

**ANÁLISE DO ENVOLVIMENTO DOS CONSELHOS DE ADMINISTRAÇÃO NA  
GESTÃO ESTRATÉGICA**

**ANÁLISIS DE LA RELACIÓN DE LOS CONSEJOS DE ADMINISTRACIÓN CON LA  
GESTIÓN ESTRATÉGICA**

**ANALYSIS OF BOARDS OF DIRECTORS' INVOLVEMENT IN STRATEGIC  
MANAGEMENT**

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## ANÁLISE DO ENVOLVIMENTO DOS CONSELHOS DE ADMINISTRAÇÃO NA GESTÃO ESTRATÉGICA

### RESUMO

Este estudo analisa o envolvimento dos conselhos de administração na gestão estratégica. A partir de um levantamento com 36 empresas brasileiras afiliadas com o Instituto Brasileiro de Governança Corporativa, foram analisados os fatores que determinam o grau de envolvimento dos conselheiros nas decisões estratégicas. Foram abordadas três dimensões: quais decisões estão sob a responsabilidade do conselho; quais critérios determinam o grau ótimo de envolvimento do conselho; e em que medida os conselhos centralizam as decisões estratégicas. Os resultados mostraram que os conselhos estão aumentando seu envolvimento em diferentes tipos de decisões estratégicas, não se limitando a monitorar e controlar a empresa. Além disso, eles buscam um equilíbrio ao centralizar a autoridade, dividindo decisões importantes com a alta administração e agindo no processo de aconselhamento.

**Palavras-chave:** Estratégia; Conselho de administração; Gestão estratégica

## ANALYSIS OF BOARDS OF DIRECTORS' INVOLVEMENT IN STRATEGIC MANAGEMENT

### ABSTRACT

This study analyzes the involvement of boards of directors in strategic management. Through a survey of 36 Brazilian companies affiliated with the *Brazilian Institute of Corporate Governance*, we intend to analyze the factors that determine the degree of involvement of boards of directors in strategic decisions. Three dimensions were focused: which strategic decisions are under the boards' responsibility; which criteria are used to determine the optimum involvement of the board; and to what degree boards centralize strategic decisions. Results showed that boards are increasing their involvement in different types of strategic decisions, not limiting themselves to monitoring and controlling the company. Also, boards will tend to reach a balance when it comes to centralization of authority, sharing decisions with top managers and acting like counselors in the strategic management process.

**Key words:** Strategy; Boards of directors; Corporate governance

## ANÁLISIS DE LA RELACIÓN DE LOS CONSEJOS DE ADMINISTRACIÓN CON LA GESTIÓN ESTRATÉGICA

### RESUMEN

Este estudio analiza la relación de los consejos de administración con la gestión estratégica. A partir de un levantamiento con 36 empresas brasileñas afiliadas con el Instituto Brasileño de Gobernanza Corporativa, fueron analizados los factores que determinan el grado de relación de los consejeros en las decisiones estratégicas. Fueron abordadas tres dimensiones: cuáles decisiones están bajo la responsabilidad del consejo; cuáles criterios determinan el grado óptimo de relación del consejo; y en qué medida los consejos centralizan las decisiones estratégicas. Los resultados mostraron que los consejos están aumentando su relación en diferentes tipos de decisiones estratégicas, no limitándose solamente a monitorear y controlar la empresa. Además, los mismos buscan un equilibrio al centralizar la autoridad, dividiendo las decisiones importantes con la alta administración y con actuación en el proceso de aconsejamiento.

**Palabras clave:** Estrategia; Consejo de administración; Gestión estratégica.

## 1 INTRODUCTION

This study presents an analysis of the involvement of boards of directors in their companies' strategic decisions. This subject has gained importance for two main reasons: the attention that has been given to the role of boards of directors lately owing to corporate governance demands and the silence in the literature about their involvement in the strategic management process – a subject often studied in relation to top management level.

Traditionally, the board of directors is the organ responsible for representing the owners of a company. Lately, it has also been considered the organ responsible for assuring that the company is acting in a transparent way towards investors, in a legally correct, ethical and sustainable manner. After the 90's, several corporate scandals brought the role of the boards to attention; the term “corporate governance” began to be used as synonymous with ethics and transparency. Thus, boards became more actively involved in the strategic management of their companies.

