Defining the strategic role of boards and measuring boards' effectiveness in strategy implementation

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Abstract

Purpose – *The purpose of this research is to explore the potential role and the measurement of the effectiveness of boards of directors in strategy formulation and implementation – two aspects that have so far been left largely unaddressed by corporate governance research and practice.*

Design/methodology/approach – *Based on insights from strategy process literature, the paper suggests that, by ensuring consistency between resource allocation processes and the firm's intended strategy, boards could fulfil a meaningful role in strategy implementation. The proposed outside-in analysis of resource allocation decisions is illustrated by a single case study of a major Swiss pharmaceutical company.*

Findings – *The proposed approach enables corporate governance scholars to look at how boards fulfil their role in strategy implementation from a perspective similar to that of financial analysts. It might thus be suited to complement existing methods in empirical corporate governance research.*

Practical implications – *The presented outside-in analysis of resource allocation decisions helps board members to prevent role conflicts with executive management. In addition, boards may benefit from an analysis of implementation consistency, because it enables them to detect weak early warning signals of strategic divergence that require early intervention.*

Originality/value – *The paper contributes to the discussion of alternative methods for exploring strategy issues in corporate governance research. The suggested approach outlines a potential new vantage point to investigate board involvement in strategy implementation in the event that action research is not feasible. The tentative findings from the case study put forward a set of indicators for measuring the effectiveness of boards in guiding strategy implementation.*

Keywords *Boards, Organizational behaviour, Organizational effectiveness, Strategic management*

Paper type *General review*

Introduction

In academic corporate governance research, it is also widely agreed that boards should contribute to corporate strategy (e.g., Goold and Campbell, 1990; Rindova, 1999; Zahra, 1990). But despite reasonable consensus on the board's responsibility for strategy, how boards should fulfill this responsibility has remained unclear (Hendry and Kiel, 2004, p. 502; Stiles, 2001). In sum, there is thus little consensus on the nature of this involvement (Hendry and Kiel, 2004). In parts this is due to the fact that the role of boards in strategy formulation and implementation is still an empirically understudied phenomenon in corporate governance research (Fiegener, 2005; Hendy and Kiel, 2004). In one of the most recent reviews of corporate governance research, Daily *et al.* (2003) thus continued to rank this topic under the most promising themes for future research and explicitly called for more focused studies on the board's role in strategy. Similarly, Pye and Pettigrew (2005) see further explorations of the process of board involvement in strategy inalienable.

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The absence of a clear consensus on the nature of boards' involvement in strategy and the lack of empirical studies in this area are due to a number of reasons. First, the lack of a clear definition of the board's role in strategy has been a major obstacle in exploring its effectiveness (Letendre, 2004; Sonnenfeld, 2002, 2004). Earlier studies conceptualized board involvement in strategy rather broadly and the meaning of involvement often varied across studies. Most critically, a clear conceptualization of what is meant by strategy in the first place has often been amiss. Second, extant corporate governance research has largely relied on a single theoretical perspective – agency theory. More recently, however, scholars noted that the one-sided use of the agency perspective in corporate governance research is inappropriate for explaining or conceptualizing boards' strategy roles (Daily *et al.*, 2003). Similarly, McNulty and Pettigrew (1996, p. 50) argued that ''little has been said by agency theorists about strategy as a means of control over managers''. More generally, board involvement in strategy has been judged a complex, multidimensional organizational phenomenon that cannot adequately be captured within a single theoretical perspective (Fiegener, 2005, p. 628). Third, scholars' limited access to strategic decision-making processes has clearly hamstrung the ability to generate deeper insights in this area (Chakravarthy and White, 2001; McNulty and Pettigrew, 1996). Researchers have so far mostly relied on proxies for the board's strategy role rather than a direct measure for it. Specifically, most studies have imputed boards' strategic involvement from its antecedents (e.g., board composition) or consequences, but have not directly observed actual board behavior (for notable exceptions see Ravasi and Zattoni, 2006; McNulty and Pettigrew, 1996; Stiles, 2001). According to Huse and Gabrielsson (2004) fewer than one out of eight empirical board studies published in leading scientific management journals are about actual board behavior. This shortcoming raises doubts about the viability of past findings on the impact of boards, for instance, on innovation or diversification strategy (e.g., Deutsch *et al.*, 2007; Yoshikawa and Phan, 2005; Tihanyi *et al.*, 2003) Of course, action research would be most desirable from an empirical research perspective (compare Huse and Gabrielsson, 2004). But, in fact, only a few researchers really have the opportunity to act as ''flies on the wall'' and to observe board dynamics in real time (Huse and Schøning, 2004; Winkler, 1987). As a result, thinking about new ways for investigating boards' roles in strategy becomes necessary. Thus, the two research questions this work addresses are:

