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THE BOARD OF DIRECTORS  
AND  
STRATEGIC PLANNING:  
A SURVEY OF BOARD CHAIRMEN

By

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A DISSERTATION

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## ABSTRACT

### THE BOARD OF DIRECTORS AND STRATEGIC PLANNING: A SURVEY OF BOARD CHAIRMEN

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Planning and, subsequently, the planning process, are not limited to any particular level of management. Planning is applicable to the board of directors, at the highest level, down to the product manager at the individual product line or product. The board's involvement, however, is of particular significance, because of its unique pervasive impact on management decisions.

To attain an understanding of the current role of the board in the strategic planning process, the project focused on three broad areas of board involvement and impact:

1. The specific strategic planning process activities in which the board is involved;
2. The organizational levels affected by the board's involvement; and
3. The degree to which the board influences the strategic planning activities on the specific organizational levels.

John W. Henke Jr.

Several important findings concerning the relationship of the board and strategic planning were uncovered from mail questionnaire responses of board chairman of 234 Fortune ranked firms:

1. The relationship of the board to the strategic planning process can be summarized by a model consisting of three components: the board's perceived responsibilities, the time involved, and the board's impact;
2. The board is generally perceived to be not involved in the strategic planning process, although their actions suggest otherwise;
3. Boards with subcommittees whose responsibilities include strategic planning are most involved and have the greatest influence on the strategic planning process, while boards that are perceived to be involved as a whole board and boards that are perceived to be not involved in the process have generally equivalent involvement and influence on the process;
4. The board functions primarily as a reviewer and/or approver of management's recommendations, rather than as an initiator and/or determinor of strategic planning decisions;
5. The board's strategic planning decisions focus primarily on the corporate level;
6. Distinct differences in board involvement and influence within industries, suggest a lack of direction for board participation in the planning process;
7. Outside members' expertise, skills, and objectivism are not fully utilized in arriving at strategic planning decisions; and
8. Boards tend to focus involvement in the strategic planning activities according to particular orientations, e.g., planning, financial, external.



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To Janet,

for her patience,perseverance, and tolerance.

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## CHAPTER ONE INTRODUCTION

### The Purpose of Planning

"...the first task of management is to make sure of the institution's capacity for survival, to make sure of its structural strength and soundness, of its capacity to survive a blow, to adapt to sudden change, and to avail itself of new opportunities."

- Peter Drucker,  
Managing in Turbulent Times

To be certain that the firm is prepared for the future, management must have a good understanding and appreciation of the internal and external environments that will affect the firm and must be able to deal effectively with them. This understanding and appreciation includes recognizing and responding to opportunities as they become available and being able to anticipate and neutralize threats before they become damaging. To do these things requires continual attention to probable futures and a determination of ways in which to ensure the firm's future viability.



The current and anticipated conditions under which businesses must conduct their operations are difficult:

- Slow-growth economy;
- High inflation rates;
- Raw material scarcities;
- Increasing worldwide competitive pressures;
- Increased pressures to conform to the demands of special interest groups; and
- The shrinking of the world because of decreasing communications times.

The effects of these environmental conditions require careful assessment and planning if the firm is to cope with them effectively. Many companies use organized planning activities as a means of dealing with these issues. This has resulted in planning being recognized as an increasingly important activity that can help to ensure the firm's long-run vitality.

The importance of planning within the firm has been further substantiated by the suggestion that the highest level of the firm -- the board of directors -- must be involved:

"Somebody [the board of directors] has to make sure that the top management thinks through what the company's business is and what it should be. Somebody has to make sure that objectives are being set and strategies are being developed. Somebody has to look critically at the



planning of the company ..."<sup>1</sup>

This involvement has also been observed by Mace,<sup>2</sup> a student of board activities.

Additional numerous instances indicate the increased importance of planning in the business community. More and more companies are creating planning staffs; the number of planning articles and books published in recent years has mushroomed (see Bibliography), as has the development of strategic planning seminars for business people. Consulting firms specializing in strategic planning, such as the Strategic Planning Institute with its Profit Impact of Marketing Strategies (PIMS) Program and Strategic Planning Associates, have experienced rapid growth during the last several years. In addition, popular business magazines, such as Fortune and Harvard Business Review are publishing articles related to strategic planning more frequently. Also, Business Week now regularly includes a section describing the strategies of individual firms. The variety and frequency of these activities are indicative of the increasing emphasis business has been placing on planning activities during the past several years.

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<sup>1</sup>Peter F. Drucker, Management: Tasks, Responsibilities, Practices. New York: Harper & Row, 1974, pp. 631.

<sup>2</sup>Myles L. Mace. Directors: Myth and Reality. Boston: Harvard University, Graduate School of Business Administration, Division of Research, 1971, pp. 6-7.

### Planning Within the Firm

The emphasis on planning is manifested within the individual firm in two managerial concerns: 1) making certain that the right things are being done, and 2) making certain that what is being done is being done right. The first concern is related to effectiveness, the second to efficiency. To do the right thing, that is, to be effective, requires that management have an awareness of its external environments. To do things right requires that management be aware of the firm's internal environment, as well as mastering its control.

Control of the internal environment is essential since management has limited resources. Consequently, prudent judgment must be exercised by management when allocating the firm's resources in response to the conditions of the external environment. To do this successfully requires considerable insight, for maximum benefit will be wanted for every resource used.

To meet this end, at least two conditions must prevail:

1. Relevant information concerning the external environment and internal company conditions must be readily available in a timely manner to the firm's decision makers; and
2. A framework, approach, or process to integrate the relevant information with the direction the firm wishes to pursue must be used to produce viable plans.

These two conditions imply that a firm should have a planning system that is capable of gathering pertinent reliable data and is also capable of generating pragmatic plans to meet the firm's desired end results.

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The essence of the planning system is that it provides management a framework from which to look at the probable futures and relate what it sees to today's situation. The process associated with the system helps determine what information concerning the external environment and the firm's internal conditions should be gathered. It provides direction regarding the ways in which the data should be analyzed and the means to determine the direction the firm should pursue. Once the best direction has been decided, the planning process helps management determine what steps must be taken in the day-to-day operations to attain the end that has been determined.

If properly designed and implemented, the planning system will help management do the right things and do these things right.

### Definition of Project

#### Purpose

Planning and, subsequently, the planning process, are not limited to any particular level of management. Planning is applicable to the board of directors, at the highest level, down to the individual product line or product. Each level uses similar planning activities to determine the end results it hopes to attain. However, each level is concerned with different specific end results. The board of directors, typically, is concerned with the overall direction the firm should pursue, while the divisional manager is concerned with the direction of the division within the framework the directors provide. At the lowest

level, the product manager is concerned with the continued success of the product line and/or individual products. All of these concerns are important to the firm, for success at every level is essential for its continued vitality. However, the direction provided management by the board of directors is of particular significance, because of its unique pervasive impact on management decisions.

This project will evaluate the role of the board of directors of domestic-based firms. The intent is to define the current role of the board in the planning activity, to determine if the board is meeting its planning responsibilities, and, if more involvement appears desirable, to provide suggestions for this increased involvement. The project will provide insight into the pragmatic world of strategic planning at its highest level within the firm.

#### Anticipated Results

To attain an understanding of the current role of the board of directors in the strategic planning process, the project will focus on three broad areas of board involvement and impact:

1. The specific activities of the strategic planning process in which the board of directors is involved;
2. The organizational levels affected by the board's activities; and
3. The degree to which the Board influences the strategic planning activities on the specific organizational levels.

Realization of business' current practices, concerns and understanding

of the strategic planning process at the board level will be the basis for determining if the board is meeting its responsibilities and what additional involvement, if any, the board should have in the future. Also, this information and data will be a source of new ideas and concepts which could help the individual firm improve the effectiveness and the efficiency of its strategic planning procedures.

### Procedural Approach

The chairman of the board of directors will have to be approached directly to determine the involvement of the board in the firm's strategic planning activities.

However, it will first be necessary to obtain some background information and data on this role of the board. The background information will provide the basic knowledge and insight necessary to develop meaningful questions whose answers will help meet the goals of the project.

To meet this end, two areas of the literature were reviewed: the activities associated with the strategic planning process and the relationship and involvement of the board with the strategy formulation process. Chapter Two discusses the strategic planning process, with primary emphasis on the activities of the strategy formulation process. The discussion provides the basic groundwork necessary to understand and appreciate the board's role in the strategic planning process. It does not consider the involvement of the board in specific activities. That is left for Chapter Three.

Chapter Three focuses on the board's activities. Within this chapter, the involvement of the board in the firm's strategic planning process is discussed. The relationship of the board with each of the activities of the process described in Chapter Two is developed.

This information formed the basis for the research design and methodology of the project, described in Chapter Four.

## CHAPTER TWO STRATEGIC PLANNING PROCESS OVERVIEW

### Introduction

Before an understanding of the relationship of the board of directors and the strategic planning process can be reached, an understanding of strategic planning is essential.

### Strategy Defined

Let's first look at the end result of strategic planning-strategy. Strategy has been defined by numerous authors during the past quarter century. Unfortunately, the definitions have not been consistent, nor have they been built upon previous definitions over the years. Consequently, no single definition has evolved which provides a greater depth of meaning and understanding. However, analysis of a cross section of these definitions (Appendix A) and of several other alternative ways of looking at strategy (Appendix B) provides the basis for developing an understanding of the essential nature of a strategy.



In light of these observations, a generic definition of strategy as applied to the profit or non-profit enterprise can be developed:

Strategy is a plan, which can occur at any level within the organization, that relates the internal environment of the organization with its external environment in a manner designed to achieve a specific end result over the long term.

### Strategic Planning Defined

As with strategy, various definitions of strategic planning have appeared in the literature during the past twenty-five years (Appendix C). By evaluating the components of these definitions and their relationship to the definitions of strategy, a generic definition of strategic planning can be developed.<sup>3</sup> Strategic planning is defined as:

1. Performing the activities associated with determining the goals and the objectives to be attained over the long term;
2. Determining the best alternative for attaining these goals and objectives given the most appropriate match that can develop between the resources that are available (internal environment) and the external environment in which the goals and objectives are to be pursued, and;
3. Relating this alternative to operating plans.

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<sup>3</sup>There are within the firm two basic kinds of planning, strategic planning and operations planning. This section develops the concept of strategic planning. Operations planning and its relationship to strategic planning are discussed in Appendix B.

## Strategic Planning and Strategy Relationship

Given this definition, the relationship between strategic planning and strategy becomes apparent. Strategic planning is the decision-making process that develops the plan which is the strategy. This process can be used at any level or within any function of the business organization. Consequently, strategies can be present at any level or be associated with any function within the firm.

### Strategy Formulation Process

#### Value of Formalized Process

The definitions of strategy and strategic planning imply that the process associated with these managerial activities is reasonably complex. In any complex situation without direction the individuals involved may, at the very least, be inefficient in carrying out the related tasks. At worst, they may never complete the project. These concerns certainly pertain to the strategic planning process.

The use of a formalized approach to formulate strategy will provide a means by which an awareness and understanding of strategic planning concepts and precepts can be developed within the firm. This will help reduce the probability of failure due to improper implementation of the functions associated with the strategic planning process. The specific step-by-step approach of a formalized process will contribute to the

success of the process, which might otherwise fail because of lack of management understanding and commitment.

The strategic planning process has a greater assurance of being implemented properly when the involved parties have an awareness of the specific steps that must be followed, the order in which they should be followed, and the information and data that must be gathered during each step. In addition, if an effort is made to ensure that management is aware of these steps and their components, a better understanding of the process will ensue and, typically, a greater commitment will be realized.

The benefits derived from an organized, disciplined approach to strategy formulation will affect other areas of the organization. An awareness in the business community that a firm's management uses a formal approach to strategy formulation may enhance the firm's opportunities to attract higher caliber management personnel and also positively affect its financial reputation.<sup>4</sup> However, lack of the broad perspective that planning provides may adversely affect the management performance of those individuals not involved in planning.<sup>5</sup> These observations suggest that use of the formalized planning process results in superior organizational performance. However, it must be kept in mind that the use of a formalized approach to developing strategic plans is not a guarantee to success. The quality of the strategy

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<sup>4</sup>Brian W. Scott, Long-Range Planning in American Industry (New York: American Management Association, 1965), p. 196.

<sup>5</sup>Ibid., p. 195.

determines success or lack of success.'

### Activities

The definition of strategic planning implies that the practitioner is involved in numerous activities:

1. Performing the activities,
2. Determining the best alternative, and
3. Relating this alternative.

What are these activities?

Table 2-1. Strategic Planning Formulation Process.

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|--|
| <ol style="list-style-type: none"><li>1. Situation Analysis</li><li>2. Objectives Determination</li><li>3. Environmental Analysis</li><li>4. Resource Analysis</li><li>5. Divergence Analysis</li><li>6. Strategy Alternatives Determination</li><li>7. Strategy Choice</li><li>8. Contingency Plans Determination</li><li>9. Implementation and Control</li></ol> |
|--|

Numerous elements have been proposed as constituents of the formalized strategic planning formulation process.<sup>7</sup> These elements tend to be related to nine major activities. The activities and their typical order of occurrence are shown in Table 2-1. These activities and their order have not been suggested by a single author or group of authors. They are a generic derivation. Various opinions expressed in the literature regarding what steps should be included in the strategic planning formulation process provided the basis for the derivation (Appendix D).

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<sup>7</sup>J. Thomas Cannon, Business Strategy and Policy (New York: Harcourt, Brace, & World, Inc., 1968), pp. 11, 16; John Argenti, Corporate Planning: A Practical Guide (Homewood, Ill.: Dow Jones - Irwin, Inc., 1969); C. Roland Christensen, Kenneth R. Andrews, and Joseph L. Bower, Business Policy: Text and Cases, 4th ed. (Homewood, Ill.: Richard D. Irwin, Inc., 1978), p. 125; Hugo E.R. Uyterhoeven, Robert W. Ackerman, and John W. Rosenbaum, Strategy and Organization: Text and Cases, rev. Ed. (Homewood, Ill.: Richard D. Irwin, Inc., 1977), p. 7; William F. Gluck, Business Policy: Strategy Formulation and Management Action, 2nd ed. (New York: McGraw-Hill Book Company, 1976), p. 3; Harold Koontz and Cyril O'Connell, Principles of Management: An Analysis of Managerial Functions (New York: McGraw-Hill Book Company, 1955), p. 504; Robert L. Katz, Cases and Concepts in Corporate Strategy (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1970), pp. 101, 195, 205; H. Igor Ansoff, Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion (New York: McGraw-Hill Book Company, 1965) pp. 5-8, 119, 221; Frank T. Paines and William Naumes, Strategy and Policy Formation: An Integrated Approach (Philadelphia: W.B. Saunders Company, 1974), p. 7; Scott, p. 22; Hofer and Schendel, p. 47; Gerald R. Prout, "Corporate Social Strategy in a Post-Industrial World," Public Relations Quarterly 20 (No. 3; Fall 1975): 18-22.

### Situation Analysis

The initial step in the strategy formulation process is concerned with the present situation. Information and data that pertain to current conditions are gathered during this step. The intent of this activity is to provide an understanding of what the present situation is and what direction is being taken.

To attain the desired level of understanding requires the gathering of detailed information related to the products offered, the markets served, and their relation to competition. In addition, the marketing, manufacturing, and technical capabilities relative to market position and to competition should be defined. An awareness of the market position and the relative capabilities of marketing, manufacturing, and technology add considerable insight into the current situation. This information, coupled with an awareness of the direction management is taking, defines the present business situation. The end result is a more complete understanding of the probable future, assuming no changes take place.

Without an awareness of the present situation and the direction being taken, the ability to successfully complete the subsequent steps is questionable. This is particularly true of the environmental analysis step.

### Objectives Determination

There is a need to focus all planning activities of the firm in one direction. Also, management must perceive some reward for carrying out the planning activities and pursuing the end results that have evolved from these activities. Clearly defined objectives serve this purpose.<sup>8</sup> Early definition of the end results that are sought is important, for it provides a reference point throughout the process. Consequently, management can determine whether what is being done or what has been concluded should be accepted, rejected, or modified.<sup>9</sup> In addition, an awareness of the objectives is necessary to determine how and what resource trade-offs should take place.

### Objectives and Goals

Role in formulation process. The above paragraph suggests that objectives are synonymous with end results. This is the case; however, the relationship is more involved. The complexity arises because of the relationship with goal determination, another important aspect of the formulation process. The importance of the role of objective and goal determination is implied by the general agreement that decision making within a firm should be guided by and be consistent with the overall

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<sup>8</sup>Kudla, *ibid.*

<sup>9</sup>Prout, *ibid.*

objectives of the firm.<sup>10</sup> If objectives and goals are so important, what are they and how are they related?

Objectives defined. Objectives are general, philosophical statements that serve as long-range guidelines for the direction and the operation of the firm. Measurement or implementation techniques are not associated with objectives.<sup>11</sup> In this sense an objective is an end result or end of action being aimed for, but because of its philosophical nature it must be continually strived for; as such it can provide direction to intermediate decisions and actions but cannot be achieved in an absolute sense.<sup>12</sup> The general philosophical nature of an objective suggests that an objective ought to stand the test of time, is best expressed qualitatively, must be relevant to a wide range of circumstances without being vague, and is general in tone and expression yet unambiguous in meaning.<sup>13</sup> This is certainly a heady definition, but, nevertheless, one with which several authors tend to agree in principle.<sup>14</sup>

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<sup>10</sup>Jackson E. Ramsey, "A Framework for the Interaction of Corporate Value Objectives, Corporate Performance Objectives, and Corporate Strategy," Journal of Economics and Business 28 (No. 3; Spring-Summer 1976): 171-180.

<sup>11</sup>Ibid.

<sup>12</sup>Charles H. Granger, "The Hierarchy of Objectives," Harvard Business Review 42 (No. 3; May-June 1964): 63-74.

<sup>13</sup>H. Redwood, "Setting Corporate Objectives," Long Range Planning 10 (No. 6; December 1977): 2-10.; and Richard F. Vancil, "Strategy Formation in Complex Organizations," Sloan Management Review 17 (No. 2; Winter 1976): 1-18.

<sup>14</sup>Ansoff, p. 38; Cannon, p. 264; Koontz and O'Connell, p. 433; Glueck, pp. 3, 21-22, 25-27, 31.



Goals Defined. Goals are considered to be an element of an objective.<sup>15</sup> They are a specific, quantitative end result that is to be attained within a specific time period.<sup>16</sup> The implication of this definition is that objectives are related to strategic planning by providing broad long-range guidelines while goals, which are based on and derived from objectives, are related to operational planning by providing specific short-range ends to be achieved.

### Summary

Unfortunately, despite the clarity of the above definitions, the literature contains mixed uses of the words objectives and goals. Several authors either have not indicated a difference between the two words<sup>17</sup> or have reversed their meanings.<sup>18</sup>

The pervasiveness of the use of objectives and goals in defining strategy (Appendices A and B) and strategic planning (Appendix C) dictates that this difference of opinion should be resolved. For the purposes of this project, the meanings of objectives and goals as

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<sup>15</sup>Ansoff, p. 40.

<sup>16</sup>Ramsey, *ibid.*; Redwood, *ibid.*; Cannon, p. 264; and Uytterhoeven, Ackerman, and Rosenbaum, p. 17.

<sup>17</sup>W. R. Haines, "Corporate Planning and Management by Objectives," Long Range Planning 10 (No. 4; August 1977): 13-20; Paine and Naumes, p. 13; Andrews, p. 28; and Coehn, *ibid.*

<sup>18</sup>E. J. Giblin and F. Sanfillipo, "ME0: A Misunderstood Tool for Creative Planning," Managerial Planning 26 (No. 6; May 1978): 4-10.; and Hofer and Schendel, p. 20.

defined by the majority will be accepted as most appropriate. That is, objectives will be considered to be vague timeless ends, which are constantly strived for, while goals are specific measurable ends to be attained within a specific time limit; objectives are strategic in nature while goals are operational in nature.

Examples of these definitions are:

<u>Objectives</u>	<u>Goals</u>
1. Maintain market share leadership	1. Achieve 33% market share during fiscal year
2. Maintain a well-trained work force	2. Have all foremen and supervisors attend two-week Michigan State University training program by year's end
3. Maintain profit levels to permit below prime borrowing	3. Maintain average gross profit margin of 24%

## Environmental Analysis

### General Considerations

The environmental analysis is concerned with acquiring information pertaining to the external environment. Evaluation of this data leads to the determination of the opportunities and threats that exist in the marketplace. It also helps to determine the risks associated with the opportunities. To meet this end, relevant data regarding economic, technological, competitive, and socio-political trends and events must be gathered.

Great care must be taken when implementing this step. For it is this activity that can contribute, quite easily, to an overabundance of insignificant and irrelevant data. In addition, once the data have been gathered, the appropriate method of analysis must be used or incorrect conclusions will result.

The occurrence of these problems, however, can be minimized. Numerous approaches which will ensure that pertinent and relevant data is gathered in a timely fashion have been suggested. In addition, data analysis methods which will help to ensure meaningful results have been recommended. The basis for these suggestions has been the understanding of the importance of having a continuing awareness of what is happening

in the environment.<sup>19</sup> These suggestions have focused on the procedures that should be followed to classify the environmental influences. The procedures include determining the immediacy of the impact of the environmental influences,<sup>20</sup> ascertaining the specific approaches management should follow to evaluate the environment,<sup>21</sup> and carefully evaluating the specific data that should be gathered.<sup>22</sup> Also, maintaining a continuous awareness of the objectives helps provide guidance in the analysis.

Each of these recommendations involves a variety of procedures and processes. The purpose of each of the recommendations is to attain a better understanding of the environment; although the specific procedures and processes for each suggestion differ from one another in varying degrees. The variety of recommendations suggests that each firm and each level within the firm may have its own specific strategic planning requirements. It is important that each firm and level adopt that process and those procedures that best suit its needs. This action will help to ensure that the appropriate awareness of the events and

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<sup>19</sup>William R. King and David I. Cleland, "Information for More Effective Strategic Planning," Long Range Planning 10 (No. 1; February 1977): 59-64; P. T. Terry, "Mechanisms for Environmental Scanning," Long Range Planning 10 (No. 3; June 1977): 2-9.

<sup>20</sup>Terry, *ibid.*

<sup>21</sup>F. Neubauer and N. B. Solomon, "Managerial Approach to Environmental Assessment," Long Range Planning 10 (No. 2; April 1977): 13-20.

<sup>22</sup>J. I. Rodriguez and W. R. King, "Competitive Information Systems," Long Range Planning 10 (No. 6; December 1977): 45-50; and King and Cleland, *ibid.*

trends in the socio-political, competitive, technological, and economic environment is maintained.

### Social Responsibilities

Corporate social responsibility is coming of age. Although corporate social responsibility can be interpreted in numerous ways, it implies an awareness and consideration by the enterprise of the interests and concerns of groups other than those with whom the firm has direct economic ties.<sup>23</sup> Today the socio-political issues that are present in the external environment of the business are just as important as the economic and competitive components of the environment.<sup>24</sup> An awareness of the social responsibilities toward the various constituents of the external environment is becoming increasingly more necessary than has been demonstrated in the past.<sup>25</sup>

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<sup>23</sup>Alan D. Shocker, "An Approach to Incorporate Societal Preference in Developing Corporate Action Strategies," California Management Review 15 (No. 4; Summer 1973): 97-105.

<sup>24</sup>Robert D. Smith, Buddy Meyers, John Douth, and George Valli, "Examining the Future to Plan More Effectively," Planning Review 7 (No. 4; July 1979): 3-5, 33-36; Gerald R. Prout, "Corporate Social Strategy in a Post-Industrial World," The Conference Board Record 12 (No. 9; September 1975): 32-36; Hilda M. Raffalovich, "Corporate Planning for Social Responsibility," Managerial Planning 24 (No. 1; July-August 1975): 24-29; Bernard Taylor, "Conflict of Values - The Central Strategy Problem," Long Range Planning 8 (No. 6; December 1975): 20-24; William R. Dill, "Public Participation in Corporate-Planning-Strategic Management in a Kibitzer's World," Long Range Planning 8 (No. 1; February 1975): 57-63; T. Punt, "Social Trends and Corporate Plans," Long Range Planning 9 (No. 5; October 1976): 7-11.

