propose that Board must create an internal committee within its team for solving the issues. Other research articles dispute over the active involvement of Board in strategy development and execution. Denrell (2004) [as cited by 18]; incurs that the issue related to strategy are a subject of concern for the Board as the directors do not often get involved in the strategy development of the organization. Hendry & Geoffrey [29] argue that the directors who tend to limit the degree of their involvement, engagement and contribution on the strategic issues of the organization hold Board positions elsewhere.

The data obtained from a few other articles in the literature review has highlighted the significance of understanding the relationship between strategy and the Board's structure and characteristics. The articles have declared the dynamics of the Board as a prominent feature for the implications of strategy in the organization. In addition, the articles have also stressed upon the strategic evaluation of the implication of the Board of Directors, which requires an empirical analysis [3]. Studies published after these researches in the next few decades have related the structure and characteristics of the Board to the strategic results including strategic change & restructuring of corporation, entrepreneurship, internationalization and research & development expenditures [3-26-46-53]. The studies have provided a combination of evidences regarding the essential need for a relationship between Board dynamics and the strategy [14].

The Board of an organization can perform adequately in favor of the organization by having interactive meetings with the CEO and the management.

1 <sup>st</sup> Meeting of the Year	Changing Competitive Environment
2 <sup>nd</sup> Meeting of the Year	Strategic Investments: People, Plant, Equipment
3 <sup>rd</sup> Meeting of the Year	Review Achievements against Strategic Plan
4 <sup>th</sup> Meeting of the Year	Corporate Development... M&A Activities to Support the Strategy
5 <sup>th</sup> Meeting of the Year	Annual Board Retreat & Strategic Planning Workshop
6 <sup>th</sup> Meeting of the Year	Actions Individual Directors Can Take to Support the Strategy

Figure 2: Possible Strategy for Boards Involvement in the Organizational Processes

The empirical findings of the paper bears pragmatic value for the practitioners involved in the field of this research topic. The results of the study focus on the increase in the attention of the organizations' Boards towards strategy execution that brings progress towards a continuous increase in Board

involvement. This is a matter of interest, as it seems to be in conflict with the fundamentals of agency theory considerations whereby decision-making control is the basic and sole responsibility of the Board of Directors of an organization



Figure 3: Expected Responsibilities of Boards of the Organization

Several articles have emphasized on the issue of Board control and have declared the independence of each portfolio on the Board (subject to members’ sanction) as the primary mechanism for ensuring accountability for the organization [14]. The practices of governance such as induction programs associated with Board and annual Board reviews help in raising the directors’ awareness of the ultimate contribution expected from them [34]. The paper finds that the increase in awareness of the Board is associated with greater knowledge and consideration on the part of regulators as regards Board composition, the processes of decision making and the corporate governance framework that needs to be designed in accordance with the specific nature of business. This creates the premise for better compliance and greater contribution of Board in the strategic decision making process for better tackling the risk factors involved in the processesw. The following figure illustrates the risk elements to be considered and catered to in terms of organizational development.

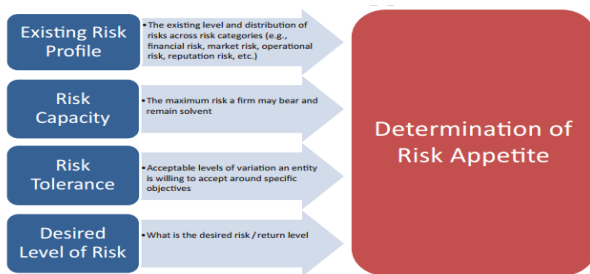


Figure 4: Risk Management

Results also indicates the limits of the empirical context of the study for application by related practitioners. Expectations of the Board’s roles differ between organizations according to organizational structure, nature of business and requirements.

**LIMITATIONS TO THE STUDY**

The research paper has several limitations starting with the limited review of 20 scholarly journals that were included in the research. The potential of research could have been further investigated in other sources such as books, newspaper articles, magazine, dissertation and thesis, etc. The study has relied completely on the use of online articles from published journals. This exploratory approach in research has generated the risk of missing important sources of information regarding the subject matter. Nevertheless, the paper allows future studies to be conducted in this regard to examine the extent of validity of the findings of the paper and to contribute to assessing other published sources for enhancing the knowledge of the subject under consideration.

**CONCLUSION**

The research conducted for analyzing the role of Board management in the organizational performance yields the outcome that the Board of Directors play a significant role in the strategic development of the organization including its strategy formulation, monitoring and its execution and implementation. It is substantiated that the Board acts like the regulatory authority that governs the organization in such a way as to maintain the strategic direction of the organization and in aligning it with the organization’s goals and objectives. The research has determined that discussion on the Board’s contribution towards strategy execution has evolved in the past few years, and that it is becoming more and more involved in the organization’s decision-making processes and strategy implementation. Recent researches have also been focused on evaluating Boards’ involvement in the emerging trends of organizational management. This leads to the fact that the onset of increased participation of the Board in strategy execution shall bring viable results for the organizations in the near future. The literary debates on Board and strategy spur other challenging and promising research agenda.

The method of strategy execution has brought numerous demanding challenges for the Board that now feels the urgent need for delivering quick results. The challenges need to be overcome by effective visualization of strategy, measuring of key elements in the strategy, identifying the strategic projects, regular review of strategy and alignment of strategy with the goals of the organization. The implementation of these strategies requires increased involvement of the Board in the organization’s decision-making process. The organizational management needs to realize the worth of Board involvement in the strategic decision-making process as an active entity, rather than regarding them as a passive one.

**RECOMMENDATIONS**

This paper makes the following recommendations as prerequisites regarding efficient engagement of the Board in the organization’s strategy:

a. *Formation of a dynamic Board with a balanced composition comprising diverse talents, background and experience capable of making an effective and impactful contribution to the organization. This calls for a well designed Board selection criteria.*

b. *Formation of an executive team in top management that would be dedicated to the task of managing the strategies and leading the direction of implementation of the company's strategy.*

c. *Formation of a framework for chartering the decisions and the discussions that would be undertaken by the Board while implementing the strategies.*

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