Several issues have influenced boards of directors' role lately, such as globalization, new forms of competition and new types of business and technologies; this has led many modern companies to review the role of their boardrooms (Ingley & Van Der Walt, 2001; Donnelly & Mulcahy, 2008; Li & Harrison, 2008). Those issues also led to increasing pressure from investors, creditors and shareholders in a bid to ensure effective corporate governance of their investments (Schmidt & Brauer, 2006). Meanwhile, several studies began to reveal higher degrees of boards' involvement in the strategy of their organizations, as means to achieve superior performance (Mc Donnal, Westphal & Graebner, 2008; Wu, 2008).

However, studies on how the board gets involved in strategic management are still rare in the literature (Brauer & Schmidt, 2007). In academia, many studies have focused on the role and composition of the boards, especially in relation to financial performance. (Dalton, Daily, Ellstrand & Johnson, 1998; Ong & Wan, 2008; Rehbein, 2008).

The level of a board of directors' involvement in strategic decisions can be viewed either as an institutional response or as a strategic adaptation to external pressures for greater board involvement. Higher involvement has been shown to be positively related to financial performance (Judge & Zeithaml, 1992), while it may not be adding the value that organizations expect to gain from the boards' involvement (Bart, 2004).

The delicate relationship between company owners and managers has been extensively studied, but not always from a strategic management perspective. Some companies, such as Enron,

had problems with fraud and corruption involving directors, something that was widely publicized in the nineties. These episodes not only affected company owners, but also society, with loss of jobs and unpaid debts to workers, which ultimately had an impact on the social environment in which the company operated.

Research initiatives on the role of boards of directors have suffered from several shortcomings: lack of an overall theoretical perspective, reliance on proxies to play the strategy role rather than direct action and a lack of quantitative data (Hendry & Kiel, 2004). Also, while effective corporate strategies are the major route to create shareholder value on a consistent basis (Keenan, 2004), research has been directed mostly towards evaluation of the board's demographics (composition and profile of members) as well as control mechanisms.

Boards' role in strategy has not been clearly defined theoretically, and it has also been subject to many changes in the latest years. While in the seventies and eighties boards were usually seen as the organs ultimately responsible for either approving or disapproving top managers' decisions (Herman, 1981; Pfeffer, 1972), the situation has begun to change recently.

Recent developments argue that boards should extrapolate their roles in order to improve strategic development (Forbes & Milliken, 1999; Stringer, 2006; Nightngale, Numerof & Abrams, 2006) instead of performing the traditional duties of controlling and monitoring the company. While boards of directors are usually recognized as having the potential to affect strategic change in companies, whether such potential is typically realized is a matter of considerable debate (Golden & Zajac, 2001).

Those are the reasons that justify this study. Although studies about the role of boards in strategy are recent, it remains unclear how boards should become involved in their companies' strategy (Stringer, 2006).

Therefore, the key point in this research is:

What determines the degree of involvement of boards of directors in strategic decisions?

This research question will be analyzed in three dimensions. First, which strategic decisions are under the role of the board of directors? Second, what are the criteria that determine a higher or lower level of board involvement in strategic decisions? Third, to what extent do boards of directors decentralize strategic decisions to the top management?

The core of this research is a quantitative study carried out on 36 boards of companies affiliated to the Brazilian Institute of Corporate Governance (IBGC). This Institute is a reference as regards the best practices in this subject; therefore, companies affiliated to it tend to show greater concern for the role their boards of directors should play.

In the following sections, we will present an overview of the theory used to develop the hypothesis of this study, followed by the methodological procedures and the analysis and discussion of the results.

## **2 THEORY AND HYPOTHESES**

Strategic management is defined, in this study, as appropriately adapting, integrating and reconfiguring internal and external organizational skills, resources and functional competences to match the requirements of a changing environment (Teece, Pisano & Shuen, 1999). We chose to study strategic management from the perspective of the strategic decisions of the company. Therefore, we understand strategic decisions as those that have greater impact and influence on the direction of the company, and are the key attributes of strategic management.