<sup>25</sup>Smith, et al., *ibid.*

The importance of this increasing awareness directly affects the environmental analysis activity. Being cognizant of the need to be socially responsible can help to ensure that the environment analysis will encompass the interests and concerns of those groups in the external environment that can affect or be affected by activities of the firm. The preparation of contingency plans must also include consideration of those groups that can affect the strategies of the firm. Consequently, whether through environmental forecasting or through contingency planning, the strategy formulation process should consider the social and political components of the firm's external environment.<sup>26</sup>

The specific approach that is used to become aware of and responsive to these potential social and political demands can be done in a muddling-through manner or through the use of a systematic method of analysis and planning.<sup>27</sup> Several specific approaches have been suggested that augment and/or expand the environmental analysis activity.<sup>28</sup> The intent of these approaches is to create a greater awareness of what specifically is happening in the environment that could affect the firm's social responsibilities. In addition, the approaches provide the means for having this awareness become an active part of the strategy formulation process.

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<sup>26</sup>Edwin A. Murray, Jr., "Strategic Choice as a Negotiated Outcome," Management Science 24 (No. 9; May 1978): 960-972.

<sup>27</sup>Ibid.

<sup>28</sup>Shocher, *ibid.*; Smith, et al., *ibid.*; and Murray, *ibid.*

The initial concern of business when considering the social responsibility issue is whether overt activities perceived to be associated with corporate responsibility will pay for themselves. Unfortunately, the evidence is mixed. There is no conclusive proof indicating a direct relationship between corporate social activities and profitability.<sup>29</sup> Nevertheless, many managers are willing to take positive actions toward fulfilling their corporate social responsibilities. These actions, however, are undertaken provided the firm's profits are high enough to permit such expenditures beyond those required by law and society in general.<sup>30</sup> Although the direct pay-back from the corporate social responsibility activities may not be positive, the activities typically are undertaken if the money is readily available.

The choice of engaging in socially responsible activities over and above those that are required is not one that is available to all businesses. As a business increases in size, it approaches becoming institutionalized. This occurs in industries in which sales are controlled by a small number of firms, e.g., automobiles, computers, and chemicals. In industries such as these, the government plays an important supervisory role, indirectly by jawboning or directly by regulation. Consequently, socially responsible actions become very important because private decisions must consider and reflect public

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<sup>29</sup>Richard F. Vancil, "--So You're Going To Have a Planning Department!," Harvard Business Review 45 (No. 3; May 1967): 88-96.

<sup>30</sup>Raffalovich, *ibid.*

interests.<sup>31</sup>

It is important to recognize that although many areas must be covered in the environmental analysis, the increasing need for business to be responsive to its social responsibilities requires at least an awareness and consideration of the interests of groups other than those economically related to the firm. The activities of the environmental analysis can include investigating the noneconomic sectors which the strategy might affect. By considering these groups prior to the selection of a specific strategy, the probability of choosing a strategy that can adversely affect them is minimized.

#### Resource Analysis <sup>32</sup>

The resource analysis involves an assessment of the internal environment of the firm. The skills, capabilities, quality and quantity of the financial, physical, organizational and technological resources are determined and evaluated in this step of the formulation process. This internal environment data complements the external environment data gathered in the previous step.

The purpose of gathering internal data is to determine what resources are available for strategy implementation. In meeting this end, resource analysis becomes the first step in satisfying the need for

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<sup>31</sup>Milton Leontiades, "Social Demands: Continuing Pinch Threatens Business," Planning Review 7 (No. 4; July 1979): 25-31.

<sup>32</sup>Hofer and Schendel, pp. 144-153.



an accurate assessment of the capabilities needed for determination of the comparative advantage.<sup>33</sup> An awareness of the marketplace advantages is needed to make certain that competition is confronted in a manner that assures the desired end results are attained.

#### Divergence Analysis <sup>34</sup>

Divergence analysis brings together the data gathered in the four preceding steps. The anticipated end results of the present strategy, the objectives that are sought and the awareness of the extent and limitations of the internal resources are brought together and analyzed in conjunction with the opportunities, threats, and risks observed in the external environment. This analysis determines the difference between where the present strategy is heading and what the end results, the objectives, resources, and environmental analysis suggest should be attained. The difference is the divergence between the end results of the two directions -- the present and the most appropriate.

This difference indicates where change must be undertaken to modify the present strategy. Even if no difference exists, which is typically unlikely, this step ensures an effort to make certain that the most appropriate strategy end results are being pursued.

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<sup>33</sup>R. Hal Mason, et al., "Corporate Strategy - A Point of View," California Management Review 13 (No. 3; Spring 1971): 5-12.

<sup>34</sup>Hofer and Schendel, p. 47.

### Strategy Alternatives Determination

The primary concern with the strategy formulation process to this point has been to determine where it is best to go, i.e., what end results should be sought. Having determined them and their relationship to the current strategy, the process now focuses on how to attain these end results.

Given that change in the current strategy must take place or that a specific strategy must be solidified, actions must be taken to ensure that the right direction to reach the desired end results is determined. This sixth step of the formulation process involves determining what strategies could be used to ensure that the desired end results are reached. Forcing the consideration of several strategies enhances the probability of settling on the best.

### Strategy Choice

The strategic alternatives are then evaluated on the basis of their resource requirements and risk. The alternative that best meets the needs of attaining the desired end results within the resource availability is selected for implementation.

It is important to recognize that the value system of the individuals involved in the evaluation process has a strong influence on

the final strategy selection.<sup>35</sup> In fact, their value system has an effect on the entire formulation process (discussed in detail in Appendix B under Management Values and Aspirations).

#### Contingency Plans Determination

The strategy selected to be implemented is chosen on the basis of current information and knowledge concerning the future. Obviously, even with the most reliable data there is uncertainty, however small, concerning the future. The uncertainty suggests the prudence of being prepared for any, and hopefully all, developments that might possibly occur and adversely affect the strategies being implemented. This prudence gives rise to the need for contingency strategies.

Contingency plans define the specific actions to be taken when those unexpected developments not planned for in the formulation process occur.<sup>36</sup> Obviously, contingency plans cannot be made for all eventualities. If all potentially troublesome events were planned for, too much staff and time would be required without realizing any benefit.<sup>37</sup> Consequently, these plans should be considered for the critical events which appear to have a high probability of occurring or, if they took place, could have a catastrophic effect on the implemented

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<sup>35</sup>Ibid.

<sup>36</sup>George A. Steiner, Strategic Planning: What Every Manager Must Know (New York: The Free Press, 1979), p. 230.

<sup>37</sup>Ibid., p. 234.

strategy.

Developing plans for potentially critical events before they occur ensures that the firm is prepared to respond rationally and decisively if catastrophe strikes. Hopefully, the contingency plans will remain in the file cabinet where they are placed after being developed.

### Implementation and Control

The final step in the strategy formulation process is the implementation of the strategy selected in the strategy choice step. This step involves activities that relate the strategy to the operating plans.<sup>38</sup> The primary concerns of the translation of the strategic plan to operational plans is twofold:

1. Determining the appropriateness of the structure of the organization to the implementation of the strategy; and
2. Translating the strategic plan to the operational mode in a manner that ensures that the operating plans are meaningfully related to the strategy.

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<sup>38</sup>Guy P. French, "The Payoff From Planning," Managerial Planning 28 (No. 2; September 1979): 6-12.

## Strategy and Structure

Structure is the design of the organization through which the enterprise is administered.<sup>39</sup> The relationship between it and strategy is well established, having been identified more than 25 years ago.<sup>40</sup> This relationship is significant because the strategy of the organization is considered to be the primary determinant of the organization's structure.<sup>41</sup>

This determination comes about in a number of ways: Strategy affects the structure by determining how tasks are assigned; how performance is motivated, rewarded, and controlled;<sup>42</sup> and how the organization adapts to a changing environment.<sup>43</sup>

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<sup>39</sup>Alfred D. Chandler, Jr., Strategy and Structure: Chapters in the History of the Industrial Enterprises (Cambridge, Mass.: The M.I.T. Press, 1962), p. 14.

<sup>40</sup>Ibid., pp. 11, 13, 383.

<sup>41</sup>Robert J. Pavan, "Strategy and Structure: The Italian Experience," Journal of Economics and Business 28 (Spring 1976): 254-260; Chandler, p. 13; Christensen, Andrews and Bower, p. 595; Katz, p. 510; and Andrews, p. 185.

<sup>42</sup>Pavan, *ibid.*

<sup>43</sup>D. T. Perry, "Organizational Implications for Long-Range Planning," Long Range Planning 8 (No. 1; February 1975): 25-30; and A. A. Porokhovsky, "Structure and Strategy: Causes of Change," University of Michigan Business Review 29 (No. 3; May 1977): 28-32.

In addition, strategy affects the informal organization that develops within the formal structure.<sup>44</sup> To minimize this impact, the best organizational structure must be determined to ensure that the design of the organization reflects the basic objectives and goals of the enterprise.<sup>45</sup> If a conscientiously formulated strategy is to be effectively and efficiently implemented, organizational development should be planned rather than left to evolve by itself.<sup>46</sup> This may necessitate the redesign of the organization's structure and measurement, evaluation, reward, and sanction systems so that the strategy can be effectively directed by management.<sup>47</sup>

Among the examples of firms that have initiated changes in their structure to accommodate strategy is General Motors.<sup>48</sup> In the early 1920s the central-general office structure with autonomous divisions, designed by Sloan, was implemented. The new structure was based on Durant's earlier strategy of backward integration. Durant had implemented this strategy to ensure that the various car firms that comprised the corporation had adequate supply sources.

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<sup>44</sup>Perry, *ibid.*

<sup>45</sup>Koontz and O'Connell, p. 281.

<sup>46</sup>Andrews, p. 193.

<sup>47</sup>Hofer and Schendel, p. 67.

<sup>48</sup>Chandler, pp. 11, 13, 383.

This structural change resulted from a major strategy that had corporatewide implications. Structural change, however, is not limited to major strategies. The change of a sales strategy from developing geographic territories to developing and serving specific industries could require a change in the organization of the sales department to best implement the strategy.

When a strategy has been developed, the current structure should be reviewed to determine the relevance of the structure to the new strategy. If the review deems it appropriate, the structure should be modified to meet the needs of the new strategy. This will ensure maximum benefit is derived from the new strategy.

However, the modification of the structure must be done carefully. The manner in which the structure is related to the strategy can have a significant effect on the return realized by the organization. There appears to be an intermediate structural orientation that exists for certain strategies that may have a negative effect on the organization.<sup>49</sup> Although the research that developed this thesis was admittedly restricted, it does point out that structural shifts, although necessary to accommodate the new strategy, must be done in a carefully calculated manner to ensure that the changes are not ill-advised.

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<sup>49</sup>Robert A. Pitts, "Strategies and Structures for Diversification," Academy of Management Journal 20 (No. 2; June 1977): 197-208.

Just as strategy influences structure, so can structure influence strategy. If there is no overt direction being followed by the organization, the existing power structure will determine the organization's strategy. Also, if the forces for perpetuating a particular structure are strong, the probability of developing a strategy that requires basic structural changes is low.<sup>50</sup> Consequently, if top management wishes to develop effective strategies, there must be an awareness of the structural factors that will influence the strategy.

#### Coupling Strategy to Operations

Once the best strategy has been determined, there is no guarantee that it will be successfully implemented. Even under optimal conditions, i.e., the structure has been changed to meet the strategy's needs, the CEO loves the plan and management enthusiastically embraces planning, a conscientious continuing effort must be used to ensure the successful transition from strategy to operations.

In addition, a constant awareness of two conditions must be maintained. For if two conditions are left unrecognized and unchecked, they will ensure failure of implementation of the strategic plan:

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<sup>50</sup>Katy, p. 510.



1. Management's overwhelming concern for and preoccupation with directing day-to-day operations and the subsequent lack of time it has to ensure that long-range plans are carried out; and
2. The occurrence of an event unforeseen in the plan which typically causes management to panic, forget about the plan, and make decisions based on less than adequate information.<sup>51</sup>

A number of things can be done to ensure that these conditions do not occur. Contingency plans can help minimize the probability of the second condition taking place. Even if the plans don't specifically cover the event, they may provide management some direction, thereby reducing the panic and chaos. Other suggestions that will help keep the strategy in the forefront of management decision-making include:

1. Make certain that the strategy is practical and within the limits of the available resources;
2. Initiate the strategy implementation slowly and with deliberation;
3. Make certain that the highest ranking manager takes a personal interest;
4. Keep the strategy-determining team intact until replacement follow-through management has been identified; and, finally,
5. Communicate, communicate, communicate.<sup>52</sup>

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<sup>51</sup>William S. Royce, "The Problems with Planning," Managerial Planning 27 (No. 3; November-December 1978): 1-5, 40.

<sup>52</sup>J. M. Hobbs and D. F. Heany, "Coupling Strategy to Operating Plans," Harvard Business Review 55 (No. 3; May 1977): 119-126; and Robert L. Bank and Steven C. Wheelwright, "Operations vs. Strategy: Trading Tomorrow for Today," Harvard Business Review 57 (No. 3; May-June 1979): 112-120.

The last suggestion is of particular importance. If people know what is expected of them, if they have an understanding of why certain things are being done, and if they have an appreciation of the significance of the actions involved, they will be responsive. Consequently, it is essential that communications be directed both upward and downward to the involved individuals.

In addition to the above activities, a variety of other steps can be taken which will contribute to the successful transition from the strategic plan to the operating plans. These steps include basing the income of the participating management on the implementation of the strategy-related operation plans. Making certain that the highest ranking manager directly responsible for and involved in the implementation of the strategy is overtly enthusiastic and interested in the success of the implementation of the strategy will contribute to a successful transition to operating plans. Also, the development of contingency plans will help to minimize the probability of disruptive, unforeseen future events which might otherwise cause panic and chaos.

The underlying point is that once the strategy has been determined, the job is only half over; it still must be implemented. By taking positive actions directed toward converting the strategy to operating plans, the desired end result will be realized.

## Order and Relative Importance of Activities

There is no single model or concept of the strategy formulation process that applies to every situation without some modification.<sup>53</sup>

The approach and techniques used can be as varied as the style of the CEO.<sup>54</sup> In addition, the process can differ in its complexity depending upon the diversity of the company.<sup>55</sup>

The relative uniqueness of each firm and the dynamic nature of the strategy formulation process do not permit the development of a universal applicable process. The individual steps of the generic strategy formulation process in Figure 2-1 should be considered as a model which the individual firm follows in some modified form when developing a strategy. The specific approach that is used to implement these steps will vary depending upon the uniqueness of the company, its management style, industry, current status of strategic planning, and so forth.

Even when an approach has been decided upon, the framework of the strategy formulation process is dynamic.<sup>56</sup> The procedure followed in developing a strategy does not involve going through the steps of the process one after another. The procedure is iterative, which causes

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<sup>53</sup>Hofer and Schendel, p. 67.

<sup>54</sup>Cannon, p. 287.

<sup>55</sup>Christensen, Andrews and Bower, p. 133.

<sup>56</sup>Uyterhoeven, Ackerman and Rosenbaum, p. 10.

changes by the very nature of itself.<sup>57</sup> Information and data gathered in any of the steps may affect any one of the following or preceding steps. For example, information gathered during the environmental analysis in the generic process (Figure 2-1, Step 3) can add greater insight into how the resources are being used, thereby affecting the next step of the process. In addition, the data gathered during this step might provide greater insight into the present situation. This increased understanding could suggest a reevaluation of all or part of the results of the situation analysis previously determined (Step 1). The dynamic nature and iterative procedure of the strategy formulation process do not permit the activities associated with each of the steps to be conducted in isolation from one another.

The strategy formulation process can be used in both the development and the assessment of strategies. A strategy developed in the past can be appraised by relating it to the current external environment and internal resources. Or an analysis of the environment and the resources can be the first steps in determining the strategic alternatives from which a desirable strategy can be chosen.<sup>58</sup> In either instance all steps of the process would be considered. Only the manner in which the process is used varies.

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<sup>57</sup>Paine and Naumes, p. 13.

<sup>58</sup>Uyterhoeven, Ackerman and Rosenbaum, p. 10.

Despite the uniqueness of the strategy formulation process in each firm, it is implicit in the discussion of the order of the activities of the strategic planning process that no one activity is more important than any other activity. There is, however, a dependency that exists among the activities. If the first five activities (Figure 2-6) are not carried out properly, insufficient information will be available to adequately determine the various strategy alternatives (Step 6) that are available. Subsequently, the strategy choice that is to be selected, the seventh activity, may be severely limited and a prejudicial selection may result. After the strategy has been selected, it must be made operational if it is to be of any value. Consequently, the ninth step of implementation and control is essential. The symbiotic relationship of the first seven activities and the ninth activity preclude relegating to any one of these activities more importance than to the others.

The eighth activity, contingency plans determinations, stands on its own. It is not essential to the formulation or the implementation of a strategic plan. Nevertheless, it is just as important as the other activities, for it provides a safety factor for the eventuality of having to act decisively when time may be of the essence.

Consequently, the importance of each activity cannot be subjugated to any other activity, either intentionally or inadvertently. Each activity must be constantly maintained in the forefront of the strategic planning process by all involved individuals.

### Hierarchies of Strategies

No consideration has yet been given to where in the firm the strategy formulation process can be used, other than the observation that planning is applicable at all levels. A significant consideration in applying the strategic planning process to the individual enterprise is the determination of the appropriate level within the firm to which strategy applies. If the full benefits of strategic planning are to be realized by the individual firm, strategic planning should take place throughout the firm, from the overall corporate level to the specific product or product line level.

### Types of Strategies

The use of strategic planning throughout the firm has given rise to three basic levels of strategy: corporate strategy, business strategy, and functional strategy.

#### Corporate Strategy

Corporate strategy has been identified as the overall strategy of the company.' It focuses on the portfolio of the division's

businesses<sup>60</sup> and determines what businesses the firm should be in.<sup>61</sup>  
The aggregate of the business strategies which the firm is pursuing at any given time is the corporate strategy.<sup>62</sup>

The corporate strategy is established at top management levels.<sup>63</sup>  
Involvement at this level ensures that the broad overall programs and policies that are important to the company as a whole are in place.<sup>64</sup>  
These broad programs and policies provide essential direction and insight to the development of the other strategies that are associated with the firm.<sup>65</sup>

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<sup>60</sup> Andrews, p. 28; Uytterhoeven, Ackerman and Rosenbaum, pp. 7-8; and Christensen, Andrews and Bower, p. 125.

### Business Strategy

Among the other strategies associated with the individual firm are business strategies.<sup>66</sup> They are concerned with determining the scope of the individual division's activities, as they relate to the division's objectives within its area of operation, and with establishing the policies needed to attain the objectives.<sup>67</sup> This observation places the business strategy at the division level within the firm.

The PIMS Program,<sup>68</sup> a widely used strategic planning tool, considers the business as the basis for the determination of strategy. PIMS defines a business as:

<sup>66</sup>Richard F. Vancil and Peter Lorange, "Strategic Planning in Diversified Companies," Harvard Business Review 53 (No. 1; January-February 1975): 81-90.



"an operating unit which sells a distinct set of products or services to an identifiable group or groups of customers in competition with a well-defined set of competitors."<sup>1</sup>

This definition relates the business strategy to a specific product or product line. Based on the PIMS definition, a division can have a number of business strategies.

### Organizational Structure Implications

The organizational structure of the firm can further complicate the use of the business strategy nomenclature. For example, consider a corporation that has several groups subdivided into several divisions. Each division covers different geographic areas and handles several product lines, which may or may not be the same products as in the other divisions. What then is appropriately referred to as a business strategy?

<sup>1</sup>Christensen, Andrews and Bowers, p. 125; and Hofer and Schendel, p. 15.

<sup>2</sup>Cannon, p. 33.

<sup>3</sup>Vancil and Lorange, *ibid.*; and Koontz and O'Connell, p. 452.

<sup>4</sup>Koontz and O'Connell, p. 452.

<sup>5</sup>Argenti, pp. 23-26.

<sup>6</sup>Hofer and Schendel, p. 15; Cannon, p. 33; and Vancil and Lorange, *ibid.*

<sup>7</sup>Vancil and Lorange, *ibid.*

<sup>8</sup>Profit Impact of Marketing Strategies (PIMS) Program; Strategic Planning Institute, Cambridge, Mass.

<sup>9</sup>PIMS Data Manual, Cambridge, Mass.: Strategic Planning Institute, 1978, p. 1-1.

Since the organizational structure between the corporate level and individual product or product line level can vary as frequently as there are firms, it might be worthwhile to develop a nomenclature that is applicable regardless of the organizational structure. Such an approach would adopt the distinct set of products or services conditions of the PIMS definition. Then, regardless of what firm was being considered, the business level strategies would always refer to its lowest level, that is, a product line or individual product.

#### Unit Strategy

Now that the strategies at highest and lowest levels of the firm are defined; what about the strategies that occur in between? A strategy above the business level and below the corporate level could be referred to as a unit strategy. This terminology would be applicable regardless of the level being referenced, whether a division, a group, or a subsidiary. The number of levels of unit strategies that would occur would depend upon the organizational structure. This terminology preserves the multilevel nature of strategy formulation and identification.

In addition, the terminology is meaningful for each firm, regardless of its organization structure. The term unit strategy is also consistent with the relatively new single business unit (SBU) approach

to corporate strategy.<sup>70</sup> Most important, the universal applicability and flexibility of the unit strategy terminology will stand the test of time. Consequently, the need for a new term will not be required as new approaches to strategy formulation or organization structure are developed.

### Functional Strategy

Corporate strategy, unit strategy, and business strategy describe strategies that occur on any level within the vertical components of an organization. What is now needed is a means to describe strategies that may occur across these vertical components. Such strategies tend to be associated with specific activities or functions.

The term functional strategy can be used to refer to the objectives, plans, and goals associated with the functional areas of marketing, finance, and manufacturing, within the organization.<sup>71</sup> The focus of the functional strategies is on maximizing the return from the use of the enterprise's resources.<sup>72</sup> These strategies, since they are functionally oriented, cut across the corporate and, consequently, the groups, divisions, etc., and the businesses which the firm comprises.

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<sup>70</sup>William K. Hall, "SBU's: Hot New Topic in the Management of Diversification," Business Horizons 21 (No. 1; February 1978): 17-25.

<sup>71</sup>Uyterhoeven, Ackerman and Rosenbaum, pp. 7-8; Vancil and Lorange, *ibid.*; and Cannon, pp. 21-25.

<sup>72</sup>Hofer and Schendel, p. 29.

### Hierarchical Interrelationships

Each level within the organization, despite its apparent uniqueness, does not determine its strategy independent of the other levels within the firm. An interdependence exists even though the strategies of the various levels will vary.

This interdependence and interrelationship between strategies are necessary for all firms whether diversified or not. Corporate, unit, and business strategies cannot be developed independently of one another since the objectives of the lower level strategies must reflect the objectives and, hence, the strategies of the levels above them. Also, higher level strategies cannot be developed without consideration of the capabilities and limitations of the resources of the lower levels. The development of strategic plans at any level depends upon and influences strategies at other levels, whether higher or lower.

The relationship that exists between the strategies of the various levels goes beyond an integration of the strategies within the firm. It also reflects the general values of most of the members of the organization.<sup>73</sup> Consequently, the implementation of the planning process in the diversified firm requires a formal interaction among top and middle management. This interaction ensures that there is an

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<sup>73</sup>Richard F. Vancil, "Strategy Formation in Complex Organizations," Sloan Management Review 17 (No. 2; Winter, 1976): 1-18.; and Peter Lorange, "Divisional Planning: Setting Effective Direction," Sloan Management Review 17 (No. 1; Fall 1975): 77-91.

awareness throughout the organization of what is happening with regard to the formulation of strategy.<sup>74</sup>

The need to develop a strategy in concert with other strategies extends to the functional strategies. Since the functional strategies cut across the organizational framework, it is particularly important that they take into consideration the various level strategies to maximize the organization's use of resources.

The awareness of the hierarchical nature of strategies within the firm plus their interdependence contributes to the synergy component of each of the strategies of the firm (Appendix B).

### Conclusions

Within each organization there is a series of levels, each capable of having its own strategy. These strategies are bounded at the top by the corporate strategy, which provides overall direction to the firm, and at the bottom by the various business strategies. In between are unit strategies, the number of which are determined by the organizational structure of the firm. In addition to this hierarchy of strategies are functional strategies which cut across the intermediate and business strategies. Figure 2-1 illustrates these concepts. It is important to recognize that none of these strategies can be developed independently of the others. If that is done, the synergistic effect of

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<sup>74</sup>Vancil and Lorange, *ibid.*

the totality of all the strategies of the firm will be significantly reduced, if not lost. This synergy is reflected in the effectiveness of the strategies of the firm and the efficiency with which they are implemented.

