THE ROLE OF CORPORATE DIRECTOR IN STRATEGIC DECISION-MAKING: A DIALECTICAL APPROACH*

NIKI LUKVIARMAN**
Universitas Andalas

Abstract:
The study conducted by Rindova (1999) has given us a model of the director's contribution to strategic decision-making from the view of cognitive perspective. This model suggests that directors can contribute to strategic decision-making by performing, along with a firm's managers, a set of cognitive tasks: scanning, interpretation and choice. This paper attempts to critically evaluate this model and offers alternative factors and other issues to be considered in relation to directors' involvement in strategy processes.

Introduction

Corporate governance practices constantly evolve to meet changing conditions, and are affected by the relationships among participants in the governance systems (OECD, 1999). One among those participants in corporate governance mechanisms is a corporate director, whose functions have been the focus of corporate governance reforms (Cadbury, 1999). Therefore, it is important to consider their role within a company, particularly their contributions in enhancing a firm's performance in meeting corporate environmental changes.

In general, the role of boards serves as a 'bridge' between the shareholders and the executives in charge of the running of a company. This role is consider important because 'ownership is so broadly dispersed across large number of shareholders, that the typical shareholder cannot exercise real power to oversee managerial performance.

---

* The author acknowledges the contributions and constructive comments provided by Professor Margaret Nowak of Curtin Graduate School of Business, Australia in improving the earlier version of this paper

** Dr. Niki Lukviarmann is a lecturer of the Faculty of Economics, Andalas University of Padang, contact address; Fakultas Ekonomi Universitas Andalas, Kampus Unand Limau Manih, Padang 25163 and Niki.Lukviarmman@cbs.curtin.edu.au.
in modern corporations’ (Demsetz, 1983, p.375). Therefore, as a governing body within the company, it might be considered that the board has to control and monitor managers’ behaviour in the best interests of the company’s shareholders.

However, there are two contrasting views with regard to the role of boards as the governing body: the agency theory and the managerial dominance perspective. Agency theorists (Jensen and Meckling, 1976; Fama and Jensen, 1983b) argue that the board is an efficient mechanism for monitoring executives in running the company on behalf of its investors. On the other hand, the managerial dominance theorists (Garrat, 1999; Hart, 1995; Bosch 1995) argue that boards are formal, passive and ceremonial institutions and, as a result, managers dominate directors.

A further development by Rindova (1999) suggests a combination of both perspectives by developing a framework that can accommodate their different views. In terms of underlying assumption, it seems that Rindova follows a dialectical philosophy, by viewing managerial dominance perspective as a “thesis” and agency perspective as an “antithesis”, and then a third stage as a “synthesis”. It is proposed by Rindova that ‘directors and managers work together toward organizational success’ (p.954). Therefore, the view of board’s role by Rindova’s study might be considered as following the dialectical sequence.

In regard to Rindova’s framework, this paper aims to critically analyse that study. To do so, this paper will review the role of boards from different perspectives and find the appropriate perspective in regard to Rindova’s model. The next section will discuss and review the model proposed by Rindova, followed by discussion on other relevant issues, including research methodology used in her study, and conclusion.

The Role of a Board of Directors

Existing research on boards tend to categorize three critical board roles: service, strategy, and control (Zahra and Pearce, 1989). According to Johnson et al (1996) the lack of consensus of an effective corporate board may result from the multiple roles fulfilled by directors, which are, in some cases, contradictory. Moreover, they argue that this multiplicity is differentially supported as a function of the chosen theoretical perspective.

According to Zahra and Pearce (1989) the roles of boards and the extent to which boards undertake each role, have been guided by four
distinct theoretical perspectives (see *appendix 1*). Among those perspectives, agency theory has emerged as the dominant paradigm in financial economics and among the most recognized in research on the contribution of boards (Zahra and Pearce, 1989; Hill and Jones, 1992). In regard to the important features of agency theory, Zahra and Pearce (1989) stated that,

*Agency theory places a premium on the board’s strategic contribution, specifically the board’s involvement in and contribution to the articulation of the firm’s mission, the development of the firm’s strategy, and the setting of guidelines for implementation and effective control of the chosen strategy* (pp.301-302).

The Agency approach, therefore, could be interpreted as the only perspective that covers the strategic role of boards. In addition, the controlling role, which is considered as a conceptually and normatively important function (Johnson *et al.*, 1996), is still the major function of boards. Without putting this controlling role behind the others, the objective of using the board of directors as one beneficial mechanism of corporate governance (Fama and Jensen, 1983a) could not be sustained. In other words, agency theory views corporate boards not only as control mechanisms, but also as contributing to strategy making processes. By involving directors in these processes, companies could expect benefit from their experience as well as their expertise.