In this study, three dimensions were chosen to verify the involvement of the boards in strategic management. The first dimension is the types of strategic decisions that are within the scope of the work of boards of directors. The second one attempts to analyze the main reasons that determine a higher or lower level of involvement of the board in strategic decisions. Finally, the third dimension deals with the degree of centralization of authority of the boards.

### **2.1 STRATEGIC DECISIONS WITH HIGHER LEVELS OF INVOLVEMENT OF THE BOARD**

Andrade and Rosseti (1999) consider that the function of the board of directors is not restricted to controlling the company's financial performance; it is their function also to propose strategies, monitor strategy implementation and approve decisions taken by the CEO, although in the past they were viewed as passive agents who tended to control financial measures (Tashakori & Boulton, 1983).

Birchfield (2003) argues that board composition, as a trend for the future, will undergo four major changes: the age of the members will tend to fall, there will be an increase in the presence of women in the board, the board members' skills will come into focus and their compensation will increase.

Despite the studies that indicate an expansion of the role of the boards to a managerial and strategic level, there are authors that limit their role to a controlling function. To Donaldson (2001),

boards should not invade the managerial field – they should get involved in strategic management only when one of the following situations happens: (1) retirement of the CEO, (2) sharp decline in profitability and (3) attempts to take control of the company. Salmon (2001) takes an intermediate position. He argues that shareholders should not claim that the Board manage the business, but he expects the board to be involved in long term planning.

Lodi (1988) lists seven strategic variables that are largely responsible for the future of a venture and should therefore be discussed by the boards. They should get involved in the discussion of policies, products, customers and consumers, distribution and promotion, competitive advantages, prices, finance and investments. Nadler (2004) adds the following decisions/assignments to the list of the board's responsibilities: CEO's performance assessment, guaranteeing the effectiveness of audit procedures, keeping track of investments, giving opinions to top managers and approving mergers and acquisitions.

Hendry and Kiel (2004) categorize a board's approach to strategy according to two constructs: strategic control and financial control. The extent to which either construct is favored depends on contextual factors such as board power, environmental uncertainty and information asymmetry.

Bart (2004) found out that while boards receive and discuss all sorts of 'strategic information', there is no question that, currently, financial measures are deominant. This latter issue received the highest ratings in the information and discussion scores. But financial information is probably the least valuable component of a board member's strategic information requirements. In his study, most boards claimed to be quite involved already in their organization's strategy formulation process. Another of his findings is that boards affirmed they need to spend much more time on their organization's corporate strategy.

Given the decisions often assigned to boards, according to the literature, it appears that boards tend to get more involved in financial decisions than in other aspects. Therefore, our first hypothesis is:

Hypothesis 1: Boards of directors get more involved with financial than with managerial decisions in their companies.

This hypothesis implies that, among the several decisions usually associated with the role of the boards, they will tend to be more involved with the ones with financial implications.

## 2.2 CRITERIA FOR DEFINING THE BOARD'S LEVEL OF INVOLVEMENT IN STRATEGIC MANAGEMENT

The level of involvement of boards can vary in different instances. First, it can vary according to the relative importance of various decisions to strategy management. That was the focus of the first hypothesis. It can also vary from company to company, with regard to strategic decisions in general. This is the focus of the second and third hypotheses of the study.

One of the aspects to consider is what leads boards to determine a higher or lower level of involvement in strategic management. Higher involvement means that top managers will have less authority to make that decision; therefore this can be defined as centralization. The theory of centralization and decentralization is formed by a combination of traditional studies that are not often used in relation to boards of directors. However, it may hold some important clues as to the criteria that must be used when deciding on the degree of the boards' involvement (Lacombe & Heilborn, 2003).

Centralization is often associated with certain situations (Cury, 2000): 1) pressures arising from the internal and external environment, and business progress (whereby, in a period of expansion of the company, as well as reduced competition, it may be appropriate to start decentralizing); 2) size and structure of company, in the sense that, in larger companies, the most important decisions should remain centralized; 3) policy direction and attitude of the head of the company, as well as the nature of the various functions to be delegated; 4) need for standardization; 5) risks involved. The leader's personal characteristics can also contribute towards the decision to centralize and to let subordinates play a greater or lesser role in the decision-making process (D'Estaing, 1973). As to the influence of the external environment (Koontz and O'Donnel, 1964), a more unstable and threatening environment should promote greater centralization.

