TITLE: “The Reflections of Environment and Board of Directors on Strategic Decision-Making Process and on Strategic Choices: A Study of Greek Listed Organisations”

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ABSTRACT

This paper develops an integrated model of strategic decision-making process and strategic choices of the upper echelons. The model is informed by four perspectives that respectively identify external corporate environment, board composition as well as board of directors’ characteristics, involvement in the strategic decision-making process as influence on the strategic decision-making processes and on strategic choices and consequently on the firm’s performance. Based on a sample of 105 Greek listed organisations in the Athens Stock Exchange, the findings of the study suggest that board members are likely to be more involved in the strategic decision-making process during environmental dynamism. The educational level of board members influences the rule formalisation and their tenure the lateral communication. In addition, female directors encourage organisational innovation compared to older executives who are reluctant to pursue process innovation strategies. Finally, it was found the executives’ educational specialty and tenure affect process innovation. The implications of the findings from the perspective theory and managerial practice are discussed, along with possible directions for future research.

Keywords: board of directors, corporate governance, strategic decision-making, Greek firms
INTRODUCTION

The interest of scholars in executives has increased over the past fifty years. In the strategic management research, executives play a dominant role in formulating corporate strategy and in determining the direction of the firm (Westphal and Fredrickson, 2001). During the last decades, academics and business practitioners have placed enormous attention on board of directors and how they affect the firm’s strategy.

The increased interest in board of directors has become more evident in the U.S and in Continental Europe as they have been involved in several strategic decisions of major corporations. The corporate scandals have been associated with lack of transparency regarding corporate governance policies and lack of monitoring and controlling role of board members. The recent corporate failures have increased the awareness that proper corporate governance is fundamental for an efficient operation of capital markets and have resulted in the proliferation of rating systems that provide a comprehensive evaluation of corporate governance practices of listed firms.

To address the situation, regulatory reforms have cascaded across the world (such as Sarbanes-Oxley Act in U.S., OECD in Europe, Cadbury code in U.K). The development and implementation of corporate governance codes is urgent as it has been driven by consumer activists, corporate shareholders but also government regulators in an effort to increase transparency and accountability and enhance investors’ confidence (Mallin, 2004).
LITERATURE REVIEW

The board of directors is an important mechanism-entity within the company that creates a link between the shareholders and managers and therefore plays an important role in the corporate governance system of the firm (Daily et al., 2003, p. 372). The board of directors is considered as the official first line of defence against managers who act against the interests of shareholders (Brennan, 2006). Therefore, the board has as obligation to determine the firm’s overall strategy and to ensure the protection of shareholders. The board of directors is the centre of the internal system of corporate governance and, in this scope, has the responsibility to assure long-term viability of the firm and to provide oversight of management.

The central tenet of upper echelons theory is that executives create a “construed reality” of the firm’s strategic situation based on experiences and board characteristics that lead to specific strategic choices (Herrmann and Datta, 2006). Interest in the upper-echelons perspective derived from the economic based view of strategy (Cannella, 2001). Upper echelon research on managerial elites’ demographic characteristics such as age, education, functional background as well as cognitive values and bases shed light on their effect on corporate strategy (Wiersema and Bantel, 1992). Several studies in upper echelons literature demonstrate that board of directors and mainly their experience influence firm conduct and performance by determining the overall strategic direction of the firm (Westphal and Fredrickson, 2001).
Board of directors is one of the most under-researched management topics. The research on board of directors is limited in scope and scale. Therefore, there is a need for further studies of board members structure and demographic characteristics, culture and process linked to theoretical traditions such as agency theory and managerial hegemony. Research on boards has been dominated by a tradition in which board composition is related to corporate financial performance (Johnson et al., 1996) and mainstream research has been heavily influenced by a research tradition from financial economics and theories treating the board as a so-called “black box” (Finkelstein and Mooney, 2003). Hambrick and Mason (1984) have introduced the upper echelons perspective in macro-organisational research. They suggest that “organisational outcomes-both strategies and effectiveness –are viewed as reflections of the values and cognitive bases of powerful actors in the organisation” (1984:193).

Therefore, there is a need for further studies of board members structure and demographic characteristics, culture and process linked to theoretical traditions such as agency theory and managerial hegemony. Many scholars have been studied the board-performance relationship with contradictory findings (Daily, Dalton and Cannella, 2003). The inconclusiveness regarding the impact of the board can be explained by the fact that there is an emphasis on board structure rather than on the background, experiences and competences of board members. The research so far is based on theoretical reflections about board role expectations, but actual board task performance is rarely measured (Gabrielsson and Huse, 2004). Therefore, scholars have to open the “black box” within board of directors’ dynamics and understand the impact of the environment on board as well as on strategic decision -making process and strategic choices. During the last decades, business literature focused on Top Management Teams research supported by contradictory findings but neglected the
role of the board in strategy formulation and in strategic choices, which stimulate researchers to dedicate more effort in this board’s study.

