

RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND BOARD OF DIRECTORS IN STRATEGIC PLANNING

Mathews George¹, Mridula Sahay²

Amrita School of Business

Amrita Vishwa Vidyapeetham University

Coimbatore, T.N., India

E-mail Id- ¹mathews1595@gmail.com, ²mridulasahay2001@hotmail.com

Abstract-The aim of this research paper is to understand the relationship between corporate governance and role of board of directors in strategic planning. This paper uses a causal loop structure which helps to analyze the relationship between corporate governance and role of board of directors in strategic planning. Strategic planning is an important process of an organization and corporate governance and role of board of directors has a significant impact. The causal loop helps us to understand this impact and how efficient the board of directors and corporate governance is, using various factors which are determinant to the performance of board of directors and can influence their decisions which in turn affect the company and its strategies. It helps us to understand the relationship between board of directors and corporate governance and their important obligations towards strategic. A strategic plan should include a mission statement that forms the framework for the establishment of strategic goals and an assessment of the company's present and future operating environment. This study focusses upon all these factors which are detrimental to company's future.

Keywords: Corporate Governance, Strategic Planning, Board of Directors, System dynamics

I. INTRODUCTION

Board of director's play an important role in strategic planning activities of any business or non-business activities. It is important, for companies to differentiate themselves from its competitors in this era. In this the Board's involvement can range from working with management to develop strategic actions to checking up on the decisions but it does not mean in interfering all that is done by the managers but setting up the direction for them in order to achieve the objectives of the organization. A strategic plan needs to include a mission statement to develop strategic goals and to evaluate the company as a whole in terms of products and other factors and how these factors are helping the company to achieve its goals. The companies need to have at least one meeting per year in order to plan and implement the strategies required for an organization. Board of Directors (BOD) is the top in the company's governance structure and has

individuals to represent the interest of shareholders selected by shareholders themselves. These people make sure that the decisions of the CEO are not against the interests of any of the shareholder. In the case of nonprofit organizations, the BOD serves the interests of the public and the organization. Under the guidance of a BOD, the CEO strategically manages the resources to achieve the company objectives.

The aim of this paper is to understand the relationship between board of directors and corporate governance in the strategy planning and to understand their impact.

II. LITERATURE REVIEW

II.1 Corporate Governance

Corporate governance is the method of controlling and managing corporations. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation and include the rules and procedures for making decisions. Reference [18] examined the importance of strategic planning process in excellence management systems (EMSs) and also studied on its efficiency, by an analysis of total quality management (TQM) and the organization's results. Reference [12] suggested a systematic approach of incorporating robotic systems in high risk areas like hospitals. Reference [25] states that corporate governance has always faced hinderances, by a complicated system of regulations, policy makers, and no exact measure find what constitutes success. The board also requires changes in terms of power, longer terms and shareholder rights. Reference [22] says that corporate governance is the pathway for the control and relationship among the various stakeholders of the business. Good corporate governance makes sustainable economic development so companies should adopt good governance practices and family business being a most important form of business ownership can influence the business world very much. Reference [23] observes corporate failure

through this case approach. This paper provides valuable insights into the various aspects in CG on the Caribbean and suggests responsible leadership approach to deal with agency problems and changing business nature. This paper also suggests in using a more basic approach to understand corporate governance and go beyond traditional approach.

II.II Strategic Planning

Reference [24] discusses about over forty empirical studies that have been used in examining the results of formal planning. This method of research has been heavily criticized and has produced confusing and contradictory results. This article also states that strategic planning is not a sustainable method. Reference [26] in his paper discuss that the majority of literature describes strategic planning (SP) as being effective in relation to improving corporate performance. The findings of the analysis show that strategic planning has a positive effect on corporate performance. Reference [27] says that Organizational performance is a main subject study in strategic management studies and it is considered as a driving force for organizations better performance. Reference [20] highlights planning can improve organizational performance. But forecasting and planning is costly so a framework on formal planning is suggested on how to use it for strategic decision making. Reference [21] suggests that Strategic planning is a useful and valid tool for any organization, even for healthcare organizations. The organizations size decides where it will be useful and the leaders of each level in these organizations are the ones who implement them.

