

# THE RELEVANCE OF BOARD COMPOSITION AND QUALITY ON A FIRM'S STRATEGIC DECISION MAKING

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## Abstract

This study theoretically examined board composition, its attributes and characteristics and its influence on decision making as regards to the performance of the organization. Board members to a great extent influence organizations' policies and decision making, this has in turn provided a 360 turnaround for the overall growth of firms.

**Keywords:** Board composition, Board structure, Firms' strategic decision making.

## Introduction

Board composition refers to the way in which the board of directors of a company is structured and the characteristics of individual board members; in terms of their age, experience, gender, tenure, outside interests and ethnicity to mention a few.

Ongore *et al.* (2015) characterized board composition as corporate board size, the blend of non-autonomous and dependent board of directors and other fundamental qualities, for example, sexual orientation diversity. Board composition is the number and the kind of board individuals, board demographics, board structure, board education, number of meetings and evaluation, and board leadership (Zahra & Pearce, 1990, 1992). Other researchers have characterized board structure/composition as the division of outside board individuals on the corporate board when contrasted with their non-independent (Uadiale, 2010; Lawal, 2012).

A corporate board ought to be made out of individuals having appropriate aggregate range of abilities to control corporate methodology effectively (Johnson, 2010). As per Johnson, accomplishing this end through the underlying choice of board individuals or altering the enrollment of a current board is nevertheless a cumbersome task. This is on the grounds that the board is accused of ensuring that the undertaking verifies investors' rights, has sound operational controls set up and raised measures of straightforwardness and exposure. The board is additionally accountable for planning and controlling everyday tasks and is mindful to financial specialists for its performance (Bowen, 2008).

Scherrer (2003) asserts that the fiduciary role of directors of corporations is to secure the shareholders. Hence, the need to study the relevance of board composition and their qualities in firm's strategic decision making. Nevertheless, individually and collectively, board members must be possessed of characteristics or attributes that enable them to utilize that information to the advancement of the firm and offer policy direction that is consistent with the firm's objective interests.

According to Irungu (2007), decision-making processes reflect the composition, attributes and qualities of the decision makers.

Strategic decision-making is essential to firm performance. Scholars continue to debate the extent of influence in strategic decision-making by corporations' board of directors (BoDs) and the top management teams (Ireland and Miller, 2004). Some scholars argue that strategic leadership is vested in the board of directors; they also come up with the vision, formulate the corporate mission, identify the core values and generate policies for the alignment of the firm to the environment (Finkelstein & Hambrick, 1996; Bathula, 2008). The board is assumed to also make decisions on succession planning and board management relationships that have long-term implications on firm performance. On the other hand, other scholars argue that it is the top management teams (TMTs) that make strategic decisions, which influence firm performance

(Irungu, 2007). Consequently, there is need to establish the contribution of the board members' composition and quality to strategic decision-making processes, and by extension the firm performance.

On the positive side, boards of directors influence firms' strategies in two main ways namely; decision control and decision management. Fama and Jensen (1983) asserted that most of the boards review strategy and performance as a way of measuring firm success. The influence of the decision-making process might be demonstrated by the board's involvement in the monitoring and advisory role to the top management teams of their organizations in strategic issues (Mizruchi, 1996; Scherrer, 2003).

The board develops the mission, strategies, and general direction for an organization. People with particular qualities, suppositions, and connections to various individuals and networks involve the governing body and it pursues that the individual attributes of the people who serve on the board will impact the mission, approaches, and overall direction of an association. Thusly, having agents of various populations on a top managerial staff will directly affect the mission, approaches, and overall heading of a non-profit firm.

A diverse and comprehensive top managerial staff ordinarily gives an association connections to numerous groups, connections that can open up different chances to fabricate key coalitions. A homogeneous governing body, then again, will in general form coalitions with similar groups again and again and is frequently self-propagating.

Board involvement in decision-making describes the overall level of participation of board members in making decisions that affect the long-term performance of an organization (Judge and Zeithaml, 1992).

Boards of Directors have been known to influence the strategy of their firms in two main ways; through "decision control" activities. Such activities included evaluating past choices made by top management, performing high-level reviews of strategic plans, and monitoring executive and firm performance (Fama and Jensen, 1983) and through "decision management" exercises, for example, sanctioning key proposition, making examining inquiries about vital issues, and detailing, assess, and settle on vital choices (Judge & Zeithaml, 1992).

Decision control is the board's most major responsibility, yet decision management is not traditionally considered a necessary board role (Fama & Jensen, 1983). The strategic decision-making processes include but not limited to agenda setting to prioritize what is strategic, the use of board committees to recommend making 'minor' decisions and only referring key issues to full board and the incorporation of task forces to hasten decision-making.

From the foregoing, it can be concluded that Board composition and quality are very relevant in key basic leadership since the boards of directors provide leadership, control and direction to the organization that they govern. They are also responsible for determining the company's overall

aims and strategies, plans and policies (Mallin, 2007: 124). They are viewed as an essential system substance within the organization that makes a connection between the investors and directors and in this manner assumes an imperative job in corporate governance system (Forbes and Milliken, 1999; Monks and Minow, 2008). The other roles of the boards are institutional, strategy, ethical, disciplinary, figurehead, auditing and class hegemony (Zahra and Pearce, 1989).

These roles can be summarized as linking, coordinating, control, strategic, maintenance and support of firms' resources and management teams. The main jobs of boards of directors are: to link the organization to the critical resources in the external environment; play administrative and internal control roles notwithstanding the formulation of policy and monitoring of management (Pfeffer, 1972; Fama and Jensen, 1983; Ongore, 2008).

Since boards of directors are key pillars of corporate governance in the running of organizations, a comprehension of the effect of their composition and quality on firm performance are necessary (Balta, 2008). This necessity is driven by the acceptance of the strategic role played by the boards in decision-making.

## **Conclusion**

Board members translate valuable experience to the organization and board-level perspective on their current role which places them for future leadership positions. The study has established that the board composition and quality has a positive and significant effect on the vital basic leadership processes.

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