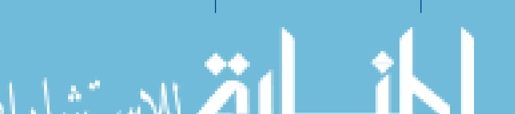
RQ1. What is a potential role of boards in strategy formulation and implementation?

RQ2. How can the effectiveness of boards be measured in fulfilling this role, if action research cannot be conducted?

The paper is structured as follows. First, we review extant literature on board's role in strategy formulation and implementation. Second, based on strategy process research, we offer a conceptualization of what board's role in strategy implementation actually means. We then illustrate how resource allocation decisions as a proxy for strategy implementation can be used for an outside-in analysis of boards' effectiveness. Third, we apply this approach to the strategic development of one of the leading Swiss pharmaceutical firms. We conclude our paper with an outline of the implications for corporate governance research and discuss the limitations of the suggested approach.

The role of boards in strategy formulation and implementation

Empirical findings on the extent of board involvement in strategy have remained largely miscellaneous (see Westphal and Fredrickson, 2001 for a review). Boards' involvement in strategy has been found to range from working with management to develop strategic direction to merely rubber-stamping managements' strategic proposals (Huse and Gabrielsson, 2004; Kemp, 2006; Stiles, 2001). Golden and Zajac (2001) therefore introduced the distinction into two broad schools of thought on board involvement in strategy: the ''active'' and the ''passive'' school. The ''active'' school perceives board members as independent thinkers who actively shape the strategic development of their organizations (Kemp, 2006; Walsh and Seward, 1990; Davis and Thompson, 1994). In contrast, the ''passive'' school views boards as rubber stamps (Herman, 1981), as ''creatures of the CEO'' (Mace, 1971; Pfeffer, 1972) whose only contribution is to satisfy the



requirements of company laws (Hendry and Kiel, 2004). Especially, earlier studies set in the 1970s and 1980s have contributed to the latter, more pessimistic view of board involvement in strategy (Mace, 1971; Herman, 1981; Judge and Zeithaml, 1992; Lorsch and MacIver, 1989). In his landmark book ''Directors: myth and reality'', Mace (1971) concluded that ''boards of directors of most studies do not establish objectives, strategies and policies, however defined. They do not ask discerning questions and they do not select the CEO'' (Mace, 1971, pp. 185ff.). Similarly, Lorsch and MacIver (1989) showed an infrequent and mostly sporadic board involvement in strategy formulation. However, the non-involvement of boards in strategy does not seem to be a mere relict of the past. More recent studies by Stiles and Taylor (2001) and Stiles (2001) showed that boards are not directly involved in strategy. Based on 51 interviews with directors of UK public companies, they found that a direct involvement may not necessarily be an integral part of the board members' own self-understanding. Still, Westphal and Fredrickson (2001) granted that boards indirectly influence strategic issues through CEO selection and board turnover.

More recently, however, scholars have realized that the board's involvement in strategy may not be uniform but likely to depend on various internal and external contingencies. For instance, Fiegener's (2005) survey study revealed that in small private corporations board participation in strategic decisions is not a dominant practice. In large firms, however, boards were found more likely to participate in strategic decisions. In a study of publicly listed Swiss companies, Ruigrok *et al.* (2006) found that boards' participation in strategy is generally lower where boards are highly interlocked.

But aside from methodological constraints and the obvious importance of internal and external contingencies, the mixed evidence seems to result from a poor or inconsistent definition of what board involvement in strategy really means. Admittedly, most researchers share a general understanding of what boards' role in strategy formulation looks like; it is widely understood to consist of multiple tasks, such as internal and external analyses of strengths and weaknesses, as well as strategic gaps, development of strategic options and advising the executive management in the final selection and formulation of a corporate strategy (Hillman and Dalziel, 2003; Johnson *et al.*, 1996; O'Neal and Thomas, 1998; Zahra, 1990).