Our research is an expansion of the model of Hambrick and Mason (1984) regarding upper echelons and it is supported by mainstream theories in corporate governance and board of directors such as: agency, stewardship, resource dependency, institutional theory, stakeholder, and managerial hegemony theory. The research objectives of the study is to examine the phenomenon of board of directors and to investigate the environmental dimensions associated with board of directors and examine how of board of directors and their demographic characteristics influence strategic decision-making processes as well on strategic choice of innovation and consequently the firm’s performance.

METHODOLOGY

Our sample frame was Greek organisations listed in the Athens Stock Exchange. In Greece, corporate governance has been a topic of increased interest in the boardrooms due to spectacular crises of traditional Greek firms, which revealed the passive board supervision as well as the allegations of fraud against corporate executives. The collapse of the Athens Stock Exchange and the international pressures toward a more mature market status and shareholder-oriented model of governance is being directed at reforming the existing system. In last couple of years they have been established some legislations regarding corporate governance operations and behaviour of Greek corporations as well as the Greek legislation regarding corporate governance. Corporate governance practices in Greece as well our theoretical framework have not been examined empirically before. Therefore, it is required a careful consideration of
fitting research methods. There is a remaining gap in our understanding, since there is no theoretical similar work to our model, which will be examined empirically in a new cultural context; Greece.

We derived the list of 316 companies from the Athens Stock Exchange (ASE), since it is the sole official market of shares trading in the Greek capital market. We excluded those companies that were de-listed and the remaining sample frame consisted of 290 firms. In the late 2007, we sent questionnaire to board members of 290 firms. Hundred five companies returned completed questionnaires, for an overall response rate of 36.2%. In addition, for the purpose of the study we have extracted useful information regarding the composition of the board from secondary sources (such as proxy statements and annual reports from these companies).

RESULTS

The empirical findings of the study demonstrate that Greek board members during environmental dynamism are likely to be more involved in the formation of strategic decisions. Also, it was found that the frequency of the board meetings have an impact on the involvement in the strategic decision-making. Greek firms operating in both dynamic as well as complex environments pursue the following four strategic decision-making processes: financial reporting, rule formalisation, hierarchical decentralisation and lateral communication. The educational level of board members influences the strategic decision-making processes. More specifically, the bachelor’s degree holders pursue rule formalisation in the strategic decision-making process. However, the long tenured executives emphasise in the lateral communication. Regarding innovation strategies, the results suggest that female directors encourage
organisational innovation in Greek listed firms in the ASE compared to older executives who are reluctant to pursue process innovation strategies. Finally, it was found the executives’ with educational specialty in business administration as well as long tenures are more likely to focus on process innovation practices. It is worth to mention that inconclusive results were associated with board composition and the strategic decisions as well as with strategic choices.

**LIMITATIONS OF THE STUDY**

The study has to be examined in the light of its limitations. The fact that literature on board of directors is not so extensive and most of the issues are comparatively new to the context, in which we apply our research, might cause inconsistencies or drawbacks in our assumptions and findings. The sample consists only of listed companies from various industries, a fact that implies that we are not be able to make generalisations at the industry level. Another limitation of the study is that we are dealing with a variety of constructs in order to give a holistic perspective instead of focusing on one issue.
CONCLUDING REMARKS

In the influential study of Hambrick and Mason’s (1984) on upper echelons, it was suggested that executives’ characteristics provide filter and distortion of information in a three step process: experiences, values and personalities in a way that affect the field of vision, perception and interpretation of information-processing. However, few scholars attempted to explore the effect of executives’ characteristics on information processing and most of the cases with insignificant and contradictory findings (Hambrick, 2007).

From the foregoing review it is evident that the research on board of directors is limited in scope and scale. It is at early stage of development. Some aspects of the topic have shown unclear and controversial results. Moreover, the research so far is mainly based on theoretical reflections and not on empirical findings. The research that has been undertaken is narrow in scope, therefore it is required a more in-depth analysis of the relation and interaction of within the boardroom. Future research should also examine whether different organisational and environmental contexts have impact on corporate elites’ demographic preferences, structure and composition. Another significant research direction is to treat board of directors as decision-making groups and to encourage researchers to focus on board process and on what boards have to do in order to enhance their effectiveness. So far, majority of board of directors’ studies have been taken place in American organisations, so future research could have some useful insights if it is implemented in cultural context where board of directors and corporate governance practices are in infancy. Regarding the upper echelons perspective, we expect that it will still encourage new research directions.
both in theoretical framework and in methodology and it will contribute to the understanding of the most influential apex of the organisation; the board of directors.
REFERENCES