The study conducted by Henke (1983, p.93) found that ‘virtually every board influences decisions on numerous strategy-related issues. Unfortunately, the majority of boards do not recognize that they are involved in strategy decision-making’. In regard to board involvement in such processes, Judge and Zeithaml (1992, p.766) argue that ‘the pressure for greater accountability in corporate decision-making has focused on board involvement in strategic decision-making process’. Within this context, they argue, there are three major reasons for this pressure (pp.767-768):

- Increase in institutional investors activism pressuring boards to challenge management’s strategic leadership
- Best defence against corporate raiders is increased board involvement in the strategic decision making process
- Both real and potential threats of unwanted takeovers pose significant external pressure for greater board involvement in strategic process.
The Model of 'Director's Contribution To Strategic Decision-Making'

Rindova (1999) has introduced Model of Director's Contribution to Strategic Decision-Making (see figure 1) as a framework for understanding a potential contribution of directors' performance through their cognitive tasks. From a cognitive viewpoint 'participation may result in increased information, knowledge and creativity which helps in better solving organizational problems through better communication and utilization of knowledge' (De Hass and Kleingeld, 1999, p. 235). Therefore, the underlying assumption of Rindova' model is that a director, as an individual board member, has certain expertise that could be utilised by the company through participation in strategy processes.

According to Jackson (1992, p.354) 'many strategic issues processed within organizations can be characterized as creative decision-making tasks'. Additionally, from the review on a previous study covering the impact of group composition on creative idea generation and consensus-based decision, Jackson (p. 355) concludes that 'heterogeneous groups are more likely than homogeneous groups to be creative and to reach high quality decisions'. This argument is in line with Rindova's basic propositions that through their diverse background of knowledge and experiences, directors can deal with strategic complexity and uncertainty, and hence, seek ways and contribute to improve firm's strategy processes.

Although Rindova did not mention specifically the underlying theory of her model, it might be argue that the model is based on the broader concept of agency theory. This concept, as mentioned by Zahra and Pearce (1989) may include the strategic contribution of board of directors, aside from their main function of controlling and monitoring managers. Another reason to support this argument is that Rindova's model still makes the differentiation between inside and outside directors. According to Hillman et al (2000, p.237) 'the common insider and outsider classifications schemes are based on the underlying logic of the agency role'. Hence, it could be argue that Rindova's model is using agency theory in explaining the director's contribution to strategic decision making.

However, it might also be argued that the organization model used in Rindova's framework is that of an “organization as an interpretation system” (Daft and Weick, 1984). According to Daft and Weick (pp. 284-285) the organization model assumes 'organizations have cognitive systems and memories' and, therefore, organizations are 'associated with
The Model of 'Director's Contribution To Strategic Decision-Making'

Rindova (1999) has introduced Model of Director's Contribution to Strategic Decision-Making (see figure 1) as a framework for understanding a potential contribution of directors' performance through their cognitive tasks. From a cognitive viewpoint 'participation may result in increased information, knowledge and creativity which helps in better solving organizational problems through better communication and utilization of knowledge' (De Hass and Kleingeld, 1999, p. 235). Therefore, the underlying assumption of Rindova' model is that a director, as an individual board member, has certain expertise that could be utilised by the company through participation in strategy processes.

According to Jackson (1992, p.354) 'many strategic issues processed within organizations can be characterized as creative decision-making tasks'. Additionally, from the review on a previous study covering the impact of group composition on creative idea generation and consensus-based decision, Jackson (p. 355) concludes that 'heterogeneous groups are more likely than homogeneous groups to be creative and to reach high quality decisions'. This argument is in line with Rindova's basic propositions that through their diverse background of knowledge and experiences, directors can deal with strategic complexity and uncertainty, and hence, seek ways and contribute to improve firm's strategy processes.

Although Rindova did not mention specifically the underlying theory of her model, it might be argue that the model is based on the broader concept of agency theory. This concept, as mentioned by Zahra and Pearce (1989) may include the strategic contribution of board of directors, aside from their main function of controlling and monitoring managers. Another reason to support this argument is that Rindova's model still makes the differentiation between inside and outside directors. According to Hillman et al (2000, p.237) 'the common insider and outsider classifications schemes are based on the underlying logic of the agency role'. Hence, it could be argue that Rindova's model is using agency theory in explaining the director's contribution to strategic decision making.