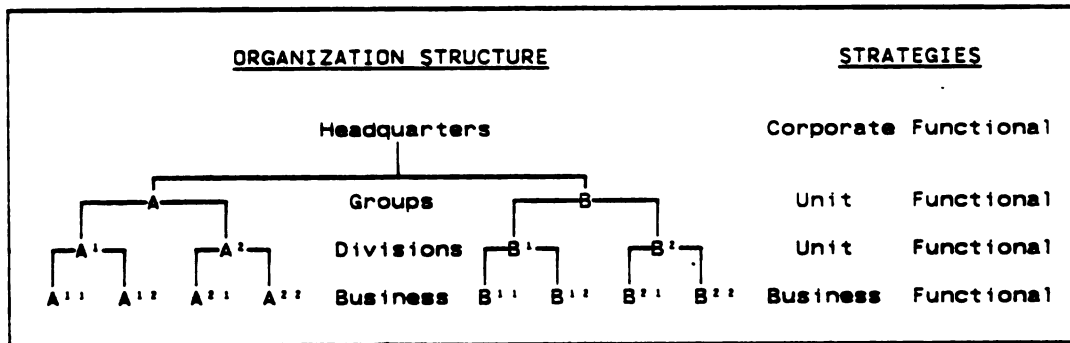


Figure 2-1. Hierarchy of Strategies.

CHAPTER THREE  
THE BOARD OF DIRECTORS AND PLANNING

Basis for Planning Involvement

The legal accountability of the management of the corporation is a recognized role of the board of directors.<sup>75</sup> This accountability is stated in three principal versions of state statutes which indicate the entity responsible for the management of the corporation:

"the business of a corporation

- 1) shall be managed by;
- 2) shall be managed under the direction of; or
- 3) shall be managed by or under the direction of

its board of directors."<sup>76</sup>

As the stockholder's trustees, the board of directors is both accountable and legally responsible for all results and actions of the

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<sup>75</sup>Robert Kirk Mueller, New Directions For Directors (Lexington, Mass.: Lexington Books, D. C. Heath & Co., 1978), p. 131.

<sup>76</sup>Robert M. Estes, "The Emergency Solution to Corporate Governance," Harvard Business Review 55 (No. 6; November 1977): 20-23+.

corporation.<sup>77</sup> Given these statutory and fiduciary responsibilities the board of directors should be very much concerned about the future of the corporation.

The board's responsibility for the future of the corporation leads to the conclusion that it is a normal and expected activity of the board to be involved in planning corporate affairs. If this involvement does not exist, the board should not be legally accountable for corporate affairs.<sup>78</sup> However, several board responsibilities including protecting and enhancing the long-range interests of the stockholders,<sup>79</sup>

concern with the long-range success of the firm,<sup>80</sup> and involvement in plotting a course for the corporation,<sup>81</sup> are consistent with determining the future of the corporation. Consequently, it would be expected that the board of directors would be directly involved in, or at least aware of, the strategic planning process of the corporation, over and above simply determining the general direction of the company.

<sup>77</sup>Keith J. Loudon, The Effective Director in Action (New York: AMACON American Management Association, 1975), p. 34.

<sup>78</sup>Edward C. Weber, "Board's Role in Planning," Managerial Planning 27 (No. 6; May 1979): 21-24.

<sup>79</sup>Edmund W. Littlefield, "New Realities for Corporate Directors," The Conference Board Record 11 (No. 7; July 1974): 51-54.

<sup>80</sup>Brian Houlden and John King, "Time for Professional Directors?" Director 31 (No. 5; November 1978): 46-48+.

<sup>81</sup>J. M. Juran and J. Keith Loudon, The Corporate Director (New York: AMACON American Management Association, 1975), p. 47.



### Board Planning Activities Involvement

The involvement of the board in the strategic planning process has given rise to numerous suggestions regarding the activities in which they should participate. These activities can be classified under three general areas:

1. Objective and business determination;
2. Strategy determination; and
3. Implementation.

The specific activities associated with these areas are shown in Table 3-1, as they relate to the strategic planning process.

#### Objective and Business Determination

The establishment of the corporate long-term objectives and aims of the firm are considered to be an essential activity involving the board of directors.<sup>82</sup>

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<sup>82</sup>John A. Groobey, "Making the Board of Directors More Effective," California Management Review 16 (No. 3; Spring 1974): 25-34; Jan Hildreth, "The Role of the Board," Director 31 (No. 5; November 1978): 46-48+; Harold Koontz, The Board of Directors and Effective Management (New York: McGraw-Hill Book Company, 1967), pp. 25-26; Peter F. Drucker, The Practice of Management (New York: Harper & Row, Publishers, 1954), pp. 179-180; Peter F. Drucker, Management: Tasks, Responsibilities, Practices (New York: Harper & Row, Publishers, 1974), pp. 631-632; Juran and Loudon, pp. 47-48, 55.

Table 3-1. Board Planning Activities and Strategic Planning Formulation Process.

STRATEGIC PLANNING FORMULATION PROCESS STEPS	BOARD ACTIVITIES
1. Situation Analysis 2. Objective Determination	Objective Determination Business Determination
3. Environmental Analysis	Environmental Analysis Social Responsibility Determination
4. Resource Analysis	Resource Analysis
5. Divergence Analysis	
6. Strategy Alternatives Determination	Mergers Acquisitions Divestitures
7. Strategy Choice	
8. Contingency Plans Determination	
9. Implementation and Control	Policy Determination Implementation

Inherent in the activities associated with the development of the corporate objectives/goals and the accompanying strategy is the determination of the business of the corporation. Maintaining an awareness of the viability, stability, and desirability of the specific

businesses of the corporation<sup>83</sup> and assessing new business opportunities<sup>84</sup> are activities considered to be important functions of the board. The significance of this board activity cannot be overstated for it ensures that someone within the corporation is involved in determining what the company's business is and what it should be.<sup>85</sup>

The determination of the long-term objectives and aims affects the future of the firm more than any other planning activity. Since the board must be concerned about the firm's future, there is no question that the board should be involved in determining the firm's businesses.

#### Strategy Determination

The determination of the means to attain the objectives and goals is a recognized duty of the board.<sup>86</sup> Three specific board activities that are associated with this aspect of the strategic planning

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<sup>83</sup>William C. Verity Jr., "Multiplication By Division: An Organic View of the Changing Role of the Board Chairman in Corporate Governance," University of Michigan Business Review 31 (No. 1; January 1979): 9-12; and 228.

<sup>84</sup>James E. Robison, "Directors Can Prevent Corporate Catastrophies," The Commercial and Financial Chronicle 215 (No. 7172; January 27, 1972): 4+; and 230.

<sup>85</sup>Drucker, The Practice of Management, pp. 179-180; and Drucker, Management: Tasks, Responsibilities, Practices, pp. 631-632.

<sup>86</sup>George A. Steiner, Strategic Planning: What Every Manager Must Know (New York: The Free Press, 1979), p. 88; Drucker, Management: Tasks, Responsibilities, Practices, p. 107; Drucker, The Practice of Management, pp. 179-180; Bacon and Brown, *ibid.*; and Juran and Loudon, *ibid.*

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formulation process are discussed in the literature: environmental analysis, social responsibility determination, and resource allocation.

### Environmental Analysis

The evaluation of the viability of current businesses and potential businesses suggests that the board is involved in a variety of activities, requiring an acute awareness of what is happening. These activities include maintaining an awareness of the state of the environment of the corporation's businesses.

The importance of being responsive to external environmental change requires that the board of directors habitually and systematically maintain an awareness of the firm's place in its current and future environment.<sup>87</sup> The failure of the board to maintain an awareness of the vicissitudes of the environment can be a contributing factor in the demise of a corporation. In fact, the major failing of boards has been their failure to recognize their function of keeping in tune with a changing environment.<sup>88</sup>

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<sup>87</sup>John Argenti, "Company Failure: The Tell-Tale Signs at the Top", Director 28 (No. 3; September 1975): 278-279+.

<sup>88</sup>Mueller, pp. 26-28.

### Social Responsibility

One aspect of the changing environment in which the board can help provide a broader view relates to the increasing social responsibilities of the corporation. This relatively new area is a major board responsibility.<sup>99</sup> By maintaining an awareness of the political and social viability of the firm as it relates to the changing environment, the board can ensure a balance between the goals and objectives of the firm and its social responsibilities. A balanced group of outside directors can provide insights into this sensitive area which would otherwise not be available.<sup>90</sup>

### Resource Allocation

The involvement of the board in determining the businesses of the corporation will, by necessity, result in its being involved in resource allocation. This activity has also been recognized as an essential function of the board.<sup>91</sup> In fact, a recent Business Roundtable statement indicated that the "governing notion of the board of directors

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<sup>99</sup>Arthur M. Weimer, "Self-Improvement Tips for The Company Board," Nation's Business 66 (No. 9; September 1978): 91-94.

<sup>90</sup>Robison, *ibid.*

<sup>91</sup>Houlden and King, *ibid.*

should be corporate resource allocation."<sup>2</sup>

However, some authors feel the board activities associated with corporate resource allocation should be more restricted than is implied in the previous statement. They believe the board involvement in resource allocation should be limited to merger, acquisition, and divestiture activities.<sup>3</sup> Such an involvement is not as encompassing as the general notion of resource allocation. However, these activities and the resulting strategies are typically associated with considerable risk and resource involvement. These characteristics no doubt contribute to the belief that the board should be involved in at least these three specific resource allocation activities.

### Implementation

The discussion of the activities of the board of directors in the planning function has so far been limited to the development of the objectives/goals and the strategies to attain these end results. The final phase of the planning process involves implementation of the strategies. Although this phase is the responsibility of the management of the firm, the board does affect strategy implementation through its setting of corporate policy. This last area of the board's concern, the development of policy, is the final logical step in making the firm's goals and objectives operational. The development of policy represents

<sup>2</sup>Business Roundtable, The Role and Composition of the Board of Directors of the Large Publicly Owned Corporation (New York: Business Roundtable, January, 1978), p. 11.

<sup>3</sup>Groobey, *ibid.*; and Bacon and Brown, *ibid.*

the transition of the strategy from its anticipated end results to the actual functions of the operational plans. These plans are necessary to achieve the end results. Policy provides the guidelines of acceptable corporate action that comprises the operational plans<sup>94</sup> by defining the limits of management decision-making and by placing limitations on resource allocations. Through policy determination the board indirectly influences the implementation of strategies.

Since the board has the ultimate responsibility for the welfare of the firm it must maintain a continuing awareness of the implementation of the strategies. The board can determine the progress of the firm by evaluating the performance of management against the plans.<sup>95</sup> The use of nonmanagement outside directors to conduct periodic performance audits of the firm has been suggested as a means to determine the effectiveness of management as well as to evaluate the interaction of the firm with its environment.<sup>96</sup> This role of monitoring the performance of the firm is considered to be one more essential duty of the board.<sup>97</sup>

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<sup>94</sup>Juran and Loudon; p. 48.

<sup>95</sup>Mueller, p. 131; Houlden and King, *ibid.*; and Weimer, *ibid.*

<sup>96</sup>Frazer B. Wilde and Ricard F. Vancil, "Performance Audits By Outside Directors," Harvard Business Review 50 (No. 4; July 1972): 112-116.

<sup>97</sup>Hildreth, *ibid.*



### Summary

The planning activities of the board are essential to the development of strategy within the firm. However, a succinct, cohesive approach which the board can follow in fulfilling this responsibility is not available from the literature. Instead, a variety of suggestions concerning the board's activities provide various ideas and guidance as to what should be expected of the board. Few of the suggestions are consistent with the steps of the strategy formulation process (Table 3-1). An integrated viewpoint of the planning activities the board is or should be involved in has yet to be provided.

### Role of the Board

The lack of well-defined planning activities in which the board should involve itself has not diminished the suggestions regarding how the board should be involved. The suggested roles of the board of directors in the strategic planning process of the firm ranges from initiating the planning activities to reviewing management data associated with the activities.

## Initiator

In assuming the role of an initiator the board of directors is setting direction for management. The most important and far-reaching of these initiator activities is that of establishing long-term corporate objectives.<sup>98</sup> This activity is the second step in the planning process (Table 3-1).

Once the objectives have been established, the means of achieving them must be determined. The development of the strategies that will accomplish the objectives is considered to be in the bailiwick of the board.<sup>99</sup> The board, acting in the initiator role, then extends the strategies to the determination of policy-the framework within which management must work.<sup>100</sup> The definition of policy also includes determining the availability of the resources that are needed for implementation of the strategies. This involvement results from the board's control of the overall allocation of resources.<sup>101</sup>

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<sup>98</sup>Groobey, *ibid.*; Hildreth, *ibid.*; Weimer, *ibid.*; and Wilde and Vancil, *ibid.*

<sup>99</sup>Groobey, *ibid.*; Hildreth, *ibid.*; Weimer, *ibid.*; and Wilde and Vancil, *ibid.*

<sup>100</sup>Hope Ludlow, "The Board of Directors Faces Challenge and Change," The Conference Board Record 9 (No. 2; February 1972): 39-41; and Hildreth, *ibid.*

<sup>101</sup>Hildreth, *ibid.*

## Reviewer

The top down approach of the initiator role of the board is not necessarily considered to be in the best interests of the firm. It is felt that the directors do not possess the time or the expertise to determine the appropriate actions for the firm.<sup>102</sup> In fact, the vice-chairman of the Mead Corporation considers the board's most important function to be passing judgment on management's recommendations about the future direction of the corporation.<sup>103</sup> Consequently, the board should act as a reviewer of management's suggestions.<sup>104</sup> In this role, management proposes and the board disposes. Auditing by the board of the premises of the plans<sup>105</sup> or the plans themselves<sup>106</sup> is thought to ensure that the firm is doing the right thing.

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<sup>102</sup>Weber, *ibid.*

<sup>103</sup>William W. Wommack, "The Board's Most Important Function," Harvard Business Review 57 (No. 5; September 1979): 48-53.

<sup>104</sup>Drucker, The Practice of Management, pp. 179-180; Drucker, Management: Tasks, Responsibilities, Practices, pp. 631-632; and Robison, *ibid.*

<sup>105</sup>Weber, *ibid.*

<sup>106</sup>Business Roundtable, p. 10; Juran and Loudon, p. 55; and Courtney C. Brown, Putting the Board to Work, (New York: MacMillan Publishing Co., Inc., 1976), p. 68.

### Participator

The bottom-up approach of the reviewer role results in strategy reflecting the feelings and attitudes of management. The daily involvement of management in the operations of the firm, however, may not enable management to objectively determine what might be in the best long-term, overall interests of the firm. Active involvement of both the board and management in planning activities would seem to lead to the greatest benefits and returns for the firm. This participator approach would permit a far greater use of the expertise and knowledge the outside board members bring to the board. In addition, the experience the inside board members and management have developed during their tenure with the firm is made available to the board.

Although the participator role may seem to be similar to the reviewer role, there is a distinct difference. Both roles involve review, but in the participatory role the board works closely with management in ensuring that the best and most meaningful results are attained. Although the board may be considered to be responsible for determining the company's objectives, it looks to the chief executive and the operating management of the firm for recommendations and guidance.<sup>107</sup> Another approach to the participator role involves developing the company's objectives and planning outside of the board

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<sup>107</sup>Koontz, p. 58.

<sup>108</sup>Bacon, pp. 17, 86.

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with the board providing the final approval once both groups agree.<sup>108</sup>

In either case, final approval is not made until both the board and management are satisfied. This approach can also be used in developing the other planning activities; e.g., determining specific strategies and relating the strategies to policy.

Despite the seeming superiority of the participator approach, there are several activities associated with planning that are best accomplished only by the board. Certainly, the board must be solely responsible for the evaluation of the performance of management in implementing the plans.<sup>109</sup> There are also times when some objectives may be so distasteful to the operating management, e.g., selling off a division, that the board must initiate the activity.<sup>110</sup>

### Summary

The manner in which the board is involved in the strategic planning activities varies. It can be top down, i.e., the board initiates what is to be done and relays this to management, or it can be bottom up, i.e., management tells the board what it is going to do and the board reviews and approves with minimum interaction between the two parties. A third approach involves a highly interactive relationship between the board and management. Either party may be the initiator, with a decision on

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<sup>109</sup>Mueller, p. 131; Houlden and King, *ibid.*; Argenti, *ibid.*; and Weimer, *ibid.*

<sup>110</sup>Juran and Loudon, p. 56.

the specific planning activities requiring mutual agreement.

#### Manner of Board of Participation

The exact manner in which the board is involved in the planning activities can vary whether the board functions in the initiator, the reviewer or the participator role. The entire board can participate in the planning activities or a board committee, which reports to the board, can be the primary participant.

The greatest commitment to these activities is through the use of a board committee whose responsibilities are solely related to the firm's strategic planning. The activities of such a committee would include ensuring that a company-wide, coordinated effort is associated with utilization of the financial resources of the firm; making certain that the appropriate evaluation of future opportunities is conducted; monitoring the environment in which the firm operates; and other similar strategy-related activities.<sup>111</sup>

Although the entire board eventually may be involved, the presence of a committee dedicated to strategic planning will ensure that the importance of the planning activities and the role of the board in these activities is not diminished. The absence of a strategic planning committee may result in the entire board participating in the strategic planning activities. Or there may be a committee whose responsibilities extend beyond the planning activities. In either case, the strategic

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<sup>111</sup>Brown, p. 67.; Mueller, pp. 46-47; and Loudon, p. 68.

planning activities would be of secondary importance. The net result of either approach would be a diminished role of the board in the firm's planning activities.

The importance of the outside director as a board member becomes particularly apparent when considering the board's involvement in the firm's strategic planning activities. Being dissociated from the operations of the firm allows the outside director to objectively evaluate the present and future strategic plans of the firm. In this capacity, the outside director can act as a consultant providing expertise not otherwise available in the firm<sup>112</sup> or, at the very least, can provide another viewpoint.<sup>113</sup>

#### Past Studies of Board Planning Involvement

Mace's classical study of the board's activities in 1971 postulated that one of the three most important functions of the board was to establish basic objectives, corporate strategies, and broad policies for the firm.<sup>114</sup> Field studies, however, found that the board was a source of advice and counsel to the president, provided corporate discipline and was somewhere to turn to in case of a crisis situation.<sup>115</sup> The findings did not indicate that the boards were involved in the planning

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<sup>112</sup>Mueller, p. 46.

<sup>113</sup>Louden, p. 67.

<sup>114</sup>Mace, *ibid.*

<sup>115</sup>Myles L. Mac, Directors: Myth and Reality, (Boston: Division of Research, Harvard Business School, 1971).



activities as discussed in the preceding paragraphs. In 1973, a survey of more than 800 manufacturing and nonmanufacturing firms indicated that the involvement of the board in the planning activities of the firm was not of sufficient importance for any of these firms to have a principal board committee directed toward planning.<sup>116</sup> Four years later, a survey showed that planning committees did exist but they existed in less than 10 percent of the firms surveyed.<sup>117</sup> This same study found that although management initiated corporate objectives, strategies, and policies, the board was being consulted with more frequency than in the past, to evaluate, influence, and monitor the management planning activities.<sup>118</sup> Another study, in 1978, found that some boards had planning committees but this was not a prevalent situation.<sup>119</sup>

The changing nature of the board's planning activities was found in a 1979 study. This study focused on the involvement alternatives available to the board in performing planning activities. In some firms, it was found that the boards are appraised of highlights of the planning process, while in other firms the boards only act on the major strategy and policy decisions when they are about to be made.<sup>120</sup> In any event, awareness by the board of the firm's objectives and strategies has been

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<sup>116</sup>Jeremy Bacon, "Corporate Boards do Change-But Slowly," The Conference Board Record 10 (No. 3; March 1973): 39-41.

<sup>117</sup>Bacon and Brown, pp. 85-86.

<sup>118</sup>Bacon and Brown, p. 87.

<sup>119</sup>Weimer, *ibid.*

<sup>120</sup>Steiner, *ibid.*

recognized as an important board function.<sup>121</sup>

The overriding issue that has not yet been considered, but undoubtedly has the major impact on the role of the board in the planning function, is the attitude of the chief executive. It is at the option of the chief executive to determine the caliber and usefulness of the board. Consequently, the degree to which the CEO uses the board in improving the quality of the corporate strategy and planning functions is dependent upon the sincerity of the CEO's interest and skill.<sup>122</sup> Regardless of the value of involving the board in the planning function, it remains the chief executive's option to determine the board's involvement.

#### Future Board Involvement

Review of past studies indicates the trend that is prevalent regarding the board's involvement in strategic planning activities. If this trend continues, it can be expected that the board's role in planning activities will increase. In fact, it has been suggested that an increasing future orientation of the board will involve providing greater direction and awareness of and participation in the determination of the alternative choices of the directions, strategies

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<sup>121</sup>Donald S. Perkins, "What the CEO and Board Expect of Each Other," Harvard Business Review 57 (No. 2; March 1979): 24+.

<sup>122</sup>Kenneth R. Andrews, The Concept of Corporate Strategy (Homewood, Ill.: Dow Jones - Irwin Inc., 1971), p. 10.

and investments available to the firm.<sup>123</sup> The increasing awareness of the responsibility of the board for the future of the firm is expected to result in the board setting specific goals for management.<sup>124</sup> This will require the board to take an increasingly active role in the strategic planning function of the firm.<sup>125</sup>

### Summary

The literature provides considerable insight into the planning activities of the board of directors, as well as the manner in which the board can perform these activities. This insight, however, is limited. The articles that comprise the literature tend to focus on only a very small aspect of a very complex and involved board function. There is no comprehensive integrated study of the board's current role in the firm's strategic planning function. By building on the knowledge and suggestions available in the literature it is anticipated that this thesis will provide that study.

<sup>123</sup>William R. Boulton, "The Evolving Board: A Look at The Board's Changing Roles and Information Needs," Academy of Management Review 3 (No. ; October 1978): 827-836.

<sup>124</sup>Walter P. Blass. "Corporate Governance-What's Ahead" in Robert J. Allis and Malcolm W. Pennington, ed., Corporate Planning Technique (New York: AMACON American Management Association 1979), pp. 124-135.

<sup>125</sup>Boulton, *ibid.*, and Blass, *ibid.*

## CHAPTER FOUR RESEARCH DESIGN

### Overview

The literature provides rather limited information concerning the board and strategic planning. There are a couple of reasons for this. The primary reason is that the planning activity, as was seen in Chapter Two, is complex. As a result, virtually every article has tended to focus on the board's involvement in only one component of the planning activity. Also, the articles tend to be based on the writer's personal experience or on the experiences of only a small number of firms. In either case, the articles are based on limited experiences.

These deficiencies have raised several questions concerning the relationship of the board of directors to the firm's strategic planning activities:

- Q1: To what extent do the major firms in the United States (defined by the Fortune 1300 listing) practice strategic planning?
- Q2: Of those major firms engaged in strategic planning, is the board of directors actively involved in the process,

and, if so, what is the manner of their involvement?

Q3: Which activities of the strategic planning process involve board participation? How does the board participate in the process and at what managerial levels does this involvement occur? What is the degree of the involvement?

Q4: How are the characteristics of the board and the firm related to board involvement in the strategic planning activities?

Q5: What is the expected future involvement of the board in the firm's strategic planning?

The answers to these questions will be sought directly from the board. There are two methods by which this can be done. One method is similar to a case study; several firms can be selected for in-depth research of their board's involvement in the strategic planning process. Or a cross-sectional survey of a large number of firms can be undertaken to acquire a more general, less detailed, understanding of the board's strategic planning involvement. The former method could use personal interviews, or observations, while the latter might employ a mail survey or a telephone survey.

The five (5) questions raised in the previous section resulted from limited published research on the board's involvement in strategic planning. Answers to these questions could be determined by either a case study or a cross-sectional survey. However, the results of the case study approach would have limited use. The results of a cross-sectional survey, because of its wider base, would have greater reliability in

terms of characterizing the population being studied. Several approaches were considered, and finally a reasonably detailed mail survey covering a large number of diverse firms was selected.

The Total Design Method<sup>126</sup> was followed in designing the mail questionnaire and implementing the survey. The Total Design Method was used because of its completeness and straight forward logic, and because of its high response rate, which is, of course, desirable.

Table 4-1. Research Population.

<u>ELEMENT</u>	<u>SIZE</u>	<u>BASIS OF RANKING</u>
Industrials	1000	Sales
Commercial-Banking	50	Assets
Diversified-Financials	50	Assets
Life Insurance	50	Assets
Retailing	50	Sales
Transportation	50	Operating Revenues
Utilities	<u>50</u>	Assets
	1300	

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<sup>126</sup>Don A. Dillman, Mail and Telephone Surveys: The Total Design Method (New York: John Wiley & Sons, 1978).