Conger, Finagold and Lawler III (2001) argue that boards of directors must have the knowledge, information, power, experience, motivation and time to carry out work that is effective and consistent with the strategic demands.

As to the study of these issues from the board's perspective, theory is rather sparse. In the light of the traditional theory of centralization of authority, our second hypothesis is:

Hypothesis 2: The main criterion for establishing the boards' involvement in strategy management is the board member's capabilities to deal with those issues.

This hypothesis implies that, considering a list of criteria derived from the literature, the board's involvement in strategic management will be higher when they are more qualified to take these decisions.

### 2.3 BOARD'S LEVEL OF INVOLVEMENT IN STRATEGIC MANAGEMENT

While the second hypothesis deals with the criteria for centralization, this third block explores the existence of different degrees of centralization of authority. Considering all strategic decisions, boards of different companies could centralize their strategic decisions to a higher or lesser degree. Centralizing means that boards would take some strategic decisions alone, without delegating authority to the top management. The level of a board of directors' involvement in strategic decisions can vary according to board sizes, their diversification and organizational age (Judge Jr. & Zeithaml, 1992).

Pearce and Zahra (1991) integrated several typologies of CEO-Board power relations, and came up with a model of four types of boards, which also appeared in other studies they considered (Vance, 1968; Aram & Cowen, 1983; Molz, 1985; Wood, 1983 and Hermann, 1987). These types reflect the composition of the boards, their characteristics, internal processes and decision-making styles. The four types are:

- Caretaker: with low board power and low CEO power, this type of board is viewed as a legal necessity and therefore is incapable of commanding decision-making power.
- Statutory: they reflect the prototypical image of ineffective boards in the literature, as a powerful CEO is the central figure in the organizational decision-making but the board is still considered a legal necessity.
- Proactive: this type of board has much more power than the previous types and is a true instrument of corporate governance. They usually command powers that surpass those of the CEO.
- Participative: are characterized by discussion, debate and disagreement, as the differences of opinion are resolved by vote, a majority vote prevailing.
- Pearce and Zahra's study (1991) was one of the most important backgrounds for this study with regard to the third hypothesis. However, their focus is on the role played by the board on the organizational level – especially whether the board plays a central role in the company or not. We chose to analyze a more administrative role - which may depend on the

personality of directors, their interaction as a group (the focus of Adams & Ferreira, 2007). Therefore, we chose to examine the degree to which the board centralizes strategic decisions instead of decentralizing them. So, the third hypothesis of the study is:

Hypothesis 3: Boards of directors tend to strike a balance between centralizing strategic decisions and decentralizing them to top managers.

Given the lack of a measure of the centralization of decisions, we chose to define seven levels of centralization of authority, which are:

1. Board does not participate in decisions concerning the company's strategy.
2. Board follows up the results of Top Managers' decisions.
3. Board only approves or disapproves decisions taken by Top Managers.
4. Board and Top Managers share strategic decisions.
5. Board takes all the strategic decisions, consulting with Top Managers.
6. Board takes all the strategic decisions and informs Top Managers so that they can implement them.
7. Board takes all the strategic decisions and also gets involved in the implementation of the strategy.

Therefore, the third hypothesis states that, among these seven levels, boards of directors of companies affiliated with the Brazilian Institute of Corporate Governance will tend to choose the intermediate level, which is level 4, since they will want to combine the expertise and competencies of board members and top managers.

### **3 METHODS**

This was a quantitative survey with board members of companies affiliated with the Brazilian Institute of Corporate Governance (IBGC). The universe of professionals who are affiliated to IBGC comprises 600 individuals from various companies, acting as chairmen, presidents and holding other board positions. We chose a random sample of 6% of valid responses, which corresponds to 36 respondents. Those respondents were from different companies; that means that this survey represents the reality of the boards of 36 different companies in Brazil.