However, it might also be argued that the organization model used in Rindova's framework is that of an "organization as an interpretation system" (Daft and Weick, 1984). According to Daft and Weick (pp. 284-285) the organization model assumes 'organizations have cognitive systems and memories' and, therefore, organizations are 'associated with
organizational differences in environmental scanning, equivocality reduction, strategy, and decision-making'. In relation to the framework proposed by Rindova, one can observe that these variables are included in the model.

According to Daft and Weick (1984, p.285), 'when one speaks of organizational interpretation one really means interpretation by a relatively small group at the top of the organizational hierarchy'. In this light, Rindova's framework might also be related to the "model of group performance", which is proposed by McGrath (in Milliken and Volltrah, 1991). In fact sequences in her framework, seem to follow McGrath model. In relation to Rindova's model, one might argue that she perceives the director as an individual who will perform strategic tasks together with other board members, and expects a positive contribution from this group interaction process.

As a system, organization processes can be related to three broad components: input, process and output (Milliken and Volltrah, 1991).

1. Input

Milliken and Volltrah (1991) argue that the use of a model of group performance should take into account three layers of input factors, these being individual-level factors, group-level factors, and environmental-level factors. Accordingly, they argue that these variables will influence the quality of a group's interaction processes and thereby, the quality of its contribution. These factors are not addressed specifically in Rindova's model, particularly in regard to group-level and environmental-level factors. Some variables not included in Rindova's model are: the patterns of members' skills and personality characteristics (individual-level), level of group conflict and cohesiveness in reaching consensus (group-level), and group-task characteristics and level of environmental stress (environmental-level).

2. Process

According to Forbes and Milliken (1999, p.492) group interaction and cohesiveness will influence 'present and future level of board task performance'. Rindova's model does not clearly describe the effect of these factors on board involvement in the process of strategic decision-making. Although she refers to "variety aspects" as effects of directors' participation, it might be considered important to mention other (negative) effects as well. As a corollary, it might be mentioned
that Milliken and Volltrah (1991, p.1230) argue that ‘understanding factors that influence group interaction and effectiveness seems critical, since it will shape an organization’s future through the decisions they make’. Thus, it might be argued that the structure of a board and the diverse characteristics of its members may carry potential problems of group interaction and cohesiveness.

However, Zahra (1990) offers a possible solution to this problem, by paying attention to several factors in relation to boards’ characteristics and viewing these factors from an integrative perspective (appendix 2). Rindova does not elaborate these factors in her paper, although some of them were already considered as important variables in her input stage. In regard to these solutions, Zahra (1990) argues that implementing all of those factors will not guarantee active board participation in the strategic process. Therefore, in the absence of deep understanding of the quality of a group’s interaction processes, the quality of group performance outcome will be questionable.

3. Output

Rindova’s framework only considers “decision quality” as an outcome and this outcome only as part of “performance outcomes”. According to Milliken and Volltrah (1991, p.1232), other outcomes that should be considered are speed to solution and number of errors, among others. In term of “other outcomes” some important outputs that may arise from group interaction are: member satisfaction, attitude change and sociometry structure. Therefore, it might be argued that Rindova’s model should consider other outcomes of directors’ contributions to strategic making, apart from decision quality.

Moreover, Rindova does not suggest a way to measure that outcome, or how much the directors’ contribution to strategic decision making has increased the decision quality. According to Jackson (1992, p.355) ‘high quality performance may mean that group members express satisfaction with the final outcome, and/or that an external panel of experts rate the group’s performance representing high quality’. This issue is considered important in finding out whether directors’ participation in strategic process has benefited the company, or how well they are performing their strategic role.
Conceptual models of the strategic decision-making process generally depict the process as composed of several tasks or steps (Milliken and Vollrath, 1991). Accordingly, they summarise key tasks in the strategic decision-making process, which consist of: environmental scanning, environmental analysis (interpretation), strategy formulation, and strategy implementation. The framework proposed by Rindova seems to consider all these tasks except strategy implementation. Rindova’s exclusion of this task in considering the strategic role of boards seems reasonable, given that, although a board’s involvement is beneficial and important in strategy making, they should not be involved in its operationalization. This issue is in line with the argument of the agency theory, because if a board is also involved in the implementation stage, its controlling function in ensuring that the management is conforming to the interest of the company cannot be optimised (Hung, 1998).