II.III Role of Board of Directors in Corporate Governance

Reference [19] corporate failures in the recent time period have brought corporate governance into limelight. In this paper the working of corporate governance is discussed in relation to its size, structure and composition and the role of various board committees. Discuss about various activities and methods which can influence in creating effective management practices and also says that the exact knowledge in roles of the board process can ensure more effective performance by the board of directors as a group. Reference [7] discusses the various perspectives of corporate governance and analyzes whether effective board of directors address the shareholders' interests in terms of the various perspectives in corporate governance. The result indicates that board effectiveness positively

influences shareholders. Reference [2] examine the changes in the board structure with the changing company characteristics which are dependent on business environment, markets and practices in context with Malaysian companies which follows the Malaysian code on corporate governance, as CG has more importance in the recent times and it ensures the efficiency in board of directors. The study found out that board size in overall remained same while the board independence has seen a rise.

II.IV Role of Board of Directors in Strategic Planning

Reference [4] states a board of director as a legal requirement and in case of small companies owned by families it act as a support to the owner and annual meetings tend to be like a gathering of family members as they are the members of board. Reference [11] says that Corporate governance is a tool used for managing business in order to make the businesses more effective as various literatures reviews mentioned above has stated how it affects firm performance, firm value, and the various difficulties it faces and how to deal with them so that corporate governance make the businesses sustainable and useful to the whole of world. Whereas strategic planning is considered not as a sustainable product as it may be costly for some type of organizations even though strategic planning has been a driving force behind many organizations towards success and has helped in understanding the problems and the business environment. Reference [1] says that Role of board of directors is important in both strategic planning and corporate governance, in case of CG its size structure and composition have to be different for different organization and their knowledge, quality, independence etc. can even determine factors like bankruptcy and profit and also board of directors need to constantly strengthen CG. Where as in strategic planning the boards structure itself is to be strategized to get the correct contribution and how the board acts as a support to the owners especially in smaller organizations.

To understand the relationship between corporate governance, board of directors, system dynamics can be an appropriate tool

III. SYSTEM DYNAMICS

System dynamics is a way of thinking and set of conceptual tools that helps in understanding the structure and dynamics of complex systems. System dynamics is also a modelling method used to create computer simulations that can be used for better decisions. The basic principles and ideologies of

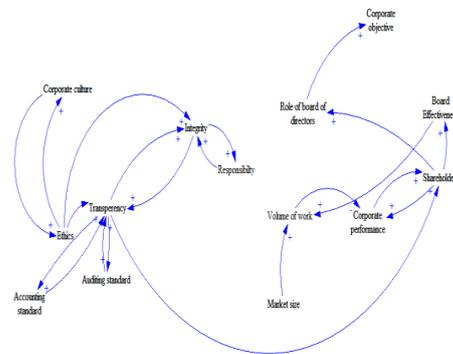
System Dynamics were developed in 1956 at the Massachusetts Institute of Technology by Forrester (1961). It is a mathematical modeling technique that is used for create a better understanding for complex problems or processes. It is a powerful modelling method to understand complex problems and policies. It uses software'sto develop to loops, stock and flows etc., so that complexity of decision making is less. It is currently used in both private and public sectors for analysis. It helps in understanding the complex systems. The basis of system dynamics is the understanding of the various circular, interlockingrelationships among the components. In system dynamics a problem is represented as a causal loop diagram which is a diagram with all the components interconnected using loops, that reveals the structure of the system and by understanding it we can understand its behavior.