The data collection instrument consisted of closed and open questions and was divided into three parts, as are the hypotheses of the study:

- 1) Decisions under the authority of the board of directors. Measures for this derived from *Brazilian Institute of Corporate Governance Standards*. These are found in a document detailing best practices for board members, where we can find decisions that should be under their authority, such as: deciding on financial policies, approving mergers and acquisitions, taking action and adopting measures of reaction to competition, making decisions on new products and taking other decisions that are listed in Table 1. We have also used the work of Lodi (2000), Salmon (2001) and Bart (2004) as a basis. The scale adopted was a grade from 1 to 5 according to the board's level of involvement in each of the strategic decisions made.
- 2) Criteria for defining the level of involvement of the board. The measurements for data collection for this came from the studies of Cury (2000) and Mills (1996) but underwent major changes during the phase of in-depth interviews with directors.
- 3) Level of involvement of the board in strategic decisions: the measures for this group came from the studies of Hendry and Kiel (2004) and Pearce and Zahra (1991), but they were modified to reflect the seven levels of centralization that were previously presented. Respondents were asked to choose one of the seven possible options.

The data collection instrument went through a pre-test with researchers in the field; 10 board members were interviewed.

Data collection was carried out by inviting participants by e-mail. The questionnaire was made available on a Web page. The responses were automatically stored in a database - this procedure enables the researcher to have greater control over the answers, reducing typing errors. Several precautions were also taken in relation to technological resources - the webpage did not allow, for example, respondents' answers to be sent incomplete or out of the pattern. Data were analyzed using descriptive statistics.

#### 4 RESULTS

The sample of 36 participants consisted of directors, chairmen or other members of the board. Most of the respondents were male (89%) and over 45 years of age. Most of them have been

in the current position for over a year or more (78%). Companies are large and medium businesses (89%), of various sectors (7 companies dealt in metal and steel, 6 sold energy; 8 companies offer various services, 3 produce fabrics, 3 are in the technology sector, 3 are transportation companies, 2 sell food and cosmetics and 2 companies are industries with a variety of products).

First, we showed the respondents a list of possible decisions that could be under the authority of the board. They were asked to assign a grade from 1 to 5 according to the degree of board involvement in that specific decision. We also gave the respondents the choice to answer "not applicable". These responses were not considered valid for the calculation of the mean and standard deviation of each variable.

Table 1 shows the means and standard deviations for each of the variables.

**Table 1** - Decisions under the authority of the Boards of Directors

Top 10 decisions under the authority of the Boards of Directors		Mean	S.Dev	N/A
1	Approving mergers and acquisitions	4.50	1.24	24
2	Deciding on significant expansion of the company	4.41	0.94	19
3	Deciding on capital investment plans	4.35	0.81	16
4	Deciding on strategic alliances	4.00	1.12	16
5	Deciding on compensation for CEO and top managers	4.00	1.30	22
6	Hiring and dismissing directors and CEO	3.93	1.28	21
7	Deciding on financial policies	3.81	0.92	9
8	Deciding on investments in technological innovations	3.73	1.05	6
9	Changes in the company in the face of macro-events	3.44	1.58	18
10	Decision about reaching a new market or not	3.31	1.41	10

N=36

Analyzing only the means and standard deviations, the decisions with the most significant degree of board participation were the ones that have implications for the expansion of the company. This was the case with "approval of mergers and acquisitions" (mean= 4.5) and "significant expansion of the company" (mean=4.41). The third decision with greater board involvement was "capital investment planning" (mean=4.35).

Results confirm the first hypothesis of this study, which was:

Hypothesis 1: Boards of directors get more involved with financial than with managerial decisions in their companies

We could see that the boards of directors in this sample still get more involved with financial than with managerial decisions in their companies, despite the fact that much of the literature points to a more significant managerial approach on the part of the boards (Andrade e

Rossetti, 1999; Lodi,2000). This result indicates that, while boards have the responsibility of monitoring and evaluating financial measures, they could also be missing opportunities to use their experience as board members to ensure that the company is choosing the best strategic paths.

In the second part of the study, participants were asked to indicate the criteria used in the company to determine which decisions should be under the authority of the board. We showed them a list of criteria (see

Table 2) which they should grade from 1 to 5, according to the use of that criterion in their company. Thus, the higher the grade, the greater is the use of a criterion.