In regard to the perspective on board’s involvement in strategy process, Zahra (1990, pp.109-110) argues that there are three schools of thought within this context. First, the legalistic-traditional view, which suggests that the board’s role is to represent shareholders and protect their interests: hence the board should not be involved in developing or implementing strategy. Second, the view that boards should be active in formulating and implementing strategies. According to this school, directors’ involvement enables them to examine managerial assumptions, strategies and tactics and provide useful recommendations to management. The third view suggests that directors’ active participation should be in the form of partnership between the CEO and the board in mapping strategic directions of the firm.

Based on these schools of thought, the position of Rindova’s framework is not stated clearly. However, since her model refers to outside directors, it could be assumed that her model is based on the third view, minus directors’ involvement in the strategy implementation. This argument is also proved by her statement that ‘directors and managers work together toward organizational success’ (Rindova, 1999, p.954) and by the absence of strategy implementation in her model.

Moreover, Andrews (1981) argues that there are four strata in relation to board involvement in strategy processes (please refer to appendix 3). Rindova’s framework does not indicate clearly in which strata of corporate strategy boards should be involved. One might argue that the possibility for board of directors to be involved in strategy making is at the second stratum. In this stratum, the board’s participation is some-
what general, and the report provided by management for this level is considered to be 'simple and camouflaging the deeper potholes' (Andrews, 1981, p.176). This is in corollary with the stance of Zahra (1990, p.113), who argues that 'boards should not be expected to contribute equally to each stage of strategy development, especially on strategy implementation, which is considered as the CEO's territory'.

Other Relevant Issues

1. Director's Strategic Roles: a Dilemma

Rindova's model seems to broaden directors' tasks through their involvement in strategic decision making. Therefore, it may assume that there is a demand for a more active role of directors in business processes and responsibility for company performance. This issue seems acceptable if directors, particularly outside directors, do not disregard their primary role of monitoring management behaviour. As a corollary, Hung (1998) argues that the inclusion of directors in strategy making, whilst retaining their control function, is still in the context of a governing role, whereby directors carry out two major functions: conformance and performance.

Hung (1998) considers that undertaking those two functions simultaneously may lead to a dilemma which highlights the ways companies are supposed to be governed and the importance of strong, independent non-executive participation at board level. In short, he doubts the ability of directors to fulfil the control role effectively when they are also involved in strategy making. Moreover, Rindova's model highlights outside directors, who could be considered independent and thus being 'expected to more effectively monitor management self-interest than dependent [insider] directors' (Johnson et al, 1996, p.416).

Another point of dilemma in relation to directors' involvement in strategic decision-making is argued by Zahra (1990):

There is a sort of an unspoken territorial imperative that underlies board-CEO exchanges. Strategy formulation and implementation are considered an integral part of the CEO's territory. That is, if a CEO is to be held accountable for results, he/she should be given almost absolute powers in managing the strategic direction of the company. Understandably, CEO's are protective of their powers, especially in the strategic arenas. As a result, CEO's may resist directors' increased
interest and involvement in strategic issues (p.116).

This argument apparently states that there would be potential problems in relation to the directors' role if they were to be more active and participative in company's strategic issues. Part of the problem may come from the executives' side, because they can argue that strategic issues are within their territory. Hence, management might deny the right of directors, particularly outside directors, to participate in strategic processes.

On the other hand, the refusal to be involved in strategic processes may come from the directors themselves. According to Johnson et al (1993) there is a potentiality that outside directors may be reluctant to become involved in the strategic process. The reason is that 'changes in firm performance likely have a negligible effect on outside directors' personal wealth because their compensation is rarely tied to firm performance' (p.36). Thus, it might be argued that without significant knowledge of firm specific operations and effects on personal wealth, directors may be less willing to participate in the strategic process. It seems that Rindova's study did not consider this factor, which is significant in relation to the attitude of directors towards involvement in a company's strategic process.

2. Effectiveness of Director's Strategic Contributions

By highlighting contributions of outside directors, Rindova's model seems reasonable, because inside directors, who are usually selected from the company's top management team members, are automatically involved in strategy processes. However, it might be argued that potential contribution by outside directors raises some question regarding its effectiveness to strategy making. The reason is that outside directors have limited firm-specific knowledge, are less familiar with the core business, and spend too little time on board work to exercise this function (Baysinger and Hoskisson, 1990; Prahalad and Bettis, 1986). In general, these limitations will lead to potential ineffectiveness of their contribution.