### Study Population

The population for the study was the chairmen of the board of directors of the Fortune 1300. The initial intent of the project was to survey the Fortune 1000; manufacturing firms with divergent characteristics in a wide range of industries. However, the top 50 firms in the following non-manufacturing industries were added to the survey: commercial-banking, diversified-financial, life insurance, retailing, transportation, and utilities. These 300 firms were included because the additional cost was small. But, more important, these 300 firms provided an excellent opportunity to compare board involvement in strategic planning activities across major manufacturing and service industries and firms. The population elements, plus the basis for their ranking, are shown in Table 4-1.<sup>127</sup>

### Research Stages

Five major steps had to be carried out to ensure successful completion of the survey:

1. Questionnaire development;

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<sup>127</sup>Time Inc., The Fortune Double 500 Directory. Trenton, N.J.: Fortune Directories, 1981.

2. Pretest and questionnaire revision;
3. Field data collection;
4. Editing and coding of returned questionnaires; and
5. Analysis and interpretation of results.

These steps are discussed in detail in the following sections.

### Questionnaire Development

To answer the questions raised by the literature review, the survey questionnaire focused on five areas:

1. The manner in which the board is involved in strategic planning;
2. The degree to which the board is involved in strategic planning activities;
3. The levels within the firm at which the board is involved in the strategic planning process;
4. The anticipated future involvement of the board in strategic planning activities; and
5. General characteristics of the board and the firm.

The resulting questionnaire (Appendix D) consisted of three sections. The areas of concern of these sections are:

- Section I - Board involvement in the firm's strategic planning process;
- Section II - Type and degree of interaction between the board and the planning activities; and
- Section III - Characteristics of the firm and the board.



### Board Involvement

The opening question of the survey is directed toward determining the manner of involvement of the board in the firm's strategic planning process. If the firm engages in strategic planning, there are three possible conditions of board involvement:

1. The board as a whole;
2. A board subcommittee, or
3. No board involvement.

Of course, a fourth condition is that the firm does not engage in strategic planning. The first question in the questionnaire (Appendix D) determines which of these alternatives best describes the strategic planning process in the firm:

The other questions in Section I focus on the reasons for, and characteristics associated with, the board's involvement or lack of involvement in the firm's strategic planning process. They are shown on pages 2 and 3 of the questionnaire (Appendix D).

### Activity and Level Influence

The questions in Section II are directed toward determining the degree of the board's influence on the strategic planning activities at the four basic levels of the firm. The influence is determined for two possible board roles. These activities are based on the steps for the generic strategy planning formulation process steps discussed in Chapter

Two (Table 2-1).

The literature suggested that the influence of the board on the planning process could be in the role of an initiator, a reviewer, or a participator. As an initiator, the board would primarily determine what would be done. As a reviewer, the board would primarily approve management's recommendations. As a participator, the board would both initiate and approve. Although, measurement is always uncertain, to some extent, the initiator and reviewer roles can be measured relatively easily with a mail questionnaire. The participator role, however, would have to be inferred. To determine the board's influence as an initiator and a reviewer, each question has two parts. The first part is concerned with the board's influence as a determiner of the decisions associated with the planning activity. The second part is concerned with the board's influence as an approver of management's recommendations concerning the planning activity.

The degree of influence as a determiner (initiator) and approver (reviewer) was indicated for each of the four possible levels of board interaction with the firm's planning activities:

- Corporate - the highest level, companywide influence.
- Intermediate - all levels within the firm that exist between the corporate level and the product line level, e.g., groups, divisions, business units.
- Product Lines - the lowest level, concerned with the individual products or product lines marketed by the firm.
- Functional - the marketing, finance, manufacturing, and logistics activities across the management and

organizational levels in the firm.

The degree of influence was measured on a scale of 0 to 100%, and a not applicable category. Zero indicated the activity took place in the firm but the board was not directly involved, and, as a result, had no influence; 100 percent implied that the activity took place, the board was involved, and the board had complete influence on the decisions associated with the activity. If the activity did not take place in the firm, NA, not applicable, was to be indicated.

An example of the question is on page 4 of the questionnaire (Appendix D).

#### Future Board Involvement

Section II also contains questions concerning future involvement of the board in planning activities. The anticipated board involvement in the next two to three years should be a good indicator of the chairman's attitude towards the importance of the board's involvement in the strategic planning process. The anticipated involvement is measured relative to present involvement.

A relative measurement provides an equivalent base across the sample.

The questions concerning future involvement are on page 8 of the questionnaire (Appendix D).

### General Characteristics of Board and Firm

The third and final section of the questionnaire is concerned with the basic characteristics of the board and the firm. These characteristics include the size and composition of the board, as well as annual sales, income and the major areas in which firm conducts business (pages 8 and 9 of the questionnaire, Appendix D).

An additional series of questions identify major areas the board considers as having a potential impact on the firm within 3 to 5 years (page 8 of questionnaire, Appendix D).

### Pretest

The questionnaire was pretested to ensure that the questions were asked in a manner that was consistent with strategic planning terminology used in the business world. The pretest would also detect any ambiguities in the questions.

A two-step pretest was conducted. Initially, several corporate planners, from four unrelated firms, reviewed the questionnaire to ensure that the words, terms, and phrases in the questions were used properly and that the questions were clear. This resulted in several questions being rephrased.

In the second step of the pretest, chairmen of the boards of directors of several Fortune ranked firms based in southeastern Michigan reviewed the questionnaire. This resulted in a major change in the

questionnaire. The change did not involve the questions themselves. The change concerned the directions the respondent was given regarding the specific questions to be answered.

The opening question asked how the board of directors was involved in the firm's strategic planning process. The respondent selected the best answer from four alternative situations:

1. At the board level, with or without staff or operating personnel involvement, the full board of directors only is involved in strategic planning activities;
2. At the board level, with or without staff or operating personnel involvement, a subcommittee whose responsibilities include strategic planning activities exists;
3. The board is not involved in strategic planning: it is handled by non-board personnel, i.e., staff or operating personnel;
4. The firm does not engage in strategic planning.

The answer to this question determined the subsequent questions that were to be answered.

It was expected, on the basis of the literature review, that virtually every respondent would answer that either the full board (number 1) or a subcommittee of the board (number 2) was involved in the firm's strategic planning process. Given either of these answers, the respondent was directed to go to Section II. Questions regarding the board's involvement in specific strategic planning activities at various levels are asked in Section II. If the respondent indicated there was no board involvement (number 3) or that the firm did not engage in strategic planning (number 4), directions were given to skip Section II

and go on to Section III. Section III, which all respondents answer, contains questions concerning the characteristics of the board and the firm.

The chairmen who pretested the questionnaire indicated that boards are typically not involved in strategic planning activities. Consequently, they felt the primary answer for Question 1 would be no board involvement (number 3). Since the respondent would then be directed to Section III, the pretest chairmen indicated that few respondents would fill out the board activities involvement section of the questionnaire (Section II). A number of reasons were given for the board not being involved in strategic planning:

- the board doesn't have the time;
- strategic planning is much too complicated and complex for the board to be involved on a monthly basis; or simply,
- as board chairmen they did not want the board involved.

Further discussion with the pretest chairmen suggested that boards with which they were associated did participate in the decision making process for activities that are associated with the strategic planning process. However, the pretest chairmen did not realize that these activities are considered part of the strategic planning process.

These pretest discussions indicated that boards are involved in making decisions associated with strategic planning activities even though the chairmen believed that boards did not or should not be involved. Consequently, it was necessary to make certain that the board chairmen answered the questions in Section II regardless of their

answers to the first question regarding their board's manner of involvement. Even though the chairman might not consider a specific board activity to be part of the firm's strategic planning process, an indication of the board's influence on the activities is necessary to determine the true impact of the board on the planning process.

The questionnaire was changed so that all respondents, upon completion of the questions that applied to them in Section I, were directed to Section II. These directions ensured that even when board involvement is not perceived to be part of the strategic planning process the respondent would indicate the board's influence on various planning activities that might take place at the board level.

The pretest suggests that there is very little perceived involvement of the board in the strategic planning process.

The revised questionnaire is shown in Appendix D.

### Data Collection

#### Procedural Approach

After pretesting and modification, the questionnaire was mailed to the Fortune 1300. Three mailings were used as follows:

1. The questionnaire with a cover letter (Appendix E), a prepaid return envelope (Appendix F), and a prepaid return postcard (Appendix G), were to be mailed initially to the chairmen of the Fortune 1300.

2. One week later a reminder postcard (Appendix H) was to be mailed to the chairmen who had not yet responded; and
3. Three weeks after the initial mailing, a second questionnaire with a cover letter, a prepaid return envelope, and prepaid return postcard were to be mailed to those chairmen who had not returned their questionnaires.

### Response Pattern

The first mailing (questionnaire, cover letter, return envelope, and prepaid return postcard) on November 4, 1980, was followed by a postcard mailed out one week later, on November 11.

The Total Design Method touted a relatively high response rate. Yet the response during the four weeks following the initial mailing was far below what was experienced by Dillman (Table 4-2).

Despite this low initial response, it was expected that most of the chairmen who had received the questionnaire would eventually return it. Completing the questionnaire was anticipated to be considered important by them, but of low priority. At this point the Total Design Method suggested mailing out a second questionnaire to encourage response. However, under the circumstances, it was felt that a second reminder postcard (Appendix I) would be the best encouragement. This postcard was mailed out in early December.



Table 4-2. Questionnaire Response Results Over Time.

DATE	ACTIVITY	RESPONSE				
		WEEK		SURVEYS	REFUSALS	TOTAL
		NO.	ENDING			
November 4, 1980	Initial Mailing <sup>1</sup>	0				
		1				
November 11, 1980	Reminder Postcard <sup>2</sup>	2	November 15	27	23	50
		3	November 22	43	5	48
		4	November 29	18	5	23
December 2, 1980	Reminder Postcard <sup>3</sup>	5	December 6	17	4	21
		6	December 13	15	3	18
		7	December 20	2	3	5
		8	December 27	6	2	8
		9	January 3	-	-	-
		10	January 10	7	1	8
January 12, 1981	Second Mailing <sup>4</sup>	11	January 17	3	-	3
		12	January 24	3	-	3
		13	January 31	2	2	4
		14	February 7	42	20	62
		15	February 14	16	11	27
		16	February 21	15	3	18
		17	February 28	9	1	10
		18	March 7	4	1	5
		19	March 14	2	4	6
		20	March 21	2	4	3
		21	March 28	1	1	2
				234	20	324

<sup>1</sup>Included Letter (Appendix E), Questionnaire (Appendix D), Return Envelope (Appendix F), and Return Postcard (Appendix G).

<sup>2</sup>Appendix H

<sup>3</sup>Appendix I

<sup>4</sup>Included Letter (Appendix J), Questionnaire (Appendix D), Return Envelope (Appendix F), and Return Postcard (Appendix G).

In the Total Design Method, 50% more questionnaires are suppose to be printed than originally mailed. This was done. Given the response rate to the initial mailing, this number was inadequate for more than one additional mailing and cost considerations precluded printing more questionnaires. In addition, the upcoming Christmas holidays had to be taken into consideration. The business activity slowdown that typically occurs during this period was expected to adversely affect the response rate. Consequently, the second postcard, mailed on December 2, 1980, was considered to be the most practical way to induce a response at that

time.

On January 12, 1981, the final mailing was directed to those chairmen who had not yet responded. A cover letter explaining the importance of their response (Appendix J) accompanied a second questionnaire, a prepaid return envelope, and postcard in this last mailing.

The data collection ceased on March 28, 1981, four and one-half months after the initial mailing. A total of 234 questionnaires were returned. This was a response rate of 18.1% (234/1295) well below the Dillman estimates. The response results are shown in Figures 4-1 through 4-4.

The data in Table 4-2 show that the lag in the initial response to both mailings was relatively long; approximately two weeks for the first mailing and three weeks for the second mailing. Following this lag, a reasonably strong response persisted for five and four weeks, respectively, for each mailing. The lengthy response period verifies the important but low priority attitude that was expected regarding questionnaire completion.

The effect of the reminder postcards on the response rates is difficult to determine for two reasons. There is no apparent burst of response that is related to the postcard mailing. Also, the periods of strong response for each questionnaire mailing are of the same approximate duration. It could be argued that the earlier onset of the strong response period associated with the initial mailing is attributed

to the first reminder postcard. However, it could be also be the result of the first exposure to the questionnaire.

#### Response Rate

A total of 1,295 questionnaires were initially delivered. There are several reasons for not having 1,300 mailings. In three instances, two involving insurance firms and one involving a diversified-financial, a single individual was chairman of two firms. In addition, a returned letter to a retailer did not allow for remailing, and only 999 industrial addresses were provided.

Figure 4-1 indicates the number of questionnaires returned and the refusals received, i.e., a positive indication that the questionnaire was not to be answered. Figure 4-2 details the response breakdown by industry.

The overall response rate, based on the combined response of the returned questionnaires and refusals, was 25.0%. As shown in Figure 4-1, the response ranged from 20% for the transportation firms to 44.0% for the commercial-banking organizations. The completed questionnaires, 18.1% of total mailings, had a response rate ranging from 14.0% for the transportation firms to 36.0% for the utilities. The refusals, 6.9% of total mailings, ranged from 2.0% for the diversified financials to 14.2% for the retailing firms.

Categorizing the responding companies by rank results in some interesting patterns. Figure 4-3 shows the response results of the firms on the basis of their being ranked in the upper, middle, or lower third of their industry.

The most questionnaires were returned by the industrial firms in the upper-third of the Fortune 1000 (Figure 4-3). The response of 112 upper-third industrial firms, 51.9% of all industrials, can possibly be attributed to the bigger support staffs that are typical of these larger firms. As will be seen in Chapter Five, Table 5-2, the higher response is not because of a greater board involvement in strategic planning. The support staff can influence the completion of the questionnaire in two ways. The work that they perform might lighten the chairman's workload. The chairman might then be more willing to answer the questionnaire. Or the chairman might direct the staff to respond to inquiries such as the questionnaire. In either instance, a response, whether positive or negative, is more likely to be forthcoming.

The sample size for each of the non-industrials is only 5% of the industrials, 50 vs. 1,000. The non-industrials, nevertheless, had some interesting response patterns (Figure 4-3). The upper-third life insurance, retail, and transportation firms predominated in responding to the questionnaire. The lower-third utilities and diversified financials were the primary respondents. Only the banks had a relatively equal response rate across all three rankings. The larger banks and retailers predominated in refusing to answer the questionnaire. This eclectic pattern of non-industrial responses does not lend itself to a clear explanation.

The likelihood of a questionnaire being returned, given a response, is shown for each industry in Figure 4-4. Retailers were more inclined to let you know that they were not going to fill out the questionnaire. While the diversified financials and utilities were more disposed to return completed questionnaires when responding.

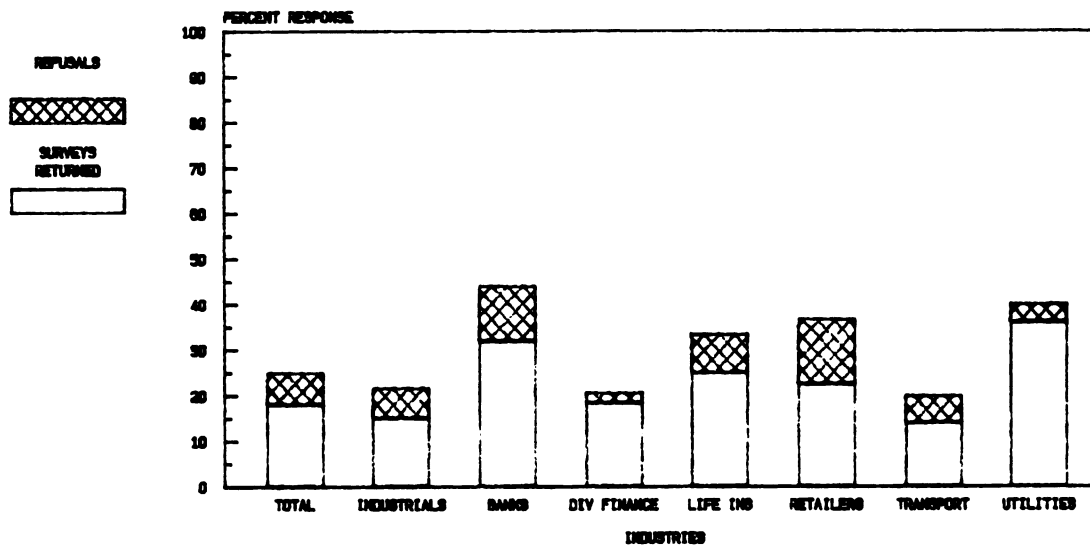


Figure 4-1. Survey Response.

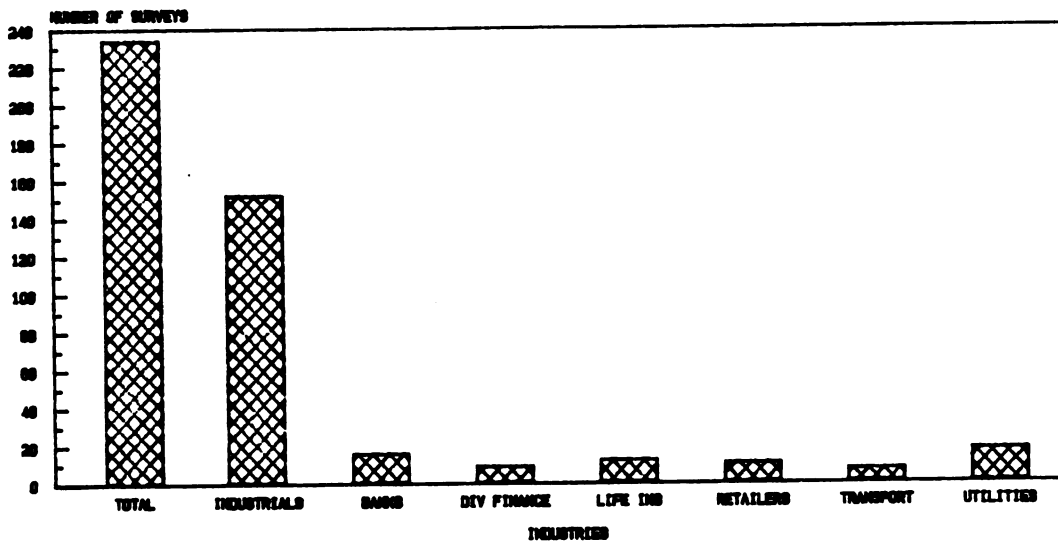


Figure 4-2. Number of Surveys Returned by Industry.

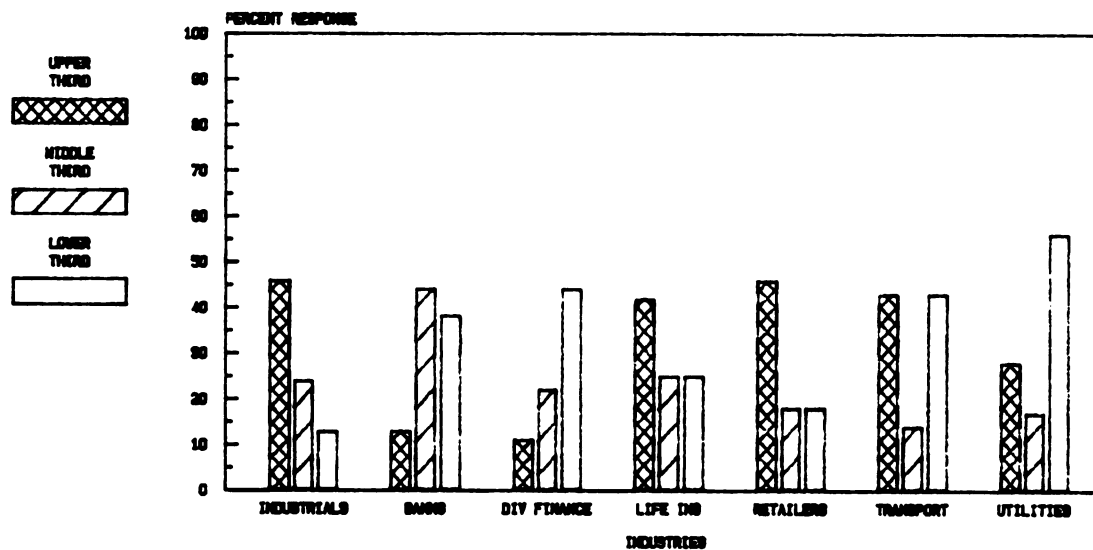


Figure 4-3. Survey Response by Firm Ranking.

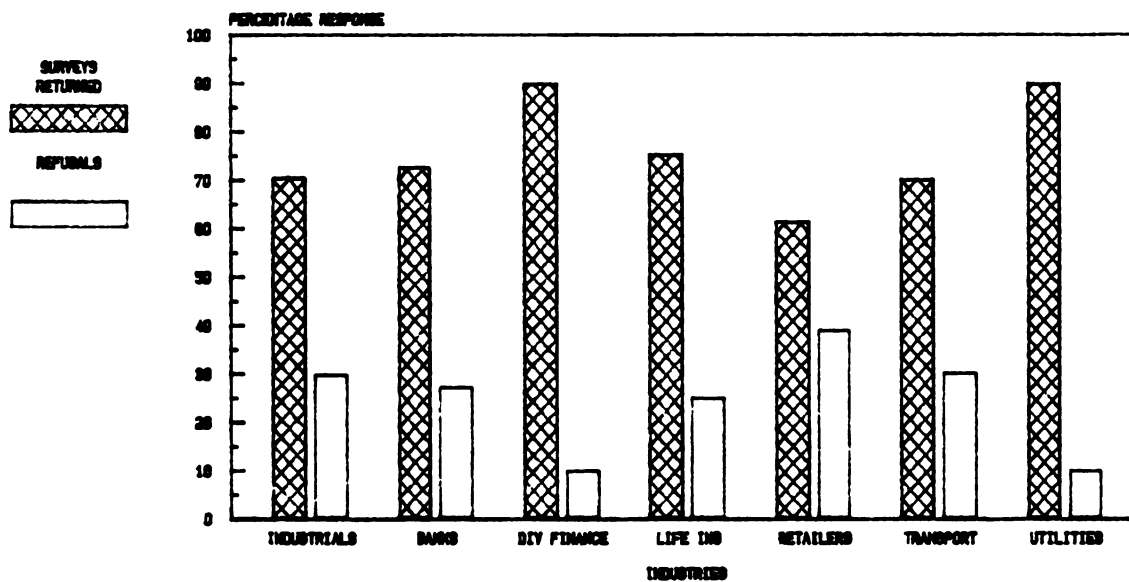


Figure 4-4. Likelihood of Survey Return.

### Reasons for Refusals

A number of companies responded by acknowledging receipt of the questionnaire, but indicated they would not complete the questionnaire. These refusals were received from 6.9% of the respondents (Figure 4-1).

A variety of reasons were given for refusing to participate in the survey. However, the reasons can be classified into four basic categories:

1. No time;
2. Inappropriate questions;
3. Firm now owned by some other company and does not have its own board of directors; and
4. No specific reason.

Several interesting reasons were categorized under (1) no time. They included: too many inquiries received, time necessary to fill out all forms received too great, staff is too small to take the time necessary to complete the survey, or staff's small size requires that it decline participation in all surveys.

Figure 4-5 shows reasons for refusal. More than a third of those who refused said the chairman or staff did not have the time to fill out the questionnaire. Virtually all the firms that refused because of lack of time indicated that they receive many requests for completing various types of surveys and questionnaires.



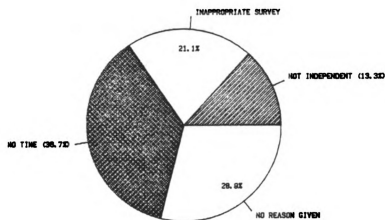


Figure 4-5. Reasons for Refusals.

#### Survey Errors

The study population was composed of the chairmen of the FORTUNE 1300 firms. A census was taken, as all chairmen were asked to respond. However, not all chairmen returned the surveys (Figure 4-1). This gives rise to the concern about nonresponse error, particularly as it might be reflected in different attitudes or involvement in strategic planning. To assess the potential nonresponse error, a distribution of the responding firms was compared to the population (Figures 4-1 and 4-2). It was found that the responding chairmen may not be representative of all surveyed chairmen. Consequently, the study results may be biased.

There may, also, be errors associated with the returned surveys. Although the board chairmen were asked to answer the questions, it is known that individuals other than chairmen filled out some surveys. The number of surveys completed by someone other than the chairman is not known. These individuals could have possibly contributed some error to the results, because of lack of knowledge. However, there was no attempt to determine the degree of this error.

Finally, there was some degree of item nonresponse, but this too was not of particular concern relative to the responses.

### Analysis of Data

The data analysis focuses on several aspects of the board's relationship with the strategic planning process. They are:

1. The manner of the board's involvement;
2. The presence and degree of board influence;
3. The anticipated future involvement of the board; and
4. The interrelationship of the board's involvement in the various strategic planning activities.