**Table 2** - Criteria for defining the level of involvement of the board

Top 10 criteria for definition of optimum involvement level		Mean	S.Dev.	N/A
1	The decision has a great impact on the company's operations	4.20	1.24	20
2	The board is technically competent to take the decision	3.77	1.15	22
3	The rules are written down in the statute of the board	3.43	1.50	23
4	Decisions have long- term impact	3.37	1.28	27
5	There are periods of crisis in business	3.31	1.00	29
6	The external environment is turbulent	3.14	1.01	28
7	There is a high level of uncertainty concerning important decisions	3.00	1.34	30
8	It improves the relationship between the board and top managers	2.96	1.34	25
9	The decision does not need to be taken quickly	2.26	1.06	31
10	Avoid overloading board members	1.97	1.13	33

N=36

Table 2 provides the mean and standard deviation for the variables. Looking at the average, we can see that the criteria with the higher means are: The decision has a great impact on the company's operations (mean=4.20); Board is technically competent to take the decision (mean=3.77); Board decisions are listed in their statute (mean=3.43) and The decisions have long term impacts (mean=3.37).

The least used criteria were: “improvement of the relationship between the top managers and board” and “avoid overloading the board members”. Overloading decision makers was one of the criteria quoted by Castro (1994) and Cury (2000) as important, as that could decrease the quality of the decisions taken.

There is not enough evidence to confirm the second hypothesis of the study, which was:

Hypothesis 2: The main criterion for establishing the boards' involvement in strategy management is the board member's capabilities to deal with those issues.

Therefore, it can be verified that greater impact on the company was the main criterion adopted by those companies to determine the board's involvement in strategic decisions. However,

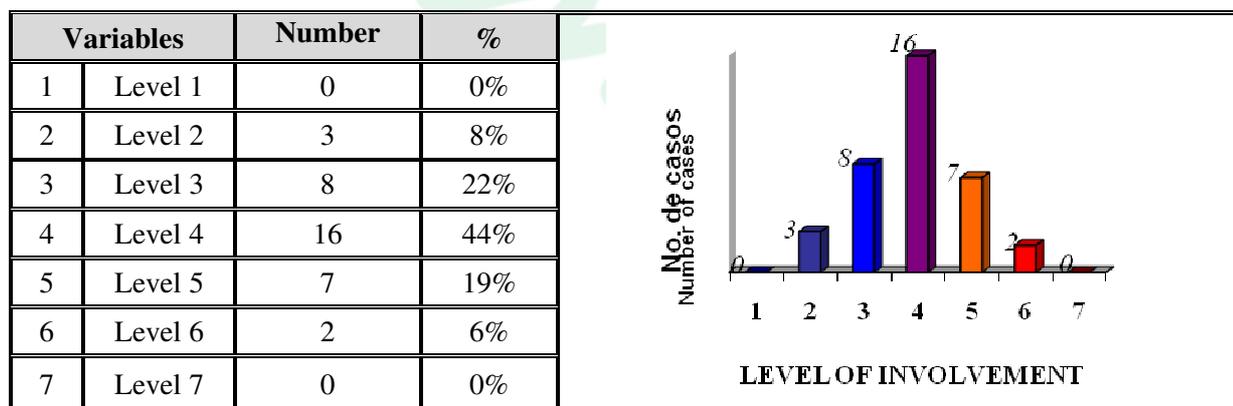
the second most used criterion was the technical competence of the board. This result points to better use of the board's competences to advise top managers in the strategic issues. Brauer and Schmidt (2007) suggest that board involvement in strategy implementation should be continuous rather than sporadic, meaning that board involvement should not be prompted by the departure of a CEO or a major crisis. Instead, boards should continuously probe and monitor the firm's resource allocation processes in order to help an organization adapt to environmental changes.

Finally, the third part of the survey dealt with the analysis of the board's level of involvement in strategic decisions. They should select one of the seven options provided, previously explained, to rate their companies.

Results showed that, in our sample, no companies were classified in the extremes (levels 1 and 7). Most of the companies were ranked in the level 4 category, which shows there is a partnership involving the board and the top managers in decision making. It is interesting to note that the number of companies decreases as we move towards the extreme levels. This shows that in our sample companies tend to concentrate in the levels of best balance between centralization and decentralization.

Figure 1 shows a graph with the number of companies in each level. We can note that the results are close to normal distribution, where 16 companies are ranked at level 4, while 8 and 7 companies respectively are at levels 3 and 5, followed by a smaller number of companies at levels 2 and 6.