Strategy making is a complex and multilevel process (Andrews, 1991) and directors' involvement, based on Rindova's framework, is expected to reduce this complexity. However, considering their limited firm specific knowledge, one might argue that it would have the effect of delaying agreement on the strategic decision to be made. Although one could assume that the quality of decision making might increase, there will be a trade-off from directors' contribution in strategy processes. In
short, it might be argued that the slow down in strategic decision-making will have an effect on its implementation, and hence could reduce the firm's competitiveness.

3. Company's Environmental Contingencies

Another issue that should be specified by Rindova in her study is the influence of company's environment in relation to conformance and performance role of boards. The reason is that the company's environment serves as the basic element that determines the role and functions of board. (Hung, 1998). As a corollary, Zahra and Pearce (1989, p.302) claim that 'concentration of ownership and external environment are contingency factors that are important to the board's role, particularly in its involvement and contribution to the strategic process'. Therefore, Rindova's model could regard this environmental issue as one of the contingencies of the board's strategic role.

4. Research Issues

In terms of research methodology, Rindova's study could be categorized as an exploratory research using qualitative methodology, as seen in the absence of hypotheses testing and statistical inference. By incorporating previous studies on the field of agency theory, organizational theory, and small group performance model, Rindova developed her model. That is why she chooses to limit input variables in her model, such as board composition, based on testable factors by those of previous researchers she is referring to. Therefore, it might be argued that Rindova's study is based on empirical literature-review on board performance and synthesizes different views in relation to board's role.

The direction of Rindova's research seems to focus on corporate governance from the view of a broader concept of agency theory, to include board's performance issues. Rindova's study tends to re-examine and challenge the long-standing assumptions about boards by taking a cognitive perspective to provide theoretical lenses, to gain more insight in regard to the role of boards. Moreover, it might be argued that through her study, Rindova predicts the potential of changing corporate boards' role in the future. This is in corollary with Garrant (1999, p.33) who states that 'If we want more effective economic and social growth as we enter the twenty-first century we need to rebalance our studies of best practice in favor of board performance'.
Conclusion

Rindova has developed a model of directors’ cognitive contributions to strategic decision making as an attempt to utilise their performance role without disregard their conformance or control role. A director’s individual expertise will be utilised within a heterogeneous group of board directors who participate in the company’s strategy making. The study and model proposed by Rindova seems to reflect the ‘dialectical philosophy’ by integrating two contrasting views in relation to boards’ role, basing her framework on the broader concept of agency theory. Thus, Rindova’s framework could be considered as an improvement on previous studies on boards and challenges future researches in this area.

Rindova’s study has been supported with adequate observations on empirical work, and her proposed framework is sufficiently equipped with the linkages between the different theories.

Although it is beneficial and important to consider director’s involvement in strategic making, there are open questions in regard to this matter.

- The ability of boards to perform a strategic role, particularly outside directors whose have limited firm-specific knowledge and this limitation will have an effect on its effective contribution

- The ability of a board to perform strategic and control role simultaneously, without harming its effective monitoring role as mandated by shareholders

- The level and type of strategic tasks that directors should be involved in and dilemmas regarding their strategic role, considering that a company’s strategy is a part of ‘CEO’s territory’

Therefore, it might be argue that the most important issues in regard to Rindova’s framework are the applicability of the model and the effectiveness of directors’ contributions, as well as the way to measure the impact of directors’ participation on overall firm performance. However, these issues put in place challenges for management scholars to conduct applied research on board involvement in strategy making.
REFERENCES:


Figure 1. A Model of Directors’ Cognitive Contributions to Strategic Decision-making.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Perspectives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board Role</strong></td>
<td><strong>Legalistic</strong></td>
</tr>
<tr>
<td></td>
<td>Representing and protecting shareholders' interest</td>
</tr>
<tr>
<td></td>
<td>Managing the corporation without interference in day to day operations</td>
</tr>
<tr>
<td><strong>Operational definition of board's role</strong></td>
<td>1. Selecting CEO</td>
</tr>
<tr>
<td></td>
<td>2. Monitoring CEO performance</td>
</tr>
<tr>
<td></td>
<td>3. Representing shareholders’ interests</td>
</tr>
<tr>
<td></td>
<td>4. Evaluating company performance</td>
</tr>
<tr>
<td><strong>Theoretical origins</strong></td>
<td>Corporate law</td>
</tr>
<tr>
<td></td>
<td>Composition</td>
</tr>
<tr>
<td></td>
<td>Characteristics</td>
</tr>
<tr>
<td></td>
<td>Process</td>
</tr>
<tr>
<td><strong>Variables of interest</strong></td>
<td>- Survival</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Company performance criteria</strong></td>
<td>- Growth</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Representative studies</strong></td>
<td>Berle and Means (1938)</td>
</tr>
<tr>
<td></td>
<td>Mace (1971)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Rindova (1999, p.958)
## Appendix 1 Four Perspectives on Boards of Directors