The aim of the current study done by Reference[14]is to improve the performance of corporate by applying System Dynamics (SD) methodology. The paper shows the importance of system dynamics in the system dynamics modelling. The paper also gives a brief introduction on system dynamics modelling, of Steel Sector and the process adopted. Some variables for measuring corporate performance is studied in order to know the impacts of this model. The paper thus concludes that system dynamics is a very important tool in corporates decision making process because it helps in understanding corporate behavior using this tool and helps in decision making process.Reference[15] focuses on the corporate governance as a whole rather than focusing only on financial or other common issues, by using system dynamics modelling techniques. Reference [3] says that in their system thinking based qualitative analysis where a causal loop is examined in terms of strategy developed on the loop which is a corporate reform and analyzes how these reforms are able to meet the competition.Reference[13] tests the effect of system dynamics in decision making by using a set of controlled experiments and this study thereby focuses on creating awareness on the benefits of system dynamics-based decisions.

III.1 Relationship between Corporate Governance, Role of Board of Directors and Strategic Planning

Corporate governance, Role of board of directors and strategic planning are the important factors to an organization as they decide the performance, working environment,profitability, firm value etc., and each of these factors are interlinked in a way that the absence of any one of these make the

others useless. Corporate governance acts as the base of the organization and its effective implementation decides the organizational character which is to be done by quality board of directors who are independent and has good knowledge andare appointed as per the strategy and structure. These strategies but are made on needs and goals of the company and are also to be implemented by the same board of directors who should work based on the corporate governance characteristics.The composition of these three factors and how effectively each should link with the other one depends on the organization type, size and its goals, environment and other factors.



This causal loop diagram helps in understanding the relationshipbetween role of board of directors and corporate governance in strategic planning. Corporate culture has an impact on the ethics of the corporation as better the corporate culture it helps the employees to work in an ethical manner. It also acts the other way around as ethicality in the organization if given a high priority it helps to have good corporate culture to be developed in the organization. When the company has high ethical standards it helps in developing integrity among the workers to a higher level. Integrity wherein provides you with higher responsibilities as you are predictable in nature.And also higher the responsibilities the integrity of an individual in an organization environment should be raised to give maximum output. Integrity also helps in increasing the transparency of the organization as integrity ensures that organization is in order. Vice versa transparency ensures that integrity is also higher as stakeholders are keeping an eye along with the world

around you. Transparency is also ensuring that high auditing standards are used in the financial management of a company and higher standards in auditing increase the transparency of the organization and it is true in the case of accounting standards with respect to transparency as accounting standards raised ensures that financial management is in par with the required levels and ensure that no frauds of untoward matters are happening inside the company as it is not easy to find frauds if there is low transparency among the company. Transparency also acts factor that influences the shareholders, as shareholders are the main influencers to board of directors as the board of directors are the one who implements everything. If shareholders are involved more in the company's performance, they increase the importance of the board of directors and thus board of directors have in turn impact the corporate objectives and ensure the implementation of the objectives of the company. Shareholders have thereby increased the effectiveness of the organization by actively implementing their duties which are based on the information received through transparent organizational setup. Shareholders also improve the corporate performance as they are ensuring that nothing is out of the track and on the other way better corporate performance are what attracts shareholders into the organization and their contribution in terms of money and other activities. Corporate performance in turn is decreasing in case of the volume of work. If volume of work within the company increases without any capacity increase, it can lead to abysmal corporate performance. The volume of work but is dependent on the market size.

IV. CONCLUSION

The strategic planning process is influenced by the various factors of corporate governance and role of board of directors. Strategic planning is done to achieve the goals of an organization by using the available resources of an organization in an ethical and transparent manner. The board of directors, strategic planning and corporate governance are interdependent to each other. These factors influence the working environment and corporate performance. So, this causal loop explains how corporate governance and board of directors are affecting the strategic planning process which in turn affects the corporate performance. The corporate culture, ethics and responsibility which are attributes of corporate governance is the basics of an organization and can be implemented only through board of directors. Their effectiveness in implementing these, through strategic planning process is based on the size of market, volume of work and objective of the company. So, in

conclusion we can say that corporate governance and board of directors are influencing strategic planning process and its implementation individually and as a group. There are no researches on finding the relationship between corporate governance, role of board of directors and strategic planning using causal loop. This method can be used more often in finding solutions to complex problems in organizations.

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