**Figure 1 - Board's level of involvement in the strategic decisions**



N=36

As we can see in the previous results, the third hypothesis of this study was confirmed:

Hypothesis 3: Boards of directors tend to strike a balance between centralizing strategic decisions and decentralizing them to top managers.

The acceptance of this hypothesis implies that the boards of those companies tend to share decisions with top managers without either extreme centralization – which could lead to inefficient decisions taken by board members – or extreme decentralization – which could lead to lack of control.

## 5 VERVIEW OF FINDINGS

The theory about the involvement of boards in strategic management recommends, in general, that boards should exercise their authority in decisions with greater impact on the organization. They should therefore decentralize operational decisions and the implementation of strategies. The survey results showed that most of the companies in this sample followed these recommendations. It is important to remember that this sample was taken from a universe of companies that tend to follow corporate governance guidelines, since they are affiliated to the Brazilian Institute of Corporate Governance. As to decisions in which boards are usually more involved, we could observe that expansion of the organization is one of the issues that demands more active participation of the boards in this sample. This result is in line with the theory that states that boards should get involved in decisions with greater impact.

In the comparison with a similar research carried out in the United States by Korn / Ferry (Lameira, 1963), already exploited in the theoretical framework, we could confirm that the boards of these companies in Brazil and the boards of companies in the USA that took part in that survey tend to be more deeply involved in strategic decisions, a new role of the board of directors.

Some of the seven issues that boards should pay attention to, according to Lodi (1988), ranked high in terms of board involvement in this sample. As to the issues proposed by the author, results showed that the boards get more involved in three of them than in the others: competitive advantage (strategic alliances, mean=4.0, and mergers and acquisitions, mean=4.5), capital investment plans (mean=4.35) and financial policies (mean=3.81).

Four other decisions from this list of seven had lower rankings in comparison to other decisions. They were product policies (mean=2.97); customers and consumer policy (mean=2.73); product promotion and distribution policies (mean=2.44) and price policy (mean=2.53).

When we analyze which criteria are adopted to decide when the board will be involved in strategic decisions, results show that the impact of the decision and the long-term effects are the main criteria in these companies. This result is aligned with the propositions of the theory of centralization (Castro, 1994; Cury, 2000). It implies that, whenever a decision has a greater impact on the organization and whenever it has long-term effects, there will be greater involvement of the board in that decision.

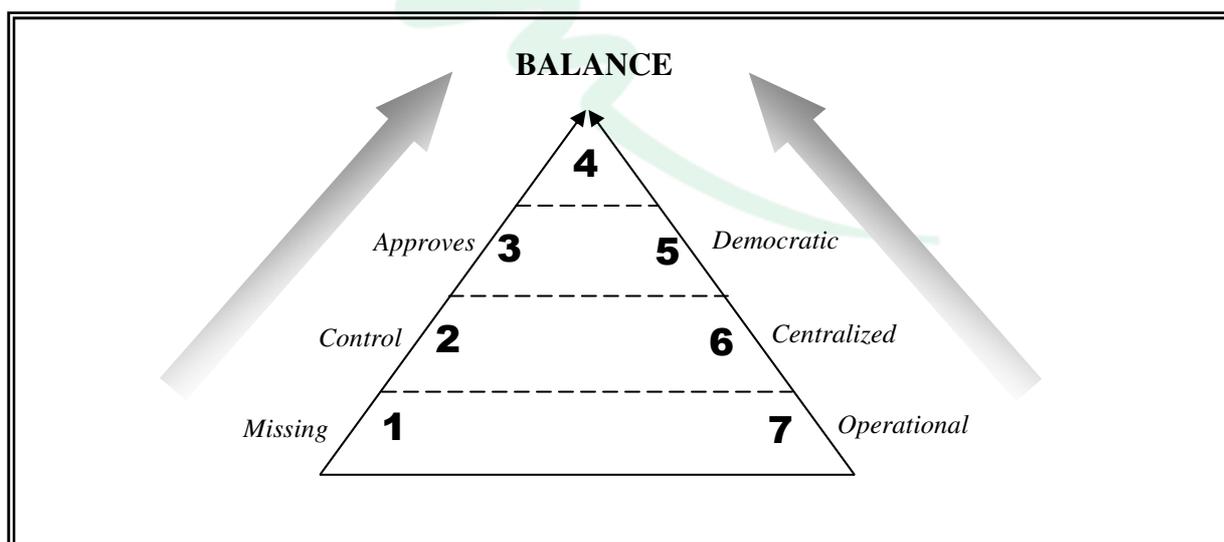
Another important finding is that boards of directors tend to follow what is stated in their statutes when it comes to determining their level of involvement in strategic management. Therefore, statutes should receive more attention since they tend to be followed. It is important to establish a statute that is consistent with the best governance practices.