The determination of the manner of the board's involvement and the board's anticipated future involvement is rather straight forward. Determining the interrelationships of the board's involvement is also straight forward. Evaluating the presence and degree of the board's influence, however, is complex. Two indices have been developed to help define these characteristics.

### Manner of Board Involvement

The manner of board involvement is concerned with how the board is perceived to participate in the firm's strategic planning process. The perceived participation, which is indicated in Section I, question 1 of the questionnaire, can be in one of three forms: as a whole board, through a board subcommittee with responsibilities including strategic planning, or no involvement by the board in the firm's strategic planning process.

### Board Influence Measures

There are two concerns regarding board influence on the strategic planning process. The first concern is the presence or absence of influence. The second concern is the degree or amount of influence. Two indices have been developed to describe the presence of influence and the degree of influence. The indices are called the presence score and the influence score, respectively.

### Presence Score

Understanding the nature of board involvement in the strategic process begins with determining whether or not the board influences decision making in the planning activities. The presence of board influence must be determined for both board roles (initiator and reviewer) and at all four levels (corporate, intermediate, product line, and functional) if an understanding of board involvement in the planning process is to be developed.

In determining if the board has an influence on the strategic planning activities, that is, determining its presence score, consideration is given only to whether the board has a direct positive influence on the decision-making process or not. In some firms it may have been decided that the board will not be involved in the strategic planning decision making. It could be argued that by consciously not being involved, the board does influence the outcome of the decision making. That may be. However, such indirect influence is not considered to be a distinguishing characteristic of the nature of board involvement in the strategic planning activities.

The presence score is an index of the occurrence of the board's direct positive influence on the decisions associated with the activities of the strategic planning process. If the board has a positive influence on the strategic planning decisions, regardless of how large or small, the board influence is considered to be present. If the board has no positive influence on the strategic planning decisions,

for whatever reason, its influence is considered to be absent.

Table 4-3 contains the hypothetical responses of five companies to the question concerning their board's influence in determining mission. Each respondent has indicated the degree of influence the board has on each level for each role. The degree of influence can range from 0 to 100%, in 10% increments. If the activity does not take place in the firm the answer NA (not applicable) has been given. Since the presence score is concerned only with the board's positive influence on the strategic planning activity, 0 degree of influence and NA would both indicate no positive board influence. An answer of 10% to 100% would indicate the presence of positive board influence.

The degree of influence, a 10-point scale, can be recorded as a dichotomy to show the presence or absence of board influence for each role and level in each company. A one (1) is used to indicate a positive influence, 10% to 100%, and a zero (0) is used to indicate the absence of influence, 0 and NA. Table 4-4 contains the results of the recoding. The presence score can now be calculated.

Table 4-3. Hypothetical Responses of Five Companies.

ACTIVITY	LEVEL	COMPANY				
		A	B	C	D	E
1. Determining mission (general direction) to be followed over next 3 or more years	Corporate	75%	80%	50%	100%	75%
	Intermediate	25%	50%	10%	60%	40%
	Product Lines	NA	0%	NA	50%	0%
	Functional	0%	NA	25%	50%	0%
a. Board determines	Corporate	100%	100%	100%	100%	100%
	Intermediate	80%	75%	50%	80%	60%
	Product Lines	NA	50%	NA	50%	50%
	Functional	80%	NA	75%	75%	75%
b. Board approves management's recommendations	Corporate	100%	100%	100%	100%	100%
	Intermediate	80%	75%	50%	80%	60%
	Product Lines	NA	50%	NA	50%	50%
	Functional	80%	NA	75%	75%	75%

Table 4-4. Presence Score Calculation.

ACTIVITY	LEVEL	COMPANY				PRESENCE SCORE
		A	B	C	D	
1. Determining mission (general direction) to be followed over next 3 or more years	Corporate	1	1	1	1	100% (5/5)
	Intermediate	1	1	1	1	100% (5/5)
	Product Lines	0	0	0	1	20% (1/5)
	Functional	0	0	1	1	40% (2/5)
a. Board determines	Corporate	1	1	1	1	100% (5/5)
	Intermediate	1	1	1	1	100% (5/5)
	Product Lines	0	1	0	1	60% (3/5)
	Functional	1	0	1	1	80% (4/5)
b. Board approves management's recommendations	Corporate	1	1	1	1	100% (5/5)
	Intermediate	1	1	1	1	100% (5/5)
	Product Lines	0	1	0	1	60% (3/5)
	Functional	1	0	1	1	80% (4/5)

The formula for determining the presence score is:

$$\text{presence score} = \frac{\text{number of times board has direct positive influence}}{\text{number of opportunities board has to have direct positive influence}} \times 100$$

The right column of Table 4-4 shows the presence score for each level of both board roles for the activity. These scores indicate that the boards of 100% of the firms have some influence in determining mission at the corporate and intermediate level in both the determines and approves roles. Only 20% of the boards have some influence on determining mission at the product line level in the determines role, while 60% of the boards have some influence on that same activity and level in the approves role. At the functional level 40% of the boards influence determining mission in the determines role while 80% of the boards approve management's recommendations concerning the functional missions.

The presence scores in Table 4-4 provide an indication of the existence of board influence on the strategic planning decisions in a specific role and at a specific level across the companies surveyed. Aggregation of some of this data might provide additional insight.

The influence of the board can be determined for each role. There are a total of 20 opportunities for the boards of the five companies in Table 4-4 to influence the determining mission activity in the approving role (four levels times five companies). The boards have a direct influence in 17 of these opportunities. This results in a board-approves

presence score of 85% (17/20). The board-determines presence score is 65% (13/20).

Presence scores can also be determined for each of the four levels. The corporate level presence score (10/10) and the intermediate level presence score (10/10) are both 100%. The product line and functional level presence scores are 40% (4/10) and 60% (6/10), respectively. These scores are summarized in Table 4-5.

Table 4-5. Role/Level Presence Scores  
for One Activity.

ROLE/LEVEL	PRESENCE SCORE
Board Determines	65% (13/20)
Board Approves	85% (17/20)
Corporate Level	100% (10/10)
Intermediate Level	100% (10/10)
Product Lines Level	40% (4/10)
Functional Level	60% (6/10)

The role and level presence scores are useful for comparative purposes. For example, the boards of the five companies in Table 4-3 approve more than they determine the decisions associated with determining mission (Table 4-5). They are also much more concerned with determining mission at the corporate and intermediate levels than at the other two levels. In fact, the presence of their influence at the product line level is quite low.



It must be recognized that since the role and level presence scores are aggregated scores they require careful interpretation. For example, the board determines role presence score, 65%, provides no indication of the presence scores for each of the levels of that role. Table 4-4 shows them to be 100%, 100%, 20%, and 40%. A board-determines role presence score of 65% would also result from the following level scores: 100%, 100%, 75%, 0%, or 100%, 75%, 75%, 75%. The specific level to which the scores are attributed is not of concern when determining the role presence score. Similarly, the specific role to which the scores are attributed is not of concern when determining the level presence score. For this reason it must be recognized that the role and level presence scores are useful only for comparative purposes. Since they are the result of aggregating data, their usefulness is limited.

The preceding discussion focused on aggregating respondent data for a particular role or level within a specific activity. Another useful presence score for comparative purposes involves aggregating data across activities. A presence score for the determining and approving roles can be calculated across the strategic planning activities. This can also be done for each of the four levels. These scores would indicate the relative frequency of the board influence in each role and each level in the strategic planning process. Tables 4-6 and 4-7 show an example of these calculations across two activities.

Since these scores give no indication of the individual influence percentages on which they are based, caution must be exercised in their use. Despite the limitations, presence scores that have been calculated from aggregated data are useful for comparative purposes.

The presence scores that can be calculated are shown in Table 4-8. The use of these categories for influence scores will be discussed in the next section.

Table 4-6. Presence Score Calculation Data.

ACTIVITY	LEVEL	COMPANY				
		A	B	C	D	E
2. Determining specific long term end results to be attained over next 3 or more yrs.	Corporate	1	1	1	1	1
	Intermediate	1	1	0	1	0
	Product Lines	1	0	0	0	0
	Functional	1	0	1	1	0
	Corporate	1	1	1	1	1
	Intermediate	1	1	0	0	1
	Product Lines	1	0	0	1	0
	Functional	1	0	0	0	1
3. Determining short term end results to be attained over next 1-2 yrs.	Corporate	1	1	1	1	1
	Intermediate	1	0	0	1	1
	Product Lines	0	1	0	1	0
	Functional	0	0	0	0	1
	Corporate	1	1	1	1	1
	Intermediate	1	0	1	1	1
	Product Lines	0	1	0	0	0
	Functional	1	1	0	0	0

Table 4-7. Role/Level Presence Scores Across Activities.

ROLE/LEVEL	PRESENCE SCORE
Board Determines	50% (20/40)
Board Approves	60% (24/40)
Corporate Level	100% (20/20)
Intermediate Level	65% (13/20)
Product Lines Level	30% (6/20)
Functional Level	40% (8/20)

Table 4-8. Possible Presence and Influence Scores.

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ROLE
Board Determines
Board Approves
LEVEL
Corporate Level
Intermediate Level
Product Line Level
Functional Level
ROLE/LEVEL
Board Determines/Corporate Level
Board Determines/Intermediate Level
Board Determines/Product Lines Level
Board Determines/Functional Level
Board Approves/Corporate Level
Board Approves/Intermediate Level
Board Approves/Product Lines Level
Board Approves/Functional Level

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Influence Score

Determining the presence of the board's influence is only part of the information needed to understand the board's relationship to strategic planning. The extent of the board's influence must also be known. This portion of the analysis is directed toward determining the degree of influence of the board on the activities of the strategic

planning process.

The measure of the degree of influence of the board is the influence score. The influence score is the average degree of influence those boards that are involved in the strategic planning process have on the decision making of the strategic planning activities. The formula for the influence score is:

$$\text{Influence Score} = \frac{\sum_{i=1}^N \text{Degree of Influence}}{N}$$

where N is the number of companies with a greater than 0% influence. The influence score is calculated by simply adding up the degree of influence greater than 0% and dividing the total by the number of firms involved.

The influence scores of the firms in Table 4-3 are shown in Table 4-9. These scores show that those boards which are involved in approving management recommendations for corporate level mission have considerable influence, 96%. While the influence of those boards that are involved in determining mission for the intermediate and functional levels in the determining role is quite low, 37% and 38%, respectively.

As with the presence scores, influence scores can be calculated for the board roles and the management levels of a specific activity. Table 4-10 shows these influence scores for the determining mission activity data in Table 4-3. In addition, board role and management level influence scores can be calculated across activities. The use of these

Table 4-9. Influence Score Calculations.

ACTIVITY	LEVEL	INFLUENCE CALCULATION* SCORE	
1. Determining mission (general direction) to be followed over next 3 or more years	Corporate	76%	380/5
	Intermediate	37%	185/5
	Product Lines	50%	50/1
	Functional	38%	5/2
a. Board determines	Corporate	96%	480/5
	Intermediate	69%	345/5
	Product Lines	50%	150/3
	Functional	76%	305/4
b. Board approves management recommendations	Corporate	96%	480/5
	Intermediate	69%	345/5
	Product Lines	50%	150/3
	Functional	76%	305/4

\*Sum of degrees of influence/no. of companies

Table 4-10. Role/Level Influence Scores for One Activity.

ROLE/LEVEL	INFLUENCE SCORE	
Board Determines	53%	(690/13)
Board Approves	75%	(1280/17)
Corporate Level	86%	(860/10)
Intermediate Level	53%	(530/10)
Product Lines Level	50%	(200/4)
Functional Level	63%	(380/6)

scores are for comparative purposes. The caution that was discussed regarding the use of the aggregated presence scores applies to the interpretation of the aggregated influence scores.

Table 4-8 lists the influence scores that can be calculated for a single strategic planning activity across companies or across strategic planning activities.

Relative Index

The presence and influence scores are indices based on the absolute influence of the board. To aid in the analysis of these scores, the relative influence of each score was determined.

The relative influence is calculated by dividing each individual score by the average score and multiplying by 100. As can be seen in the example in Table 4-11, a relative influence of 100 indicates a score equivalent to the average score. A relative influence greater than 100 is associated with a greater than average score, while a relative influence of less than 100 indicates a below average score.

Table 4-11. Relative Influence Calculation.

INFLUENCE SCORES	CALCULATION X 100	RELATIVE INFLUENCE
80	80/80	100
75	75/80	94
90	90/80	113
100	100/80	125
60	60/80	75
95	95/80	119
<u>60</u>	60/80	75
80		

Stratification of the Database <sup>128</sup>

The presence and influence scores can be calculated for the entire population or for selected elements of the population. If the population is partitioned into subpopulations or strata, scores can be determined for elements with specific board or industry characteristics.

The research data consists of a set of objects and measurements (Table 4-12). The objects are the companies that responded with a

Table 4-12. Data Matrix

OBJECT			MEASUREMENT (VARIABLES)		
			Manner of Board Involvement. . . .	Subcommittee Size Chairman.	
			Industry		
ABC Company	Ind	1		-	-
DEF Company	Bank	1		-	-
GHI Company	Retail	3		7	0
.	.	.		.	.
.	.	.		.	.
.	.	.		.	.
.	.	.		.	.
RST Company	Trans	2		-	-
XYZ Company	Divfin	3		4	1

completed questionnaire. The measurements are the variables that comprise the answers to the questions. Several of these variables are

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<sup>128</sup>Morris Rosenberg. The Logic of Survey Analysis. New York: Basic Books, Inc., 1968, pp. 23-27.



thought to be possible predictors of the board's involvement in the strategic planning process. Using an R-analysis approach the data will be grouped or stratified on a variable and then analyzed. For example, the data can be stratified on the industry variable and then the companies comprising each industry analyzed as a group and compared with one another. Another example would involve those firms that have board subcommittees responsible for strategic planning. The firms with subcommittees would be separated from the other firms and then stratified on the basis of the origin of the subcommittee chairman, outsider vs. Insider.

There are several strata whose characteristics might be associated with different levels of board presence and influence on the planning activities. These strata, which will be analyzed, are shown in Table 4-13.

#### Analysis Procedures

The Michigan Interactive Data Analysis System (MIDAS) was used to carry out both the descriptive and the inferential analysis of the data. MIDAS is a statistical program designed and written by the Statistical Research Laboratory of the University of Michigan. Its features include

Table 4-13. Database Subpopulations.

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<u>Manner of</u>	
<u>Board Involvement</u>	<u>No Board Involvement</u>
Whole Board	Insider Dominated
Subcommittee	Outsider Dominated
No Board Involvement	
<u>Whole Board/When Involved</u>	<u>Whole Board/Composition</u>
Regularly Scheduled	Insider Dominated
During Annual Planning Cycle	Outsider Dominated
<u>Subcommittee/When Involved</u>	<u>Subcommittee/Composition</u>
Regularly Scheduled	Insider Dominated
During Annual Planning Cycle	Outsider Dominated
<u>Subcommittee/Chairman</u>	<u>Subcommittee/Responsibilities</u>
Insider	Strategic Planning Only
Outsider	Strategic Planning + Other
<hr/>	
<u>Industry</u>	
Commercial Banks	Utilities
Diversified-Financials	Industrials (Upper Third)
Life Insurance	Industrials (Middle Third)
Retailers	Industrials (Lower Third)
	Transportation

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extensive data manipulation and statistical analysis capabilities.<sup>129</sup>

The various capabilities of MIDAS that were used in the data analysis are discussed in the following section.

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<sup>129</sup>Daniel J. Fox and Kenneth E. Guire. Documentation for MIDAS. Ann Arbor: The Statistical Research Laboratory, The University of Michigan, 3rd Edition, 1976 and Staff of The Statistical Research Laboratory, The University of Michigan. Elementary Statistics Using MIDAS. Ann Arbor: The Statistical Research Laboratory, The University of Michigan, 2nd Edition, 1978.

### Operational Definitions

The analysis of the data falls into four categories:

1. General descriptive analyses;
2. Calculation of the presence scores;
3. Calculation of the influence scores; and
4. Determination of the interrelationship of board influence and the strategic planning activities.

The operational definition for each of these procedures is described below.

#### Descriptive Analysis

The descriptive analysis involves summarizing the answers that were provided by the respondents. Frequency distributions, means, medians, and modes will be determined when appropriate. In addition, contingency tables will be developed for combinations of variables when it is felt that two-way analysis would add insight on the variable relationships.

### Presence Score

There are 112 items in the questionnaire that are associated with board influence on the strategic planning activities. They comprise questions 1 through 15 of Section II. Each question is concerned with a specific strategic planning activity. Questions 1 through 13 have eight role/level combinations (Table 4-8), while questions 14 and 15 have four levels each (Appendix D). Table 4-14 summarizes the scores to be calculated.

Table 4-14. Presence and Influence Scores Summary.

	INDIVIDUAL ACTIVITY SCORES			AGGREGATED SCORES ACROSS ACTIVITIES	
	Item	Role	Level	Role	Level
Activities	15	13	15	13	15
Roles <sup>1</sup>	2	2	-	2	-
Level/Role <sup>2</sup>	4	-	4	-	4
<b>Scores</b>					
Activities 1-13	104	26	52	-	-
Activities 1-15	8	-	8	-	-
Total Scores	112	26	60	2	4

<sup>1</sup> Activities 1-13 only

<sup>2</sup> Activities 14 and 15 have only 4 levels

A total of 112 item presence scores will be calculated for each subpopulation element. The operational definition of the item presence scores for a subpopulation (Table 4-13) follows:

1. Select the element of the subpopulation to be analyzed (Table 4-13);
2. Determine the presence of a positive board influence for the board determines/corporate level combination of the first activity (question 1);
3. Calculate the presence score (example Tables 4-3 and 4-4);
4. Repeat steps 2 and 3 for each of the remaining 13 activities (questions 2 through 13);
5. Repeat steps 2 through 4 for each of the remaining seven role/level combinations (Table 4-8);
6. Determine the presence of a positive board influence for the corporate level of the 14th activity (question 14);
7. Calculate the presence score;
8. Repeat steps 6 and 7 for the other three levels (Table 4-8);
9. Repeat steps 6 through 8 for the 15th activity (question 15);
10. Repeat steps 2 through 9 for the remaining elements in the subpopulation.

In addition, an ANOVA will be applied to each item to detect any significant difference between the elements of the subpopulation.

There are 26 role presence scores for each element. The calculation of the element role presence score for each activity involves some aggregation of data within the role of the activity. The operational definition of this calculation for each subpopulation follows:

1. Select the element of the subpopulation to be analyzed (Table 4-13);
2. Determine the presence of a positive board influence at each level of the board determines role for the first activity (question 1);
3. Calculate the presence score;
4. Repeat steps 2 and 3 for each of the remaining 12 activities with roles (questions 2 through 13);
5. Repeat steps 2 through 4 for the board approves role;
6. Repeat steps 2 through 5 for the remaining elements in the subpopulation.

The determination of the subpopulation element level presence scores for each activity is similar to the role calculations discussed above. The operational definition for the level presence scores is:

1. Select the element of the subpopulation to be analyzed (Table 4-13);
2. Determine the presence of a positive board influence for both corporate level items in the first activity (question 1);
3. Calculate the presence score (example, Tables 4-3 and 4-5);
4. Repeat steps 2 and 3 for the remaining 14 activities (questions 2 through 15);
5. Repeat steps 2 through 4 for each of the three remaining levels (Table 4-11);
6. Repeat steps 2 through 5 for the remaining elements in the subpopulation.

The element role score for all activities involves aggregating data across the 13 activities (Table 4-14). The operational definition for this is:

1. Select the element of the subpopulation to be analyzed (Table 4-13);
2. Determine the presence of a positive board influence at each level of the board determines role in the first 13 activities (questions 1 through 13);
3. Calculate the presence score (example, Tables 4-3 and 4-5);
4. Repeat steps 2 and 3 for the board approves role;
5. Repeat steps 2 through 4 for the remaining elements in the subpopulation.

The element level score for all activities involves aggregating data across all 15 activities (questions 1 through 15). The operational definition of this procedure is:

1. Select the element of the subpopulation to be analyzed (Table 4-13);
2. Determine the presence of a positive board influence at the corporate levels of both the board determines and board approves role of the first 13 activities (questions 1 through 13);
3. Determine the presence of a positive board influence at the corporate level of activities 14 and 15 (questions 14 and 15);
4. Calculate the presence score (example, Tables 4-3 and 4-5);
5. Repeat steps 2 through 5 for the remaining three levels;

6. Repeat steps 2 through 5 for the remaining elements of the subpopulation.

These four presence scores (Table 4-14) will contribute to understanding the board's relationship to the strategic planning process.

#### Influence Score

The influence score operational definitions are similar to the presence score definitions described in the preceding paragraphs. However, instead of calculating the presence score the influence score is determined.



## CHAPTER FIVE RESEARCH FINDINGS

### Project Overview

The purpose of this project is to evaluate the relationship of the board of directors and strategic planning in domestic-based firms. The intent is threefold: 1) to define the current role of the board in the planning activity; 2) to determine if the board is meeting its planning responsibilities; and 3) if more involvement appears desirable, to provide suggestions for this increased involvement. To realize these intentions the project focused on three broad areas of board involvement and impact:

1. The specific activities of the strategic planning process in which the board of directors is involved;
2. The organizational levels affected by the board's activities; and
3. The degree to which the board influences the strategic planning activities on the specific organizational levels.

Business' current practices, concerns, and understanding of the strategic planning process at the board level is the basis for determining if the board is meeting its responsibilities and what

additional involvement, if any, the board should have in the future. It was also thought that this information and data would be a source of new ideas and concepts which could help the individual firm improve the effectiveness and the efficiency of its strategic planning procedures. As will be seen this expectation was realized.

To determine the involvement of the board in strategic planning, the chairmen of the board of directors of the Fortune 1300 were approached directly, through the use of a mail questionnaire. However, prior to communicating with the chairmen it was necessary to obtain some background information and data on this role of the board.

To meet this end, two areas of the literature were reviewed: 1) the activities associated with the strategic planning process and 2) the relationship and involvement of the board with the strategy formulation process. The literature provided rather limited information concerning the board and strategic planning. There are several reasons for this. The primary reason is that not much has been written about this board activity. Second, the planning activity is quite complex. As a result, virtually each article tended to focus on the board's involvement in only one component of the planning activity. And last, the articles tended to be based on the writer's personal experience or on the experiences of only a small number of firms. In either case, the articles were based on limited experiences.

These deficiencies raised several fundamental questions concerning the relationship of the board of directors to the firm's strategic planning activities:

- Q1: To what extent do the major firms in the United States (defined by the Fortune 1300 listing) practice strategic planning?
- Q2: Of those major firms engaged in strategic planning, is the board of directors actively involved in the process, and, if so, what is the manner of their involvement?
- Q3: Which activities of the strategic planning process involve board participation? How does the board participate in the process and at what managerial levels does this involvement occur? What is the degree of the involvement?
- Q4: How are the characteristics of the board and the firm related to board involvement in the strategic planning activities?
- Q5: What is the expected future involvement of the board in the firm's strategic planning?

These questions provide a focus within the broad area of board strategic planning involvement which must be addressed if the purpose of the project is to be realized.

The analysis of the board's involvement in the strategic planning process answered the questions raised by the literature review. As will be seen in subsequent sections of this chapter, many interesting and important areas of board influence were uncovered. However, the exact details concerning the influence remains uncertain.

The project focused on the role of the board. Within this context the study was concerned with what was done, not how and why! The exact manner of how the board exercises its influence, which may be related more to distinct board characteristics than to any universally effective approaches, was not addressed in the project. Also, the differences in board influence, which will be discussed in subsequent sections of this chapter, suggest that the board can increase, or at least affect its

performance in strategic planning. Why these differences exist was also not addressed in the project. These differences may be attributed to specific board characteristics not identified in the questionnaire, e.g., the level of desire of the board chairman to involve board members in the planning process. Nevertheless, simply identifying the important areas of board activity, that is, what is being done, does contribute to our understanding of this important, but little understood domain of board responsibility.

This chapter consists of two distinct parts. The following section, Summary Conclusions, highlights the more important implications of the research findings without detail substantiation. The subsequent sections describe the detailed research findings upon which the Summary implications are based, plus other findings which were considered to be of lesser importance.