<table>
<thead>
<tr>
<th>Dimension</th>
<th>PERSPECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board Role</strong></td>
<td></td>
</tr>
<tr>
<td>1. Representing and protecting shareholders' interest</td>
<td>Legalistic: Boards are a cooperative mechanism to extract resources and resources vital to company performance. Class Hegemony: Boards perpetuate the power and control of the ruling capitalist elite over social and economic institutions. Agency Theory: The primary role of boards is to monitor actions of agents (executives) to ensure their efficiency and to protect principals' (owners) interests.</td>
</tr>
<tr>
<td>2. Managing the corporation without interference in day-to-day operations</td>
<td>Resource Dependence: Boards serve a boundary spanning role. Class Hegemony: Boards enhance organizational legitimacy.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Selecting CEO</td>
<td></td>
</tr>
<tr>
<td>2. Monitoring CEO performance</td>
<td></td>
</tr>
<tr>
<td>3. Representing shareholders' interests</td>
<td></td>
</tr>
<tr>
<td>4. Evaluating company performance</td>
<td></td>
</tr>
</tbody>
</table>

|--------------------------------------|-----------------------------------------------------------------------------|

|--------------------------------------|-----------------------------------------------------------------------------|

<table>
<thead>
<tr>
<th>Company performance criteria</th>
<th>Survival Growth Profitability: Growth in resources Goal achievement Relative market. Oligopolistic market power Profitability. Survival Low operating costs Profitability.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Williamson (1964) Zald (1967)</td>
</tr>
</tbody>
</table>

***Source: Zahra and Pearce (1989, p.293)***
Appendix 2

Factors to Maximize the Contribution of Boards in the Strategic Process

1. Careful election of Directors
   Nominating committees should carefully examine the credentials and the expertise of prospective directors. Criteria to emphasize include depth of previous business experience, familiarity with industry conditions, professional reputation, and competence.

2. Include strategic issues in director's formal orientation programmes
   As the interest in strategic contribution by the board should be highlighted in new director selection, the substance and mechanics of this contribution need to be clarified and reinforced in directors' orientation.

3. Broaden directors' strategic span of control
   Companies should not presuppose that boards know how to contribute to the strategic process; they need to articulate strategic areas of potential interest to their members.

4. Define areas of potential interest
   Since there are several stages in strategic process, it is understandable that boards should not be expected to contribute equally to all of them. The role of the board may revolve around reviewing, advice or policy making.

5. Choose a board participation pattern carefully
   Careful selection of the pattern considered most appropriate in view of the board's preference and company circumstance is essential, and both CEO and the board should participate in selecting the appropriate board strategic contribution pattern.

6. Make information available
   A qualitative shift is needed regarding the type of information delivered to directors. Directors should have access to data relevant to making strategic choices.

7. Examine internal board structure and proceedings
   Effective committee structure and proceedings are necessary for active board strategic participation and should be fine-tuned to highlight directors' potential strategic contribution and enable directors to undertake their responsibility in this regard.

8. Evaluate directors on their strategic participation
   Evaluation should be conducted annually and they should be included among formal board evaluation criteria to remind directors of corporate expectations regarding their strategic contribution.

Source: Zahra (1990, pp. 111-116)
### Appendix 3

#### The Strata of Corporate Strategy

| Stratum I | Corporate strategy for annual report.  
This version is sterilized by top management and for shareholders, it conveys a sense of direction and as an assurance that management knows where it is trying to take the company |
|---|---|
| Stratum II | Corporate strategy for the board of directors, financial analysts, and middle management.  
This strategy is more comprehensive and revealing than stratum I: most boards of directors must settle for this level of enlightenment. |
| Stratum III | Corporate strategy for top management.  
At this strategy level, several members of top management can be expected to participate in discussion approaching a full consideration of moves and countermoves, the strength of competition, the competence of operating management.  
Since the issues being discussed at this level are important for companies, agreement is needed from members of top management. |
| Stratum IV | The CEO's private corporate strategy.  
This strategy is consists of the innermost thoughts of the CEO as a strategic thinker. As a private strategy, CEOs may not willing to share knowledge of delicate manoeuvres for fear of premature disclosure, or he may believe he is the best qualified to sort out the pros and cons and decide how to proceed. |