In contrast, however, the understanding of the board's role in strategy implementation has remained fairly vague (Hendry and Kiel, 2004; Westphal, 1999; Zahra, 1989, 1990; Zahra and Pearce, 1989). As of today, relatively little is known empirically and theoretically about the nature and ideal form, frequency, scope and effectiveness of board involvement in strategy implementation (Fiegener, 2005; O'Neal and Thomas, 1998; Zahra, 1990). In line with its control function, we suggest that the board's role in strategy implementation should be to ensure that the intended corporate strategy is in fact realized. Even though this conceptualization seems fairly obvious from an agency perspective, it is essential because it introduces an important distinction between a firm's intended and realized strategy into the debate on the board's role in strategy. Extant studies on the role of boards in strategic decision-making have largely ignored the emergent nature of strategy and its implications for board involvement (for an exception see Stiles, 2001; Demb and Neubauer, 1992; McNulty and Pettigrew, 1996). But the more an organization is characterized by an emergent strategy-making process and the more fluid and fragmented decision-making processes are as a result of this, the less likely is the board to be formally involved in it. According to strategy process scholars such as Mintzberg (1978), Bower (1970) and Burgelman (1983), initially intended strategies may remain unrealized while new unforeseen elements may emerge in the strategy formation process. Considering emergent strategic behavior, strategy forms as ''a pattern in a stream of resource allocation decisions'' over time (Mintzberg, 1978, p. 934). The outcome of strategy formulation is the firm's intended strategy. According to Mintzberg (1978) the outcome of the strategy implementation process or realized strategy might differ from the intended strategic path. Thus, the intended strategy can be seen as the benchmark against which financial markets and shareholders measure company actions. Boards should intervene if intended and realized strategy diverges significantly or the realization of the intended strategy goes off track and corrective

actions are not taken by corporate management (Jensen and Meckling, 1976; Jensen, 1986).

The benefits of such an involvement of boards in strategy implementation are twofold: First, board members' involvement in strategy implementation is a precondition to perform their fiduciary monitoring duties. They can only fulfill legal requirements if they have a firm understanding of how management implements the intended corporate strategy they agreed upon (Andrews, 1981; Rindova, 1999; Zahra, 1989, 1990). For publicly listed firms, in particular, it is critical to be aware of divergences between intended and implemented strategies in order to explain to capital markets and other stakeholders why certain divergences from the intended strategy occurred and how they will be addressed and handled. Obvious divergences could raise serious concerns about the relevance of having a corporate strategy in the first place (Richter and Schmidt, 2005). Dependent on the individual situation of a firm (financial performance, track record), its competitive environment and industry dynamics, the optimal degree of consistency is likely to differ (Brauer and Schmidt, 2006). Under certain circumstances (e.g. technology shifts, external shocks) inconsistency could mean flexibility to react to environmental changes and to exploit opportunities ''outside'' the initially intended corporate strategy. As a result, boards should be able to ensure a ''balanced'' implementation consistency that satisfies share- and stakeholders looking for consistency, but also permits executive management to follow business opportunities ''outside'' the formulated corporate strategy.

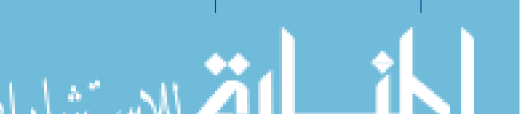
Second, such an engagement of board members in strategy implementation seems to be beneficial since they are often industry experts and operate at the interface of the firm's internal and external environment (Zahra, 1990). They are thus able to combine outside data about potential competitive changes with internal conditions, which is vital for the strategic positioning of the firm. Accordingly, they provide a well-informed but still ''out-of-the-box'' view enabling them to identify early warning signals that require strategy adjustments. Directors' expertise and familiarity with the implementation of, for example, divestments, turnaround or growth strategies might prove important if the firm decides to pursue one of these options (Zahra and Stanton, 1988; Zahra, 1990). In addition, due to CEOs' bounded rationality and tendency to be influenced by past experiences, boards with a high level of expertise are well-suited to assist executives in analyzing why shortcomings in strategy implementation occur (Cyert and March, 1963; Zahra, 1990).

Nonetheless, board involvement in strategy implementation should not be unrestricted but disciplined. Most importantly, a board should not directly engage in strategy implementation since such a direct engagement is likely to create role conflicts with the executive management of a firm. This concern is based on insights from upper echelons research that found that people who define and implement the strategy are much less likely to question their own ideas and less likely to move away from the beaten strategic path (Love *et al.*, 2002; Sundaramurthy and Lewis, 2003). A direct participation of boards in strategy implementation might be harmful since boards might adopt attitudes that validate the defined strategy (Fiske and Taylor, 1991; Staw, 1981). As a consequence, boards might lose their own critical capacity to continuously question the strategy if they have actively supported its implementation. Thus, they are subject to the same myopia executive management is thought to be affected by. Such a constellation would predetermine the strategic orientation of the firm.