As to the level of involvement of the board in strategic decisions, the balance between centralization and decentralization is an ideal sought by most organizations. This balance is also recommended by most of the centralization and decentralization theories.

The analysis of the data led to the proposition of a theoretical model that can help understand and analyze the levels of involvement of boards in strategic management. In this model, we used the results of the survey to group the cases and then we could note that companies tend to search for the balance that is indicated at level 4.

**Figure 2** illustrates that movement with arrows. We also named each of the levels according to the behavior of the board.

**Figure 2** - Model for the analysis of the board's level of involvement in the strategic decisions



The levels shown in the above model, ranging from 1 to 7, refer to the level of centralization of authority by the board, which can vary from greater decentralization, where the board does not participate in decision-making, to a situation where even operational decisions are centralized at board level.

In level 7, for example, the Board is not only responsible for most decisions, but also for implementing them. In level 4 – the one that is named balance – boards tend to share authority and responsibility with top managers and act as partners in the management of strategies.

We can see in

**Figure 2** that the higher the number assigned, the more centralized decisions are. However, increased centralization is not necessarily a better choice, because as the involvement increases, the board often becomes operational and this can bring problems to the company, slowing the decision – making process without making it better.

The number of companies represented in the results increases as you move towards a situation of balance (level 4), in which the board centralizes some decisions, and decentralizes others, while maintaining partnership with top managers. These results are aligned with propositions by many authors, who argue that the board should act as a consultant body that effectively contributes to better decision making in the organization.

The results obtained in this research show that, among the companies that participated in the survey, there is a greater concentration of companies at level 4 -- the balance.

## 6 CONCLUSIONS

This study proposes to analyze board involvement with the aid of a previously presented theoretical model. We have reached the conclusion that most company boards really get involved with strategic management, contrary to the typical assignment of the “controller” board. Some of them even centralize decisions that, according to most theoretical approaches, should be assigned to top managers.

As to decisions under the authority of the board, the results showed that the boards in this sample tended to centralize authority in decisions with major impact on the company, such as mergers and acquisitions. Although the level of participation of the board was considered high, this

is not common to most companies and therefore there was a high number of "not applicable" responses.

Other decisions that are commonly assigned to the boards are those related to control functions. Decisions concerning financial aspects occupied the second position in terms of participants' mean notes. As financial aspects are closely linked to aspects of control in the organization, such decisions are usually assigned to the board.

Finally as to the level of involvement of the board in strategic management, companies showed that they seek a balance between centralization and decentralization of decisions. This could be demonstrated by the spontaneous choice of one of seven levels of board involvement. The cases of companies that are in one of the extremes (1, 2, 6 and 7) are very few. In the interviews, respondents also mentioned this quest for a better balance.

This research has some limitations, such as its exploratory nature, since the size of the sample does not permit generalization. There is also the possibility of different interpretations of some of the questions among respondents, since the instrument was not entirely validated by previous studies. On the other hand, this study is innovative, since similar studies do not exist, to the best of our knowledge. We tried to minimize the limitations with in-depth interviews that were conducted before quantitative data were collected. The literature on boards' authority still needs more development, so this study could not be compared to previous ones.

We suggest that further research on the role of the board in strategic management should be carried out, especially with regard to stages of the strategic management process. Results suggested that boards tend to get more involved in the formulation stages, although we could not find enough information to confirm that; this, therefore, could be a suggestion for future studies. Another aspect noticed in the course of this study is that boards in family owned companies may have different characteristics, so we also suggest further investigation into this subject.

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