### Summary Conclusions

#### Major Findings

The project uncovered several important findings concerning the relationship of the board of directors and strategic planning:

1. The relationship of the board to the strategic planning process can be summarized by a model consisting of three components: the perceived responsibilities of the board, the time involved, and the impact of the board;

2. The board is generally perceived to be not involved in the strategic planning process, although the boards' actions suggest otherwise;
3. Boards with subcommittees whose responsibilities include strategic planning are most involved and have the greatest influence on the strategic planning process, while boards that are perceived to be involved as a whole board and boards that are perceived to be not involved in the process have generally equivalent involvement and influence on the process;
4. No matter what the perspective of board involvement, the board functions primarily as a reviewer and/or approver of management's recommendations, rather than as an initiator and/or determinor of strategic planning decisions;
5. No matter what the perspective of board involvement the board's strategic planning decisions focus primarily on the corporate level of the firm;
6. There are distinct differences in board involvement and influence within industries, suggesting a lack of direction for board participation in the planning process;
7. The board does not take full advantage of its outside members' expertise, skills, and objectivism in arriving at its strategic planning decisions; and
8. Boards tend to focus involvement in the strategic planning activities according to particular orientations, e.g., planning, financial, external.

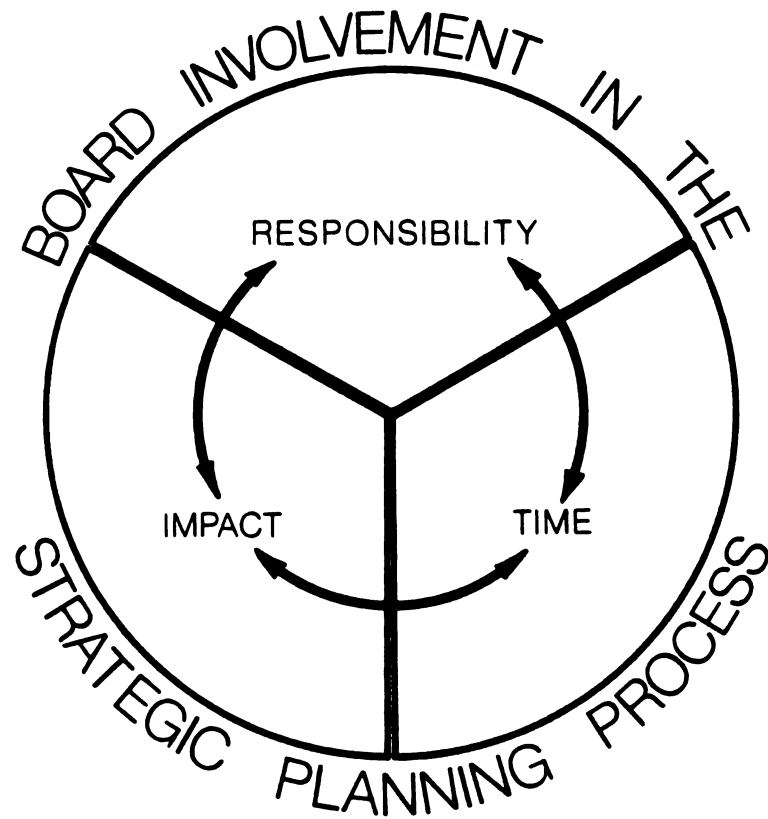


Figure 5-1. Model of Board-Planning Relationship.

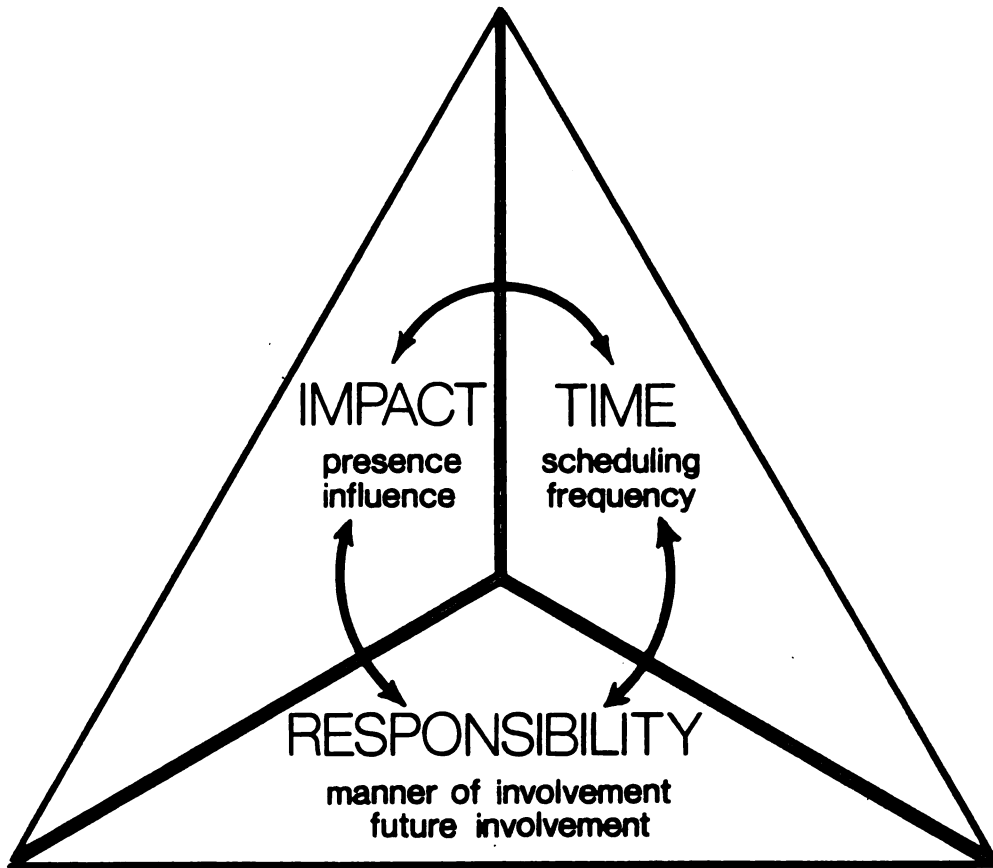


Figure 5-2. Elements of Board-Planning Model.

### Model of Board-Planning Relationship

The relationship of the board of directors to the strategic planning process can be described by three basic components:

1. The perceived responsibility of the board;
2. The time involved in the process; and
3. The impact of the board on the process.

These three components, that evolved from the findings of the project, comprise a model of the board's involvement. The model is shown in Figure 5-1.

Each component consists of two elements (Figure 5-2). The two elements of the responsibility component are: the perceived manner of current board involvement in the strategic planning process, whole board, board subcommittee, or no board involvement, and the anticipated future involvement of the board. The time component is concerned with when the board schedules strategic planning involvement, on a regularly scheduled basis or primarily during the annual planning cycle, and the frequency of the involvement. The two elements of the third component are presence, which is the occurrence of board involvement, and influence, which is the amount the board influences the outcome of the planning decision. Both presence and influence are associated with the board role in the planning process, the management levels of the firm, and the individual strategic planning activities. These relationships will be discussed in greater detail in subsequent sections.



### Responsibility of Board

Two of the questions raised by the literature review are associated with the perceived board responsibility:

Q1: To what extent do the major firms in the United States (defined by the Fortune 1300 listing) practice strategic planning?

Q2: Of those major firms engaged in strategic planning, is the board of directors actively involved in the process, and, if so, what is the manner of involvement?

On the basis of the questionnaire results the following can be concluded regarding these questions:

1. Virtually all of the major firms in the United States (defined by the Fortune 1300 listing) practice strategic planning (defined as determining goals and objectives and how to attain them over the long-term, i.e., 3 or more years);
2. Of those major firms engaged in strategic planning the board of directors is typically not involved in the process; however
3. When the board of directors is involved in the strategic planning process it is generally as the whole board, rather than through the appointment of a subcommittee.

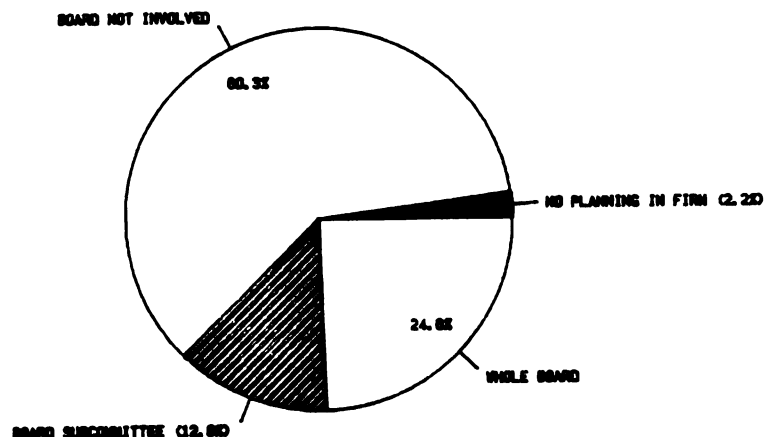


Figure 5-3. Manner of Board Involvement.

As can be seen in Figure 5-3, almost every response, 97.8% (227/232), indicated that strategic planning takes place within the firm. However, the board is typically not involved in the process, 60.3%. When the board is involved in the planning process it is involved as the whole board (24.6%) rather than through a subcommittee (12.9%), by a 2 to 1 margin.

A breakdown of the responses by industry indicate that board involvement varies among the nine industry groups analyzed (Figure 5-4). The utility industry is the only industry in which more than 50% of the boards participate in the planning process. This intense involvement, 72% of the boards, can probably be attributed to the heavy long-term financial commitments which are uniquely associated with utilities. The importance and impact of these commitments has resulted in heavy board

involvement in the planning process.

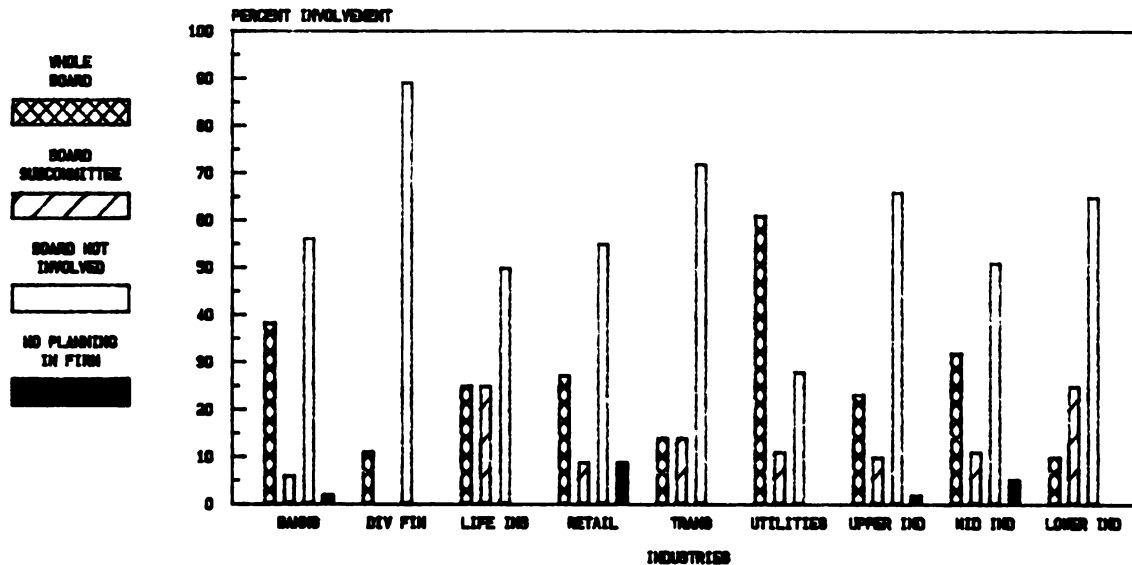


Figure 5-4. Manner of Board Involvement by Industry.

#### Time Involvement of Board

The time involvement of the board in the planning process is concerned with when the board involvement is scheduled to take place and the frequency of the involvement.

## Scheduling

The board's involvement in the planning process for both whole boards and subcommittees is scheduled either during the firm's annual planning cycle or on a regularly scheduled basis throughout the year. However, as can be seen in Figure 5-5, the split between these two schedules differs with the manner of board involvement. The involvement of the whole board in the planning process primarily during the annual planning cycle suggests that the time requirements of other board functions limits the board's involvement to when the firm is most active in planning the annual planning cycle. The subcommittee involvement is split between the annual planning cycle and regularly scheduled meetings.

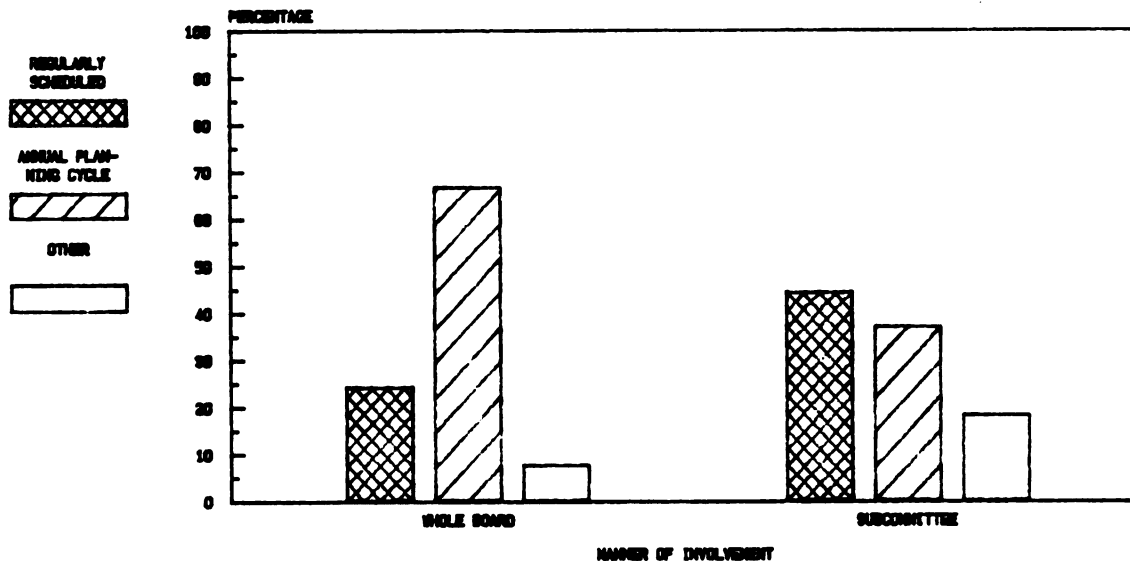


Figure 5-5. Planning Involvement Schedule.

## Frequency

The whole board spends less of its time on strategic planning activities than does the subcommittee (Figure 5-6). The whole board has a myriad of responsibilities to which it must devote some time. Consequently, it would be expected that the time it spent on strategic planning activities would be a small portion of its total time.

The reason that the subcommittees spend less than 100% of their time on strategic planning activities is because half of them have other responsibilities, in addition to their strategic planning responsibilities. As will be seen, the subcommittees with the additional responsibilities spend, on the average, approximately half of their time on strategic planning, 52.9%. This has resulted in the subcommittees spending, on the average, 78% of its time on strategic planning activities.

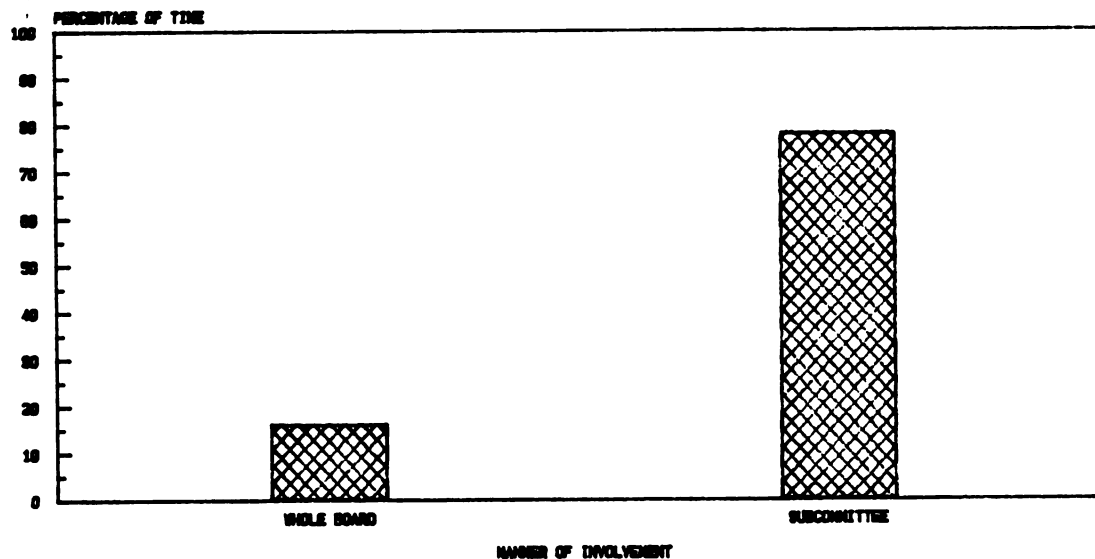


Figure 5-6. Frequency of Planning Involvement.

### Impact of Board

The third question raised by the literature review is related to board impact on the planning process:

Q3: Which activities of the strategic planning process involve board participation? How does the board participate in the process and at what managerial levels does this involvement occur? What is the degree of the involvement?

The board's impact on strategic planning activities in the firm can be viewed from two perspectives: 1) the mere presence of board influence on the activities; and 2) the amount of influence attributable to the board. Two associated indices were developed from the research data to describe these perspectives: the presence score and the influence score. These indices were developed for the two board roles, the four management levels, and the eight role/level combinations for each of the 15 strategic planning activities studied. Table 5-1 summarizes the areas for which the indices were developed.

The indices were developed for a variety of subpopulations (Table 5-2). These subpopulations were selected for evaluation of the board's relationship to strategic planning because it was felt that the elements of each of the subpopulations might be associated with different board impact. It was expected that if a difference did occur, the difference would be reflected in the presence scores and the influence scores.

Several important differences were observed. These differences in board impact are related to the role of the board in the process, the management levels at which the board is involved, the various activities

Table 5-1. Possible Presence and Influence Scores.

---

ROLE
Board Determines Board Approves
LEVEL
Corporate Level Intermediate Level Product Line Level Functional Level
ROLE/LEVEL
Board Determines/Corporate Level Board Determines/Intermediate Level Board Determines/Product Lines Level Board Determines/Functional Level Board Approves/Corporate Level Board Approves/Intermediate Level Board Approves/Product Lines Level Board Approves/Functional Level

---

of the process, and the differences between the elements in some of the subpopulations. Each of these findings are discussed in the following sections.

#### Role Played by Board

The board can be involved in the strategic planning process in one of three possible ways: an initiator of decisions, a reviewer of management decisions, or as a participator with management in determining what is to be done. The involvement of the board as an

Table 5-2. Database Subpopulations.

<u>Manner of</u>	
<u>Board Involvement</u>	<u>No Board Involvement</u>
Whole Board	Insider Dominated
Subcommittee	Outsider Dominated
No Board Involvement	
<u>Whole Board/When Involved</u>	<u>Whole Board/Composition</u>
Regularly Scheduled	Insider Dominated
During Annual Planning Cycle	Outsider Dominated
<u>Subcommittee/When Involved</u>	<u>Subcommittee/Composition</u>
Regularly Scheduled	Insider Dominated
During Annual Planning Cycle	Outsider Dominated
<u>Subcommittee/Chairman</u>	<u>Subcommittee/Responsibilities</u>
Insider	Strategic Planning Only
Outsider	Strategic Planning + Other
<u>Industry</u>	
Commercial Banks	Utilities
Diversified-Financials	Industrials (Upper Third)
Life Insurance	Industrials (Middle Third)
Retailers	Industrials (Lower Third)
Transportation	

initiator or a reviewer can be measured directly. These two roles were measured in the study.

In every subpopulation analyzed it was found that the board is predominately involved in the strategic planning process as a reviewer or approver of management actions. The initiator or determines role of the board is a secondary role. These results are illustrated in Figure 5-7 by the board role scores for the manner of board involvement subpopulation. As can be seen, the approves role for each element has both the largest presence score and the largest influence score.



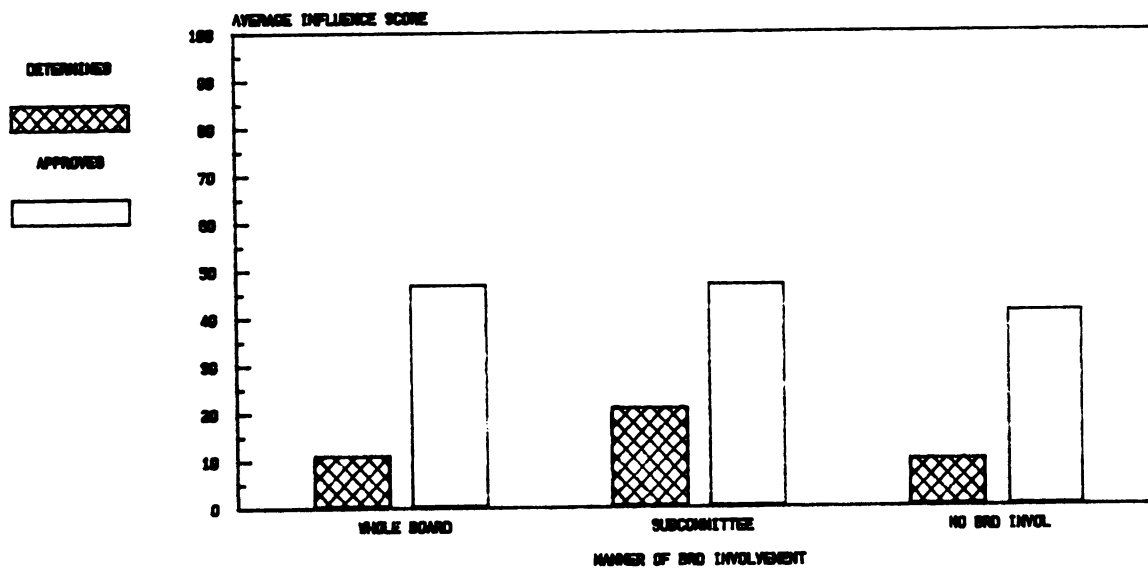
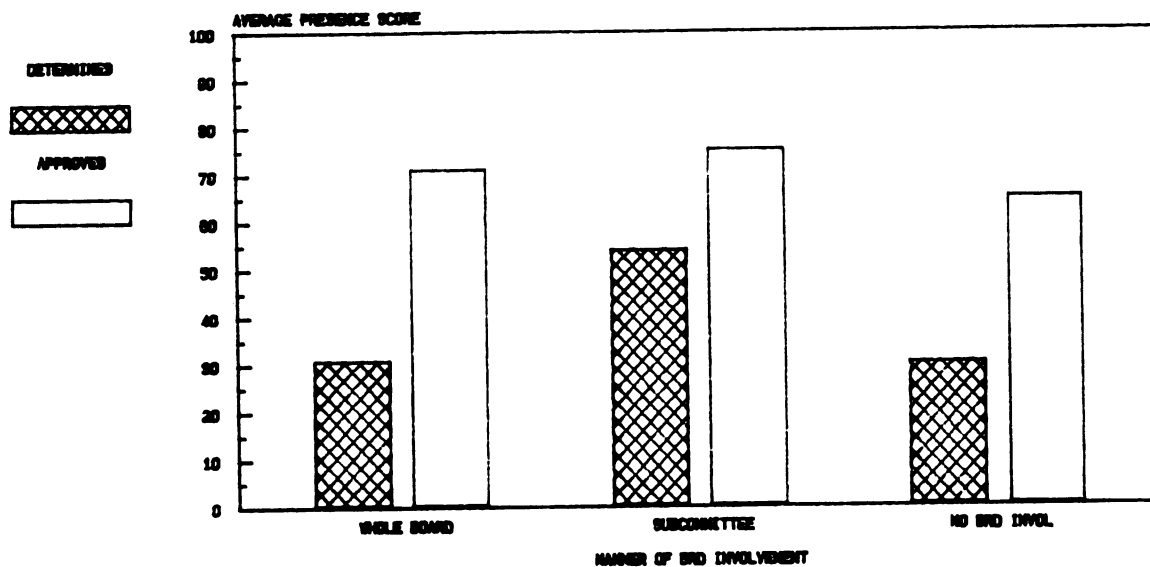


Figure 5-7. Manner of Board Involvement/  
Board Roles-Involvement Scores.