In sum, the role of boards in strategy formulation is much better understood by corporate governance scholars than the role of boards in strategy implementation. There are numerous reasons which suggest that the board could meaningfully fulfil the latter role if it focused on assisting corporate management in detecting strategic divergences at an early stage and by proposing ways of how to manage such strategic divergences.

Assessing the effectiveness of boards in strategy implementation

From a corporate governance researcher's perspective and also from the point of rating agencies and the individual shareholder, the question of interest which builds on the



preceding discussion is: how effective boards are in monitoring the implementation of the firm's intended strategy, and how can this be measured?

As previously outlined by Huse and Gabrielsson (2004), action research would be best suited to assess how effective board members are in fulfilling the previously discussed role in strategy implementation. One major difficulty corporate governance researchers face, however, is that the chance for participatory observations is an exception rather than the rule (Pettigrew, 1992). The reasons for these difficulties lie in the confidentiality of strategic issues as well as the fact that today's increased legal accountability of board members makes them even less inclined to allow researchers to observe their behavior. Under the premise that only few researchers have opportunities to observe interactions between board members and between board members and executives, which could give an indication for their effectiveness in guiding strategy implementation, alternative methods are required for empirical investigations.

To address this problem, it seems appropriate to draw on the knowledge of research areas, which have specialized in dealing with strategy processes, their development and impact. We thus propose to look at the field of strategy process research that centers on the investigation of strategy formulation, implementation and strategic change (Van de Ven, 1992). A review of the evolution of the field of strategy process research reveals that it faced identical issues in its development. Akin to corporate governance researchers, scholars in the field of strategic decision making observed that ''real time studies of strategy process are difficult. It is unlikely that a firm engaged in a new strategy would allow a team of researchers to observe its evolution from multiple vantage points'' (Chakravarthy and White, 2001, p. 201). To overcome these difficulties strategy process scholars looked for methodological approaches which allowed strategy processes to be captured from outside the firm. Based on the experience gathered through in-depth case studies, strategy process scholars found it insufficient to look at how firms' intended strategies (articulated in the form of mission and vision statements (changed. This understanding was mainly based on the insight that a firm's strategy did not come about as part of a firm's single planning event at a specific point in time, but that a firm's de facto strategy was formed by a stream of resource allocation decisions taken on multiple levels of an organization (Ansoff, 1987; Burgelman, 1983; Mintzberg, 1978). Consequently, resource allocation decisions became the proxy for managers' role and effectiveness in strategy implementation. For instance, in the form of clinical case studies Noda and Bower (1996) and Burgelman (1983) gathered information about resource allocation decisions from public and archival sources to approximate the impact of multiple management levels on the development of a firm's strategy (Bower, 1970; Burgelman, 1996, 1983; Noda and Bower, 1996). In doing so, process scholars took advantage of the nature of resource allocation data. First, data on resource allocation is easily accessible as publicly listed firms are required to publicize important resource transactions, such as acquisitions, layoffs, divestments, investments, co-operations, joint ventures etc. Second, publicly available resource allocation data has a fairly high degree of reliability which is ensured by a number of institutional pressures (e.g. financial market pressure; legal obligations). Third, resource allocation data may be analysed qualitatively as well as quantitatively. With the help of structured databases, process scholars turned heterogeneous data into a joint and conclusive format. Most prominently, Van de Ven and colleagues demonstrated the usefulness of such a database approach in empirical strategy process research (Van de Ven *et al.*, 1999).

If we now combine the role of boards in strategy implementation as it has been defined in part one of the paper with the suggested approach of process scholars, we can conclude the following concerning the role and effectiveness of boards in strategy implementation: Boards should ensure that resources are allocated consistently with the firm's intended corporate strategy. Based on the assumption that resource allocation decision are reliable proxies for a firm's realized strategy, the extent to which resource allocation decisions are consistent with the firm's intended strategy can be taken as indication of the effectiveness of boards in guiding strategy implementation.

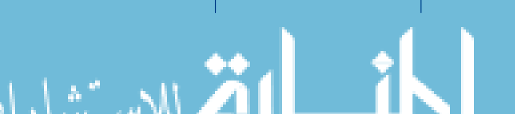
Methodology

In order to explore the usefulness of such an approach, we chose to replicate a strategy process research design, which has been used to investigate the function and effectiveness of managers in strategy implementation (e.g. Burgelman, 1983; Van de Ven, 1992).

We decided to conduct a longitudinal, retrospective, single case study given its suitability for analyzing resource allocation patterns over time (Eisenhardt, 1989; Yin, 1994). For the analysis of resource allocation decisions we selected a large publicly listed pharmaceutical company in Switzerland with a high reputation in terms of its corporate governance practices and overall management quality (as reflected in various governance ratings from Swiss Ethosfunds or PriceWaterhouseCoopers). We used publicly available information in the period from 1991 to 2000. 1991 was an ideal starting point for the study, due to the fact that in this year the firm announced a new, clearly articulated corporate strategy.

With the help of databases covering the most influential and reliable international public news services we collected a set of 760 resource allocation decisions for our sample firm over the ten year observed. We developed a database which allowed us to transform heterogeneous information into a common format and secured a high level of accuracy in the specification of the resource allocation decisions[1]. In order to provide a benchmark for the coding of single decisions, we used the announced corporate strategy of the investigated firm, as outlined in publicly available documents. Access to respective corporate strategy statements was obtained through press announcements and CEO speeches. Of course, statements about a new corporate strategy are sometimes purposely vague, for instance, for political or competitive reasons. Therefore, a certain degree of detail in the announced corporate strategy (as given in the case of the investigated Swiss multinational (is required. In an ideal world, the researcher should take the intended corporate strategy as agreed by board and management and captured in meeting minutes as the benchmark for coding. Even if the announced corporate strategy might not match the intended corporate strategy of a firm to a full degree, it provides at least valuable information shaping capital market expectations. For example, financial analysts evaluate firms' course of action along their announced strategies. Thus, boards and executive managers need to consider carefully whether they consciously announce strategic goals that differ from the intended strategy.

Each resource allocation decision was coded as to whether it is (a) in line with the announced strategy or (b) contrary to it. Otherwise, the decision was coded as (c) having no or a not recognizable (unknown) relationship with the announced strategy. Each category contained dichotomous alternatives and was rendered exhaustive by adding the coding option ''unknown'' (Krippendorff, 1980, p. 75). Individual decisions were rated as inconsistent with the announced corporate strategy if they were in outright contradiction to it or represented a modification of it. As an example of the latter, the investigated firm had committed to invest 500 million Swiss Francs in various non-core businesses over a five-year period. This decision was rated as a ''modification'' of its corporate strategy concept since it was clearly deviating from the company's explicitly cautious policy on acquisitions. Resource allocation decisions were coded as consistent if they were either in conformance with the announced corporate strategy, or if they could even be interpreted as an evident act of implementing the corporate strategy concept. In order to produce results as objective as possible, we used a conservative coding strategy. In cases where a clear positive or negative relationship between the announced corporate strategy and the decision could not be established, the observation was dropped from the analysis. The rating was done by two observers acting independently. They agreed in more than 85 percent of the cases on a single rating. If they disagreed, a third assessor sought to mediate between the two. An observation was only included in the subsequent analysis if a decision on a joint coding could be reached easily; otherwise it was eliminated. While a single resource allocation incident might not be very meaningful, hundreds of observations give clear indications as to whether resource allocations are consistent with the announced strategy over time or diverge from it. We stopped our data collection process when the resulting levels of consistency did not significantly change when new data was added.