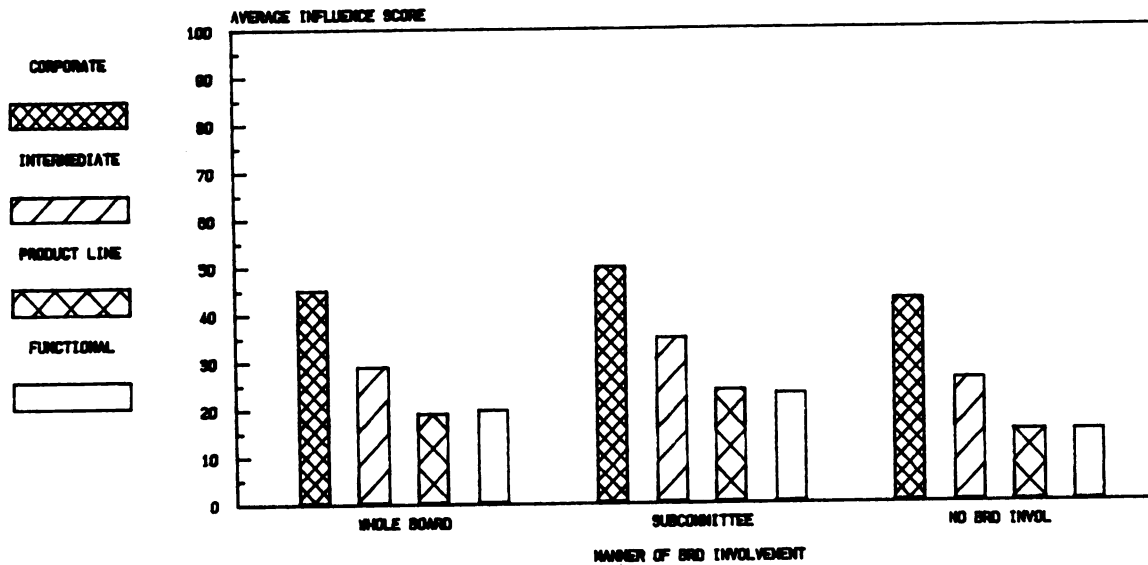
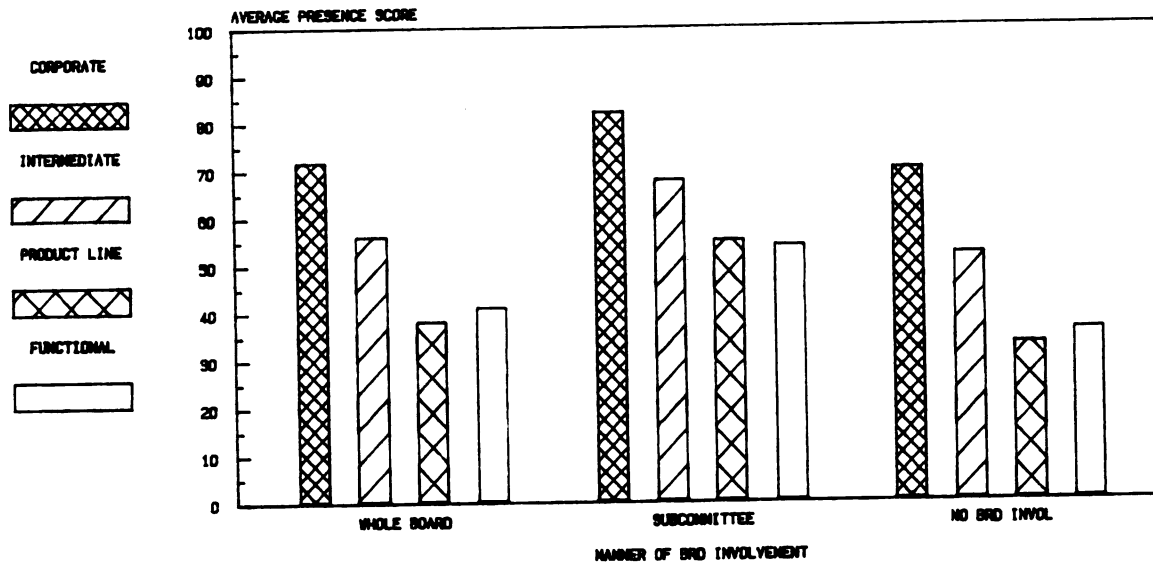


Figure 5-8. Manner of Board Involvement/  
Management Levels-Involvement Scores.

### Management Levels Affected

A consistent difference of impact on the management levels was also found across all subpopulations analyzed. The corporate level presence scores and influence scores were consistently larger than the intermediate level scores. The intermediate scores, in turn, were consistently larger than both the product line and functional scores. The scores of the latter two levels tended to be equivalent.

Figure 5-8 illustrates these findings with the presence and influence level scores for the manner of board involvement subpopulation.

There are several possible explanations for this occurrence. First, the corporate level is the highest level within the firm. Decisions at this level have company-wide influence. Typically, the board is most concerned with decisions that have the greatest impact. This concern is reflected in the high presence and influence scores at the corporate level.

Second, because of the time spent on corporate level issues the board has limited time to gather, assimilate, and analyze data, and then make decisions on issues concerned with the lower levels. Third, the intermediate level, being typically, just below the corporate level, would utilize more board time than the product line level which is the lowest level of the firm. Board decisions at the product line level, because of the large number of products a firm typically has, would require an incredible amount of information analysis to make enlightened

decisions. The amount of time to do this would preclude, all but specific product decisions. Fourth, decisions at the functional level, that is, marketing, finance, manufacturing, and logistics across the management levels, also, requires considerable information and board time. Since the board must limit its involvement in the affairs of the firm because of its members' limited time, involvement at the higher levels would reflect the most judicious use of that time.

#### Planning Activities Affected

The activities in which boards are most involved are not the activities which the boards influence the most.

The board impact was measured by the presence and influence scores for both board roles and each of the four management levels. These two scores were also developed for the eight role/level combinations, of each of the 15 strategic planning activities (Table 5-1).

The top five activities in which each element of every subpopulation are most involved was determined (Table 5-2). The five activities each element most influences was also determined. The results of these analyses are summarized in Tables 5-3 and 5-4, respectively. The role and level associated with each of the top five activities is not considered in this analysis.





As can be seen in Tables 5-3 and 5-4 the activities in which most boards are involved are not the activities in which the boards exert the most influence. Table 5-5 shows this relationship more clearly. Of the five activities which appeared in the top five presence scores most frequently, determining mission(1.), determining long-term end results(2.), determining short-term end results(3.), evaluate external environment(4.), and determine resource availability(5.), only, determining mission (1.) and determining long-term end results(2.), were among the five activities which appeared most frequently in the top five influence scores. The remaining four activities (there was one tie) which appeared in the top five influence scores most frequently, merger activities (10.) acquisition activities (11.) divestiture activities (12.), and determine operating plans(2.) are well down the presence score rankings.

#### Board/Firm Characteristics and Board Impact

The reason the nine subpopulations (Table 5-2) were selected is the fourth question raised by the literature review:

Q4: How are the characteristics of the board and the firm related to board involvement in the strategic planning activities?

Each subpopulation is comprised of elements which were characteristics of the board or firm. These elements were anticipated to be associated with specific board actions regarding strategic planning activities. Only two of the subpopulations, manner of board involvement and industries, have elements that are involved in the planning activities

Table 5-5. Activities Ranking.<sup>1</sup>

ACTIVITY	RANKING	
	INFLUENCE SCORE	PRESENCE SCORE
Acquisition Activities	1 (23)	7 (13)
Determine Operating Plans	2 (17)	8 (11)
Divestiture Activities	3 (15)	11 (5)
Determining Long Firm End Results	4 (14)	4 (17)
Merger Activities	5 (13)	13 (3)
Determining Mission	5 (13)	4 (17)
Determining Short Term End Results	7 (12)	3 (18)
Determine Specific Plan to Follow	8 (6)	11 (5)
Allocate Resources	8 (6)	9 (9)
Evaluate External Environment	10 (5)	1 (24)
Determine Resource Availability	11 (5)	2 (22)
Determine Alternative Plans	12 (2)	6 (16)
Develop Contingency Plans	13 (1)	10 (8)
Monitor External Environment	14 (0)	13 (3)
Monitor Societal Entities	14 (0)	15 (0)

<sup>1</sup>Based on frequency of being in top five items of subpopulation elements (in parentheses)

in a manner that is distinctly different from one another. Some unique differences between the elements of some of the subpopulations were observed, but the differences were limited in number and scope. Tables 5-6 and 5-7 summarize the findings for each subpopulation studied.

Table 5-6 summarizes the presence score and influence score findings for each of the subpopulations. The role scores are classified as different if the elements in at least one role exhibit a difference of greater than 20% in its scores. The level scores are classified as different if the elements in at least two levels exhibit a difference of more than 20% in its scores. The activities are classified as different if at least 20 of the 112 activities exhibited significant differences,



based on ANOVA testing, between the subpopulation elements. ANOVA testing was not applied to role and level scores because these scores are aggregated across the samples of each element. Individual sample scores were evaluated for each activity.

Table 5-7 summarizes the implications drawn from the analysis of the presence scores and influence scores associated with each element in every subpopulation.

Table 5-6. Summary of Involvement Score Findings.

SUBPOPULATION	PRESENCE			INFLUENCE		
	ROLE	LEVEL	ACTIVITIES	ROLE	LEVEL	ACTIVITIES
Manner of Board Involvement	Different	Different	Different	Different	Different	Different
Whole Board:						
When Involved	Different	Same	Same	Different	Same	Same
Composition	Different	Different	Same	Different	Same	Same
Subcommittee						
When Involved	Same	Same	Same	Different	Different	Same
Composition	Same	Same	Same	Same	Same	Same
Chairman	Same	Same	Same	Different	Same	Same
Responsibilities	Same	Same	Same	Same	Same	Same
No Board Involvement	Different	Same	Same	Different	Same	Same
Industries	Different	Different	Different	Different	Different	Same

Table 5-7. Summary of Participation and Influence Findings.

SUBPOPULATION	SAMPLING UNITS	KEY FINDINGS
Manner of Board Involvement	1. Whole Board 2. Board Subcommittee 3. No Board Involvement	•Boards with subcommittees have the greatest participation and influence •Boards tend to be more alike than dissimilar
Whole Board Involvement	<u>When Involved</u> 1. Regularly Scheduled 2. Primarily During Planning Cycle	•Influence and participation same •Regularly scheduled boards tend to be initiators or participants with a strategy orientation •Planning cycle boards tend to be reviewers with an operations orientation
	<u>Board Composition</u> 1. Outsider Dominated 2. Insiders≥50%	•No difference in participation or influence
Subcommittee Involvement	<u>When Involved</u> 1. Regularly Scheduled 2. Primarily During Planning Cycle	•No difference in participation or influence
	<u>Subcommittee Composition</u> 1. Outsider Dominated 2. Insiders≥50%	•Boards participate in activities that relate to strength of subcommittee composition: outsider subcommittee-external activities, insider subcommittee internal activities •No difference in influence
	<u>Subcommittee Chairman</u> 1. Outsider 2. Insider	•No difference in participation or influence

Table 5-7 (cont'd.).

SUBPOPULATION	SAMPLING UNITS	KEY FINDINGS
	<u>Subcommittee Responsibilities</u> 1. Strategic Planning Only 2. Strategic Planning + Others	•No difference in participation or influence •Boards with subcommittees responsible for only strategic planning tend to be involved in the financial and organizational structure influencing activities: mergers, acquisitions, and divestitures
No Board Involvement	<u>Board Composition</u> 1. Outsider Dominated 2. Insider ≥ 50%	•More outsider dominated boards tend to be involved •No difference in influence
Industries	1. Banks 2. Diversified Financials 3. Life Insurance 4. Retailers 5. Transportation 6. Utilities 7. Industrials-Upper Third 8. Industrials-Middle Third 9. Industrials-Lower Third	•Difference in participation at product line level •No difference in influence

## Industry Comparisons

Impact of Board

The manner of board involvement in the strategic planning process varies by industry (Figure 5-4), as does the involvement and the influence of the board on the strategic planning process. It appears that the complexity of the business, i.e., diversification, and the need for planning in the past may be related to these industry differences.

Tables 5-3 and 5-4 show the similarities and differences between the boards with regard the most involved and most influenced activities. Banks, life insurance firms, retailers, and transportation firms, which tend to have least complex businesses, are similar in activities of most involvement. The three groups of industrials, which are the most complex, and the diversified financials and utilities, which have the greatest need for long term planning, are most similar in the activities of greatest influence.

The differences in board involvement and influence across industries are also generally related to business complexity and past need for planning. Tables 5-6 and 5-7 show the overall results of the analysis of the board impact by industry. The similarities and differences in board impact between industries are shown in Figures 5-9 thru 5-12.

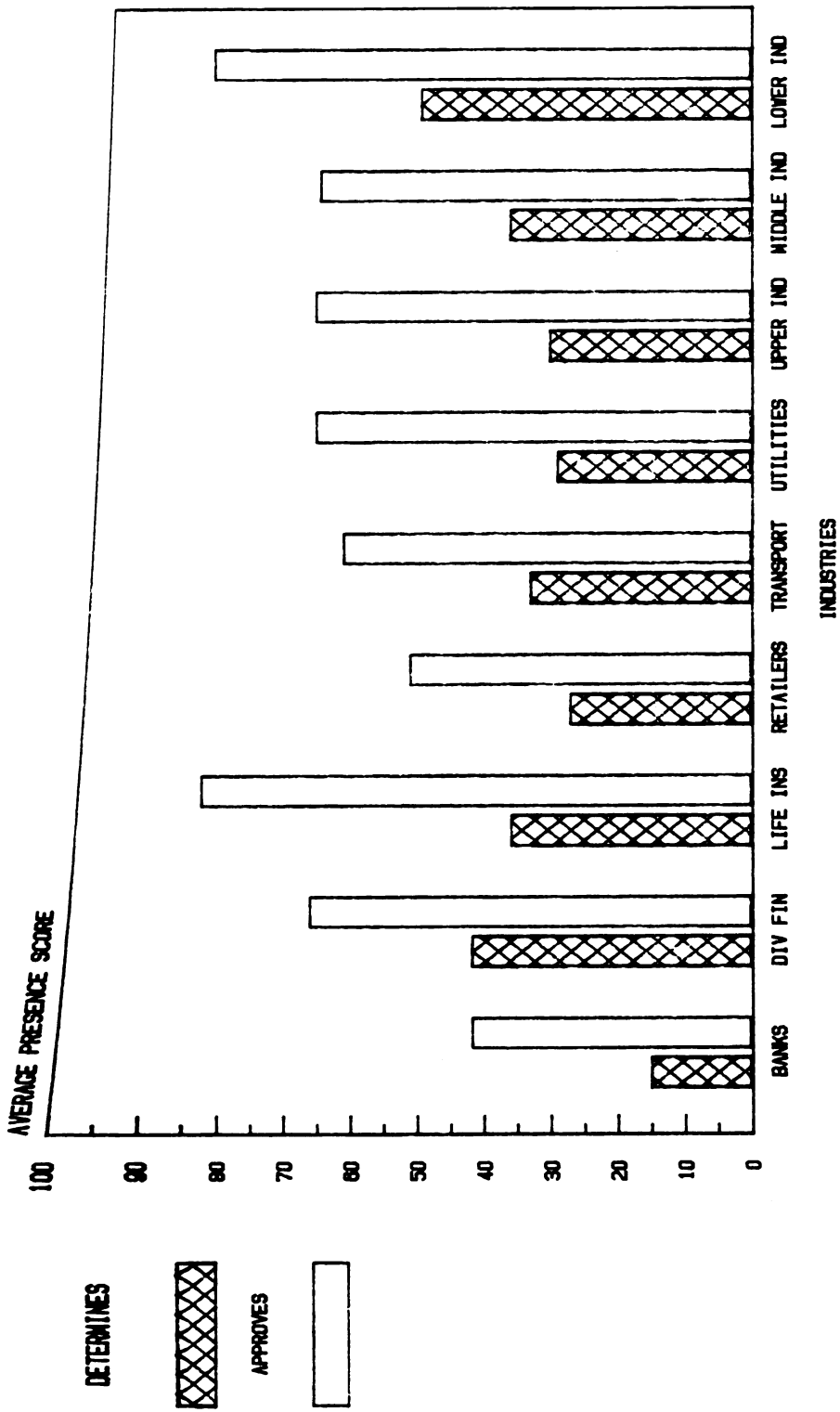


Figure 5-9. Industries/Board Roles-Average Presence Scores.

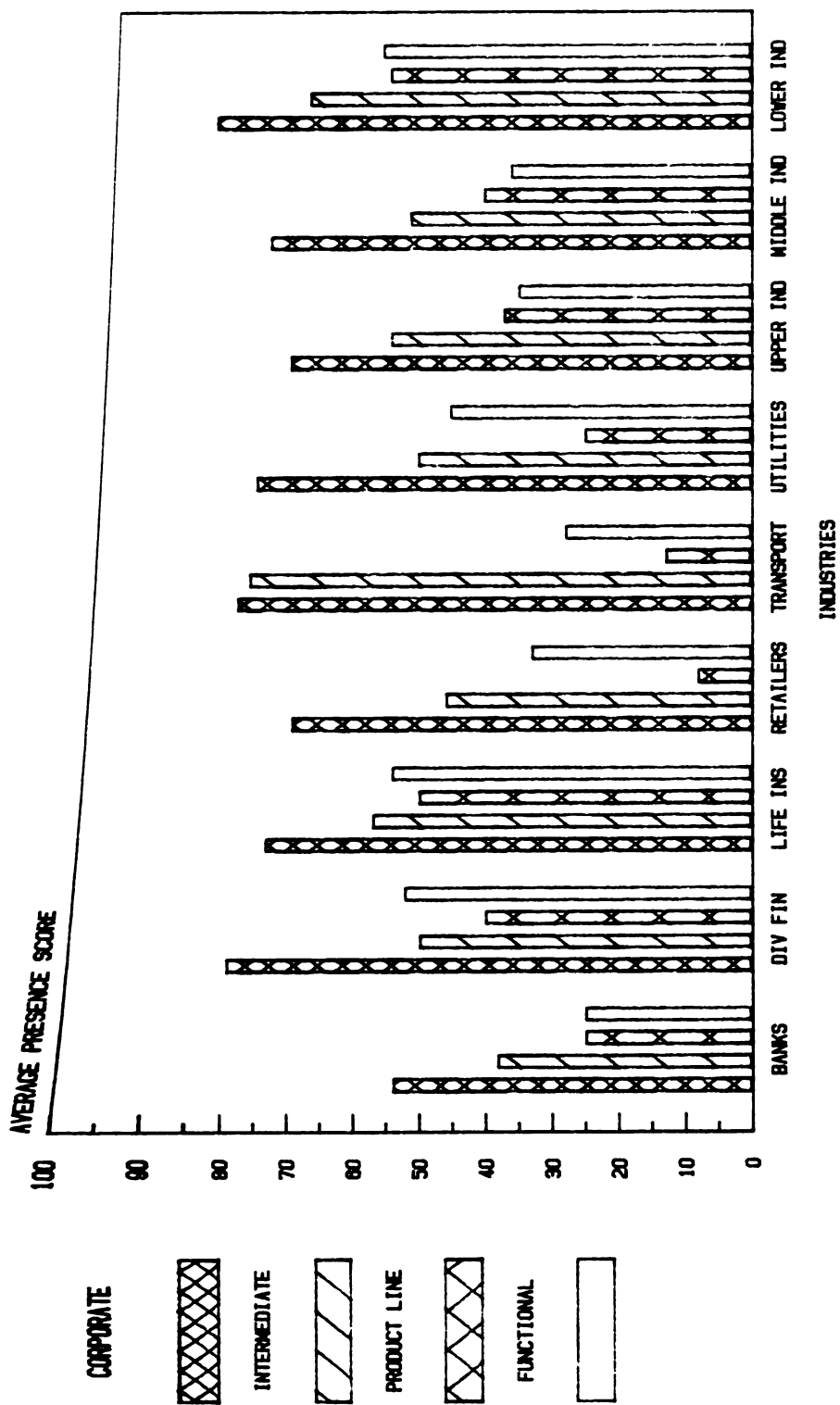


Figure 5-10. Industries/Management Levels-Average Presence Scores.

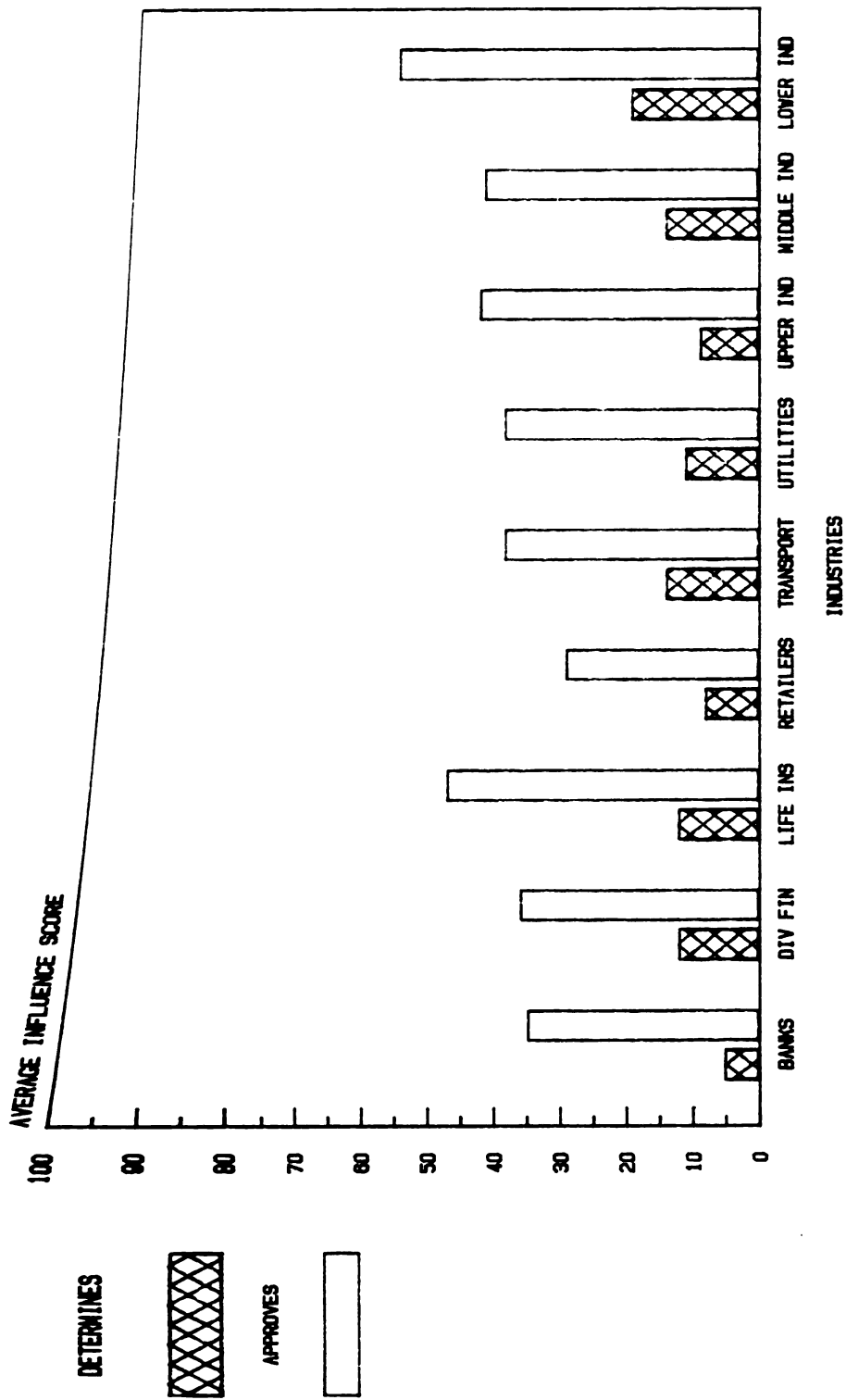


Figure 5-11. Industries/Board Roles-Average Influence Scores.