Results and discussion

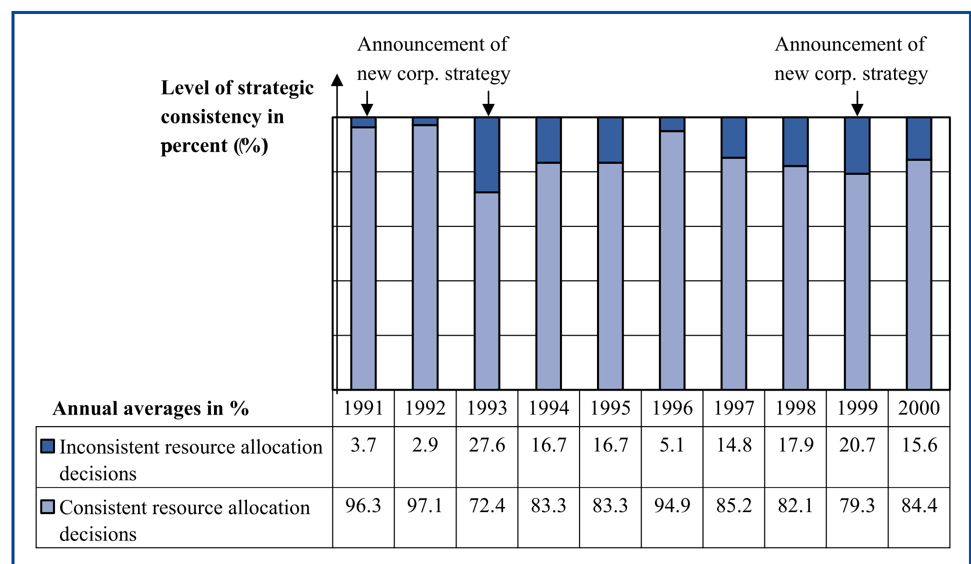
The frequency distribution in Figure 1 shows the development of the consistency of resource allocation activities with announced corporate strategy during the given period (1991-2000).

To provide a high-level overview, the consistency ratings were aggregated on an annual basis. A mean value of one hundred on the y-axis would represent full implementation consistency (consistency between resource allocation decisions and the announced corporate strategy). All collected incidents would thus have been in line with the announced corporate strategy. Any value below one hundred percent indicates divergence from the announced corporate strategy. We used unweighted averages in order to keep the empirical data unbiased at the outset (compare Van de Ven and Poole, 1995).

Looking at the development of the investigated resource allocation patterns over time in the current case, implementation consistency is found to vary between 72 and 97 percent. A first major turning point can be identified between 1992 and 1993. The first two years from 1990 to 1992 are characterized by a higher, more continuous implementation consistency as compared to the second period (1993 to 1995). After a significant drop in implementation consistency, the investigated firm announced a new corporate strategy in 1993 which was pursued until 1999. In the first three years after the announcement of this new corporate strategy, the firm managed to increase implementation consistency until 1996 (up to 97 percent). Surprisingly, though, the consistency levels started to decline up until 1999 when a new corporate strategy was announced.

Without going too deeply into the specificities of the firm's individual characteristics, its history as well as the surrounding contingencies, comparing the periods between the major turnings points (1993, 1996, 1999), a few interesting observations arise from this outside-in analysis of publicly available resource allocation data. In line with earlier findings in empirical research, strategy obviously unfolds continuously rather than being implemented in a single event (Mintzberg, 1978). This becomes apparent when looking at the ten-year period variance in implementation consistency levels. Also, we see that the time it took the firm to realign its resource allocation with its announced corporate strategy varied across the given period. If we take the development of implementation consistency as an indication for the board's effectiveness in guiding strategy implementation, the analysis allows us to derive a set of indicators, which might be useful for analyzing how effective boards are in guiding strategy implementation:

Figure 1 Implementation consistency levels in sample company (1991-2000)



Annual averages in %	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Inconsistent resource allocation decisions	3.7	2.9	27.6	16.7	16.7	5.1	14.8	17.9	20.7	15.6
Consistent resource allocation decisions	96.3	97.1	72.4	83.3	83.3	94.9	85.2	82.1	79.3	84.4

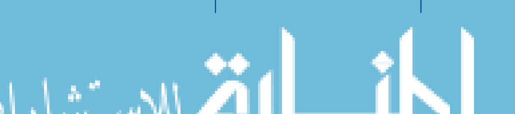
- The volatility in implementation consistency over time may give an indication of the board's general monitoring qualities.
- The different time lags between inconsistencies and corrective actions by the board may be taken as indicators for the vigilance of boards and its ability to detect early signals of divergence.
- The time it takes boards to correct inconsistencies and to once again establish a sufficient degree of implementation consistency may also serve as a valuable indicator for the effectiveness and sustainability of board interventions.

Conceptually, the approach further contributes to the increased interest in corporate governance research on the effectiveness of boards – particularly boards' effectiveness in fulfilling their strategy role (e.g. Fields, 2007; Nicholson and Kiel, 2004; Pye and Pettigrew, 2005; Roberts *et al.*, 2005).

Our investigation of a board's role and effectiveness in strategy implementation also bears a number of specific implications for corporate governance practice. Generally, the approach aims to instruct practitioners on how previous, high-level recommendations given in corporate governance codes and research may be put into business practice. Helmer (1996), for instance, asserted that the board's role in strategy was to establish standards and to approve and review strategy development against these standards. The nature of these standards, however, has remained fairly vague. We suggest that strategic consistency and the frequency and extent of divergences may be suitable standards to assess strategy implementation smoothness and indirectly also the quality of strategy formulation. Importantly, such a conceptualization of board's role in strategy seems not only theoretically meaningful but in line with boards' own self-understanding. In a study of the self-perception of boards in strategy implementation, Stiles (2001) unraveled that boards see two major tasks as predominant: setting the strategic context and acting as gatekeepers for new strategic proposals. By monitoring key resource allocation decisions, the board is able to asses the viability of the extant strategic context, and if it detects divergent but favorable strategic initiatives, it may function as a champion for these initiatives.

Our approach further suggests that board involvement in strategy implementation should be continuous rather than sporadic (Zahra, 1990). This means that board involvement should not be prompted by the departure of a CEO or a major crisis. Instead, our approach suggests that boards should continuously probe and monitor the firm's resource allocation processes in order to help an organization adapt to environmental changes. By fulfilling this role, boards may facilitate the construction, preservation and restoration of consensus regarding the strategic course of the company (Ravasi and Zattoni, 2006). In the face of diverging interests among different shareholders, facilitating this dialogue may be a valuable contribution to corporate effectiveness. Further, our approach suggests that board involvement in strategy implementation should also be disciplined. The board should not get overly involved in operational issues in order to preserve its critical stance and to avoid myopia regarding self-defined strategies (Love *et al.*, 2002). Moreover, our approach aims to highlight that the board's service and control function are not separate, mutually exclusive task sets. Monitoring the consistency of firms' resource allocation decisions is a viable mean of control over managers. But beyond the monitoring, boards are meant to assist managers in realigning realized strategy with announced strategy in the case of unwanted divergences. At the same time, such a disciplined approach helps board members to prevent role conflicts with executive management. In addition, boards may benefit from an analysis of implementation consistency, because it enables them to detect weak early warning signals of strategic divergence that require early intervention. Boards which monitor the course of implementation consistency may thus act more effectively than boards which act ex post through ousting the CEO. Overall, the suggested approach requests that boards bring guidance and vigilance not only to the formulation of corporate strategies but also to the ensuing resource allocation decisions which are taken in pursuit of these strategies.

Obviously, the conclusions from our single case should be drawn with healthy caution. It is just a first step towards the empirical exploration of a board's role in strategy implementation.



Our case study is a mere illustration of the suggested approach. If implementation consistency is meant to be used as a proxy for a board's effectiveness in strategy implementation, then we need to know more about desirable levels of implementation consistency.

Conclusion

Though highly desirable, primary, empirical research on board's role in strategy has remained sparse (Hendry and Kiel, 2004, p. 501). Although action research would be most fruitful, we need alternative vantage points to investigate board behavior in the event that participatory research is not feasible. Based on strategy process research which has faced similar constraints, we propose an outside-in analysis of resource allocation decisions in order to examine board effectiveness in strategy implementation. Despite its limitations, the proposed approach enables corporate governance scholars to look at how boards fulfill their role in strategy implementation from a perspective similar to that of financial analysts. Our approach might thus be suited to complement existing methods in empirical corporate governance research. At the very least, it might help researchers with limited access to the corporate elite to increase the effectiveness of interviews with key organizational informants by confronting managers with the results from such an outside-in analysis.

Note

1. Methodologically, our approach follows the tradition of event-based analysis (Abbott, 1992; Van de Ven and Poole, 1995). In strategic management research, such an approach is mainly used to generate rich case narratives. However, it may also be fruitfully combined with event study analysis used in corporate finance. The focus of this type of analysis is on the relationship between announcement of events (e.g. divestments) and stock market reactions (compare McWilliams and Siegel, 1997, for a critical review).

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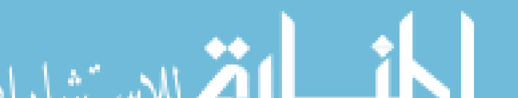

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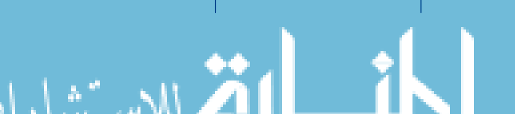

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