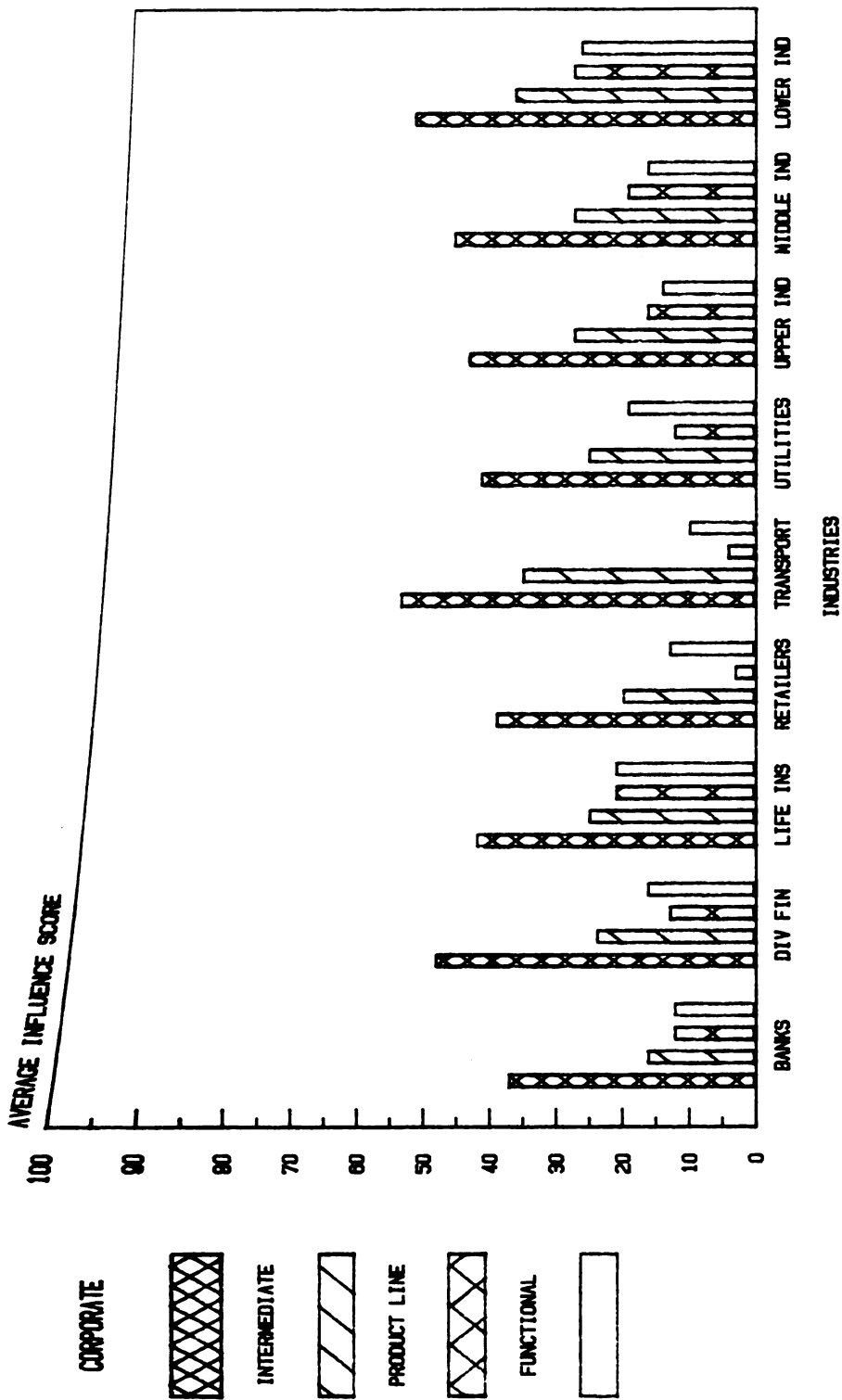


Figure 5-12. Industries/Management Levels-Average Influence Scores.

Although the boards seem to be similar in involvement (presence scores) they do tend to vary in the influence (influence scores) they exert on the planning process. This suggests that some boards, banks and retailers in particular, are not fully aware of how they can best interface to the planning process.

#### Orientation of Board

The occurrence of certain combinations of activities in the top five items of the presence and influence scores suggested that the boards have a tendency toward a particular orientation with regard involvement in the planning process. For example, the occurrence of

1. Determining mission (1.);
2. Determining long-term end results (2.); and
3. Determining resource availability (5.)

suggest a strategic orientation. The occurrence of

1. Evaluating external environment (4.); and
2. Monitoring external environment (14.)

suggest an external or outward orientation of the board's involvement.

The occurrence of

1. Merger activities (10.);
2. Acquisition activities (11.); and

### 3. Divestiture activities

suggest a financial orientation. And, the occurrence of

1. Determining short-term end results (3.); and
2. Determining operating plans (13.)

suggest an operations orientation.

Table 5-8 summarizes the industry orientations that are suggested by the items of greatest involvement and influence. The differences in orientation between the primary presence and influence items indicates that the board concerns of involvement and of influence are not consistent. This may take place because of a lack of direction for board participation in the planning process.

Further analysis of the industrials involvement and influence suggests that these boards tend to have a financial and planning orientation within the overall strategic orientation.

### Impact of Outside Board Members

The board does not appear to be taking full advantage of its outside members' expertise, skills, and objectivism in arriving at its strategic planning decisions.

The basis for evaluating several of the subpopulations (Table 5-2) was the background of the involved individuals. An individual was considered an insider if he/she was currently or had even been an

Table 5-8. Board Involvement Orientation.

INDUSTRY	ORIENTATION	
	PRESENCE	INFLUENCE
Banks	Strategic	Strategic Operations
Diversified-Financials	Strategic	Strategic Financial
Life Insurance	Strategic Operations	Strategic
Retailers	Strategic	Strategic
Transportation	Strategic Operations Financial	Financial
Utilities	Strategic	Strategic
Upper Industrials	Strategic	Financial Operations
Middle Industrials	Strategic	Strategic Financial
Lower Industrials	Strategic	Financial Operations

employee of the firm. An outsider had never been an employee.

Analysis of the involvement and influence of boards involved in the planning process as whole boards, with subcommittees, or not involved, on the basis of board composition, subcommittee chairman, and subcommittee composition indicated that board member background is generally not associated with differences in involvement or influence. Table 5-7 contains a summary of these results.

### Future Planning Involvement of Board

The boards are generally least satisfied with the current board involvement at those management levels which they presently influence the most. Figure 5-13 shows that the boards anticipate to increase their involvement most at the corporate and intermediate levels. These levels are the levels of the greatest current involvement, as shown in Figure 5-14.

On an industry basis, the greatest increases in anticipated future involvement tend to be associated with the lower current influence.

Figure 5-15 indicates that banks, life insurance firms, and retailers tend to anticipate the greatest overall increase in board involvement. These industries are the industries that have the least current influence, as shown in Figure 5-16.

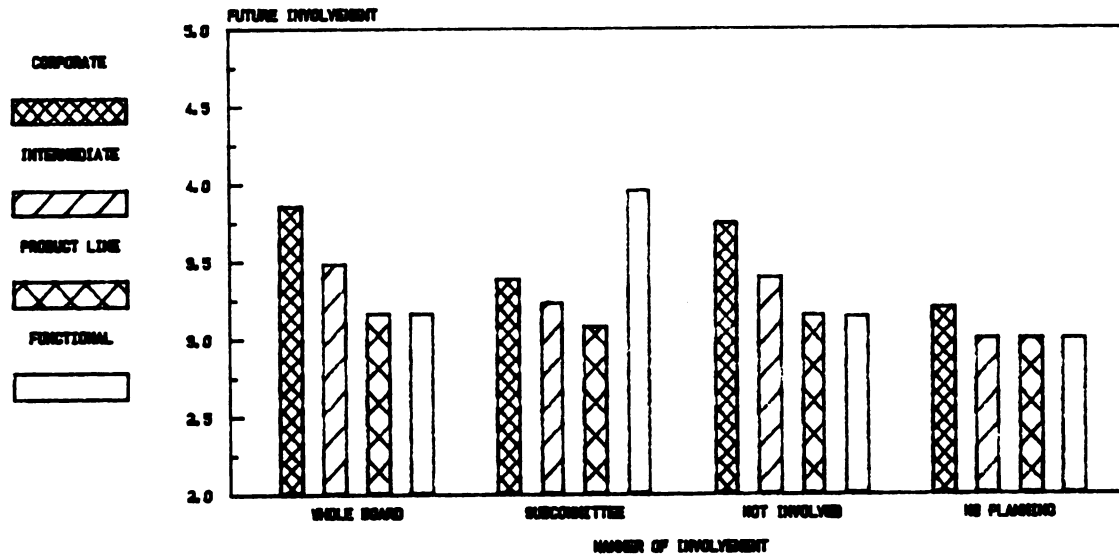


Figure 5-13. Anticipated Future Board Involvement.

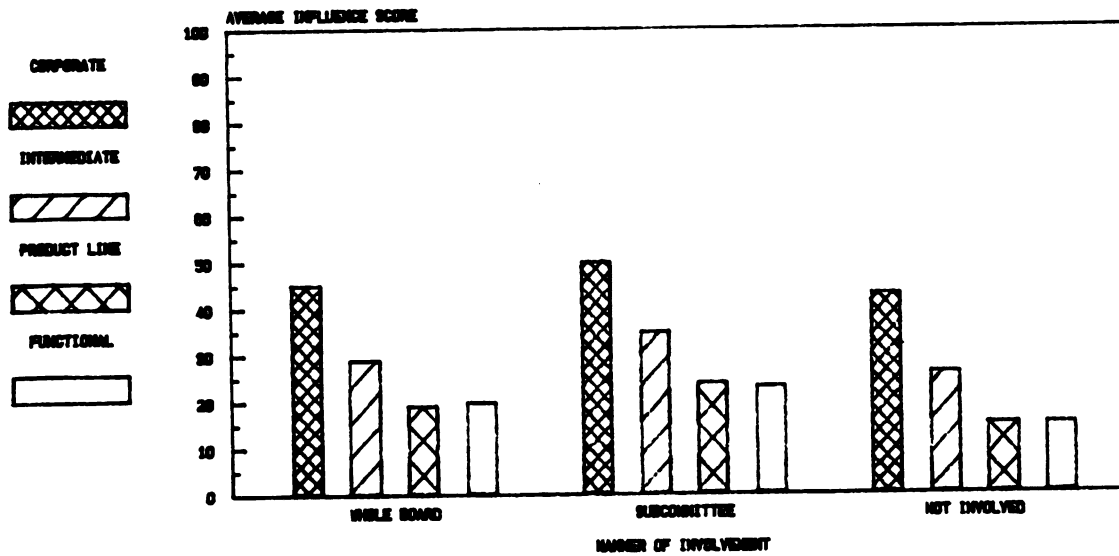


Figure 5-14. Manner of Involvement Average Influence Score.

### Detailed Research Findings

#### Comparison of Manner of Board Involvement

##### Overview

Two questions that resulted from the literature review concern the manner of the board of directors' involvement in the firm's strategic planning process:

- Q1: Do the major firms in the United States (defined by Fortune 1300 listing) practice strategic planning?
- Q2: Are the Boards of Directors of those major firms engaged in strategic planning actively involved in the process? If so, what is the manner of their involvement?

On the basis of the survey results the following can be concluded regarding these questions:

1. Virtually all of the major firms in the United States (defined by the Fortune 1300 listing) practice strategic planning (defined as determining goals and objectives and how to attain them over the long-term, i.e., 3 or more years);
2. Of those major firms engaged in strategic planning the board of directors is not typically involved in the process; however
3. When the board of directors is involved in the strategic planning process it is generally as the whole board, not as a subcommittee of the board.

Detailed Survey Findings

## Strategic Planning

The survey results, Figure 5-17, show that the major firms in the United States do practice strategic planning (defined as determining goals and objectives and how to attain them over the long-term, i.e., 3 or more years). Almost all of the firms responding to the survey, 97.8% (227/230), indicated that they practice strategic planning.

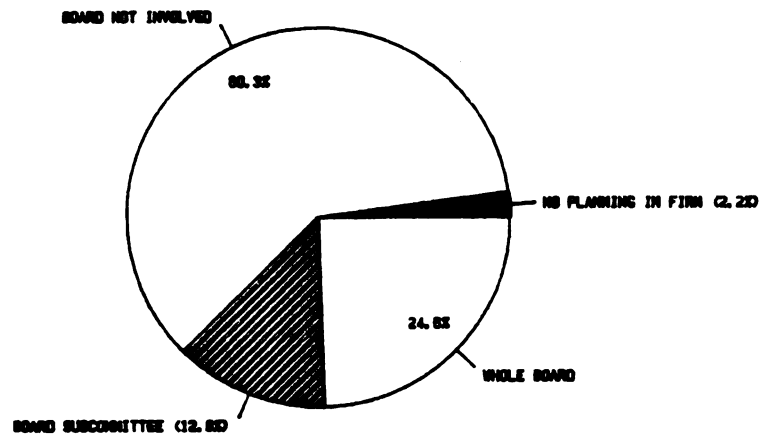


Figure 5-17. Manner of Board Planning Involvement.



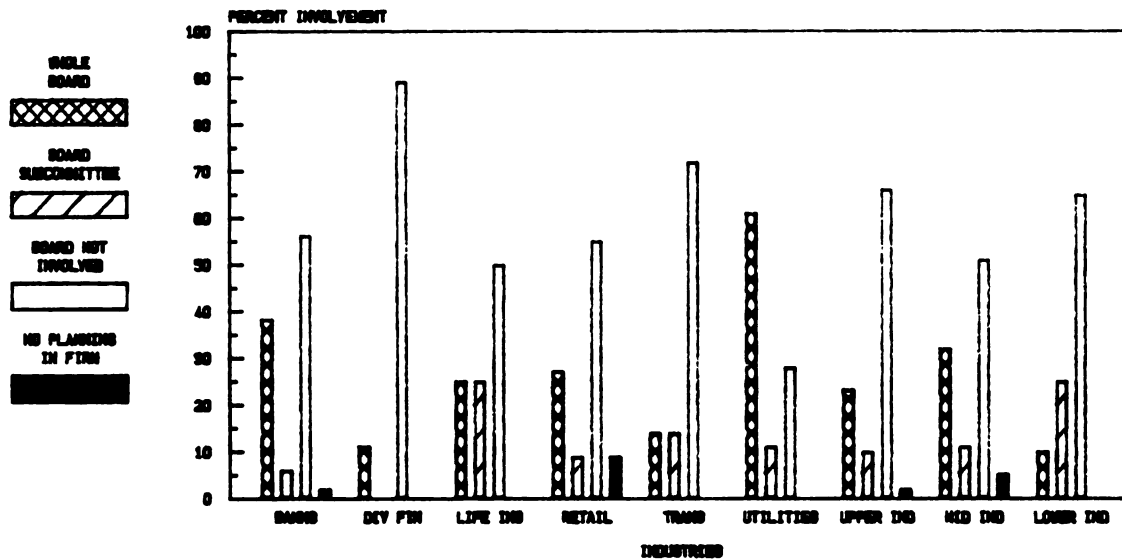


Figure 5-18. Industry Manner of Board Planning Involvement.

#### Board Involvement

Of the firms that do practice strategic planning the tendency is not to involve the board of directors (Figure 5-17). Less than one-half of the firms in each industry category, except the utilities, indicated that their boards were involved in the firm's strategic planning activities (Figure 5-18). The involvement of the utilities' board of directors in strategic planning is an industry anomaly. The long lead times and large capital expenditures associated with providing their services or products is a characteristic unique to utilities. The ramifications of the capital expenditure decisions apparently requires

involvement at the highest levels.

There are two identifiable manners of board involvement: whole board and board subcommittee. Typically, most firms involve the whole board (Figure 5-17). Approximately 25% of the firms involve the whole board, while 13% have board subcommittees. Whole board involvement exceeds board subcommittee involvement in every industry, except transportation.

It was anticipated that there might be differences in the manner of board involvement across the industrials. In larger firms the conduct of business is typically more complex, product lines are more diverse, generally staff support is greater, and management is more sophisticated and probably specialized. Consequently, there would be less of a tendency for board involvement. In the smaller large companies, management wouldn't be as specialized. Therefore, board involvement could add to the planning process. This is not the case. There is a tendency for the board's involvement to be the same regardless of size of the firm (measured in annual sales). Comparison of the Fortune 1000 manufacturing firms in the upper, middle, and lower thirds of this ranking (Figure 5-18) indicates no significant differences regarding whether the board is involved in strategic planning or not, and if so, in the manner of the board's involvement ( $\chi^2 = 8.76$ ,  $df=6$ ;  $\chi^2 = 12.59$ ,  $df=6$ ,  $p=.05$ ).

Another unexpected result involves the manner of the board's involvement in the lower third industrials. More firms have board subcommittees than whole board involvement. This was contrary to what

was found to be the case in the upper and middle third industrials. However, this occurrence is not statistically significant.

In this study only 5 firms did not engage in strategic planning (Figure 5-17). One of two reasons were provided for this lack of interest: 1) they do not believe that the future can be foretold;

or

2) they have been successful without it.

If management recognized that strategic planning helps to anticipate and plan for confronting, at the least, the more probable events that represent opportunities for the firm, or that might adversely impact them these firms might be more willing to practice strategic planning. These 5 firms have apparently not recognized this.

#### Whole Board Involvement Characteristics

##### Overview

There are two areas of concern regarding the whole board's involvement in the strategic planning process:

1. When is the whole board involved in the strategic planning process; and
2. How much time do they spend on the strategic planning activities?

On the basis of the research findings the following can be concluded regarding the whole board involvement in the strategic planning process:

1. The involvement takes place primarily during the annual planning cycle or during regularly scheduled meetings that take place throughout the year; and
2. The actual time spent on strategic planning is very low—less than 1.5 meetings annually.

The following research findings were the basis for these conclusions.

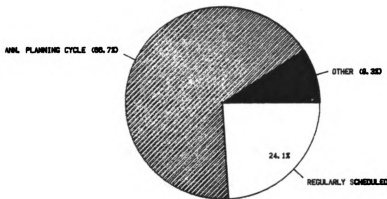


Figure 5-19. Whole Board Meeting Schedule.

### Scheduling of Planning Involvement

The involvement of the board takes place primarily during the annual planning cycle or during regularly scheduled meetings that take place throughout the year (Figure 5-19). Over two-thirds of the whole boards involved in the strategic planning process are involved primarily during the annual planning cycle; almost 25% of the whole boards are involved throughout the year.

### Frequency of Planning Involvement

The amount of time the individual board is involved in strategic planning activities ranges from 5% to 50% of their time. The industry averages range from 7% for bank boards to 20% for the single transportation firm reporting (Figure 5-20).

There appears to be a tendency for those boards that are involved in regularly scheduled meetings throughout the year to spend about the same amount of time on strategic planning activities as those boards that are involved primarily during the annual planning cycle. Figure 5-21 indicates that the average amount of time spent by the regularly scheduled boards is 19%, while the planning cycle boards spend 15% of their time on strategic planning activities. However, with the low sample in both categories a single occurrence can have a significant impact on these averages. If the board that spends 50% of its time on strategic planning activities is considered an outlier and not included

in the regularly scheduled average then the average drops to 15%. This indicates that there is no difference, on the average, of the amount of time a whole board spends on strategic planning activities with regard when the involvement takes place. These conclusions were substantiated by an ANOVA test on the occurrence of percentage of time for the regularly scheduled and during annual planning cycle meeting frequencies.

In absolute terms, the time spent by whole boards on strategic planning activities is not much (Table 5-8a). The range is from less than 1 meeting per year for the banks, diversified financials, and retailers, to 2.4 meetings per year for transportation. The industrials, life insurance firms, and utilities average approximately 1.5 whole board meetings per year devoted to strategic planning activities.

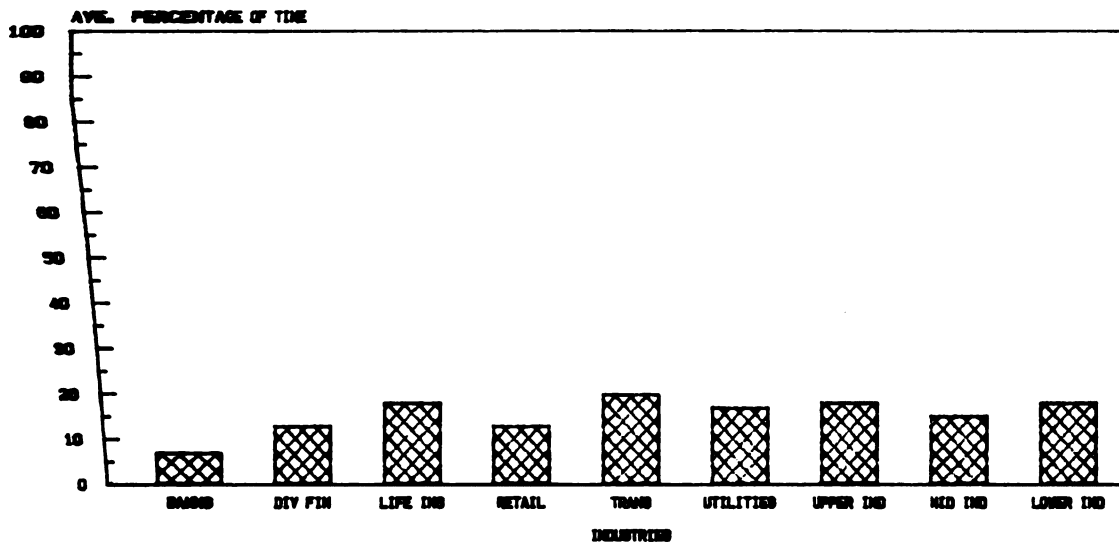


Figure 5-20. Whole Board Planning Time.

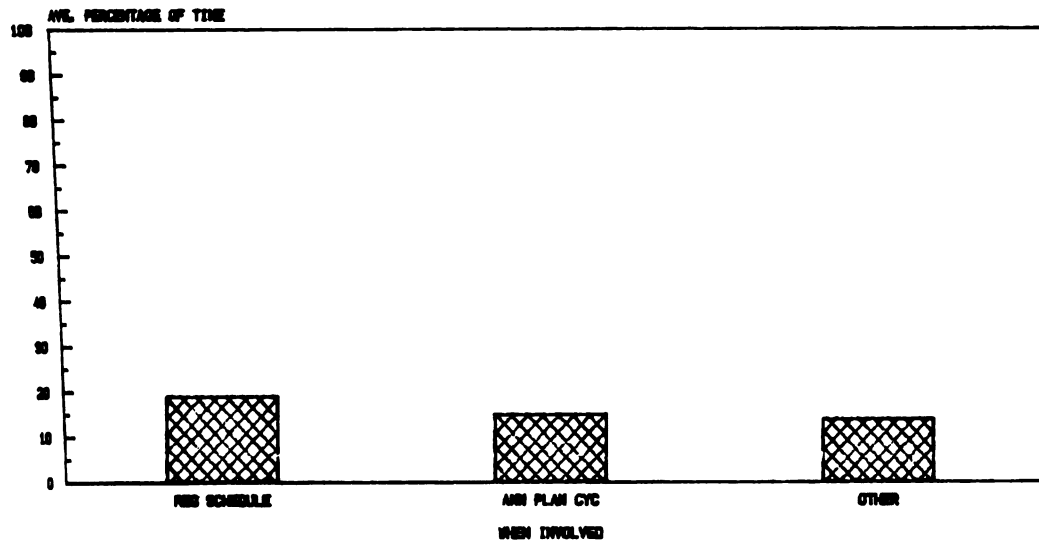


Figure 5-21. Whole Board Planning Time Meeting Schedule.

Summary

The boards that are involved primarily during the annual planning cycle spend only 15% of their time on strategic planning activities. This small amount of participation suggests that these boards participate in the process in a reviewer or approver capacity. The lack of continued involvement throughout the year further suggests that the board is involved in the developmental phases of the strategic planning process and not in the implementation phases. Such limited involvement would not enable the board to monitor management's progress in implementing the plans. The low number of meetings spent on strategic planning activities supports this conclusion.

The involvement of the boards throughout the year, i.e., on a regularly scheduled basis, suggests greater participation in the firm's strategic planning process. Continuous involvement would enable the board to be involved in the development, as well as in the implementation of the firm's strategies. In addition, the opportunity is available to initiate strategy or, at least, work closely with management in a participatory capacity in developing strategies. However, the small amount of time the boards spent on planning activities may limit involvement in this capacity.

It could also be argued that these observations suggest that the whole boards that concentrate their involvement in the planning process primarily during the annual planning cycle function as initiators or participators in the development of strategy, while leaving the



implementation to management. Those boards which are involved throughout the year cannot be as deeply involved in the process since they spend no more time on the strategic planning activities than their counterparts who concentrate their involvement during the planning cycle. They do, however, have the opportunity to be involved in both development and implementation. Therefore, the boards who are involved on a regularly scheduled basis probably participate as a reviewer in both the development of the strategies and their implementation.

Analysis of the nature and the extent of the board's involvement in the strategic planning process, which is discussed later, indicates that the board is primarily an approver.

#### Subcommittee Involvement Characteristics

##### Overview

There are several areas of concern regarding the subcommittee's involvement in the strategic planning process:

1. Subcommittee composition and chairman;
2. When is the subcommittee involved in the strategic planning process; and
3. How much time does the subcommittee spend on strategic planning activities.

4. Frequency of meetings;
5. The amount of planning responsibility assumed by the subcommittee and whether the subcommittee has other responsibilities; and the
6. Name of the subcommittee.

The following characteristics were found to be associated with board subcommittees whose responsibilities included strategic planning:

1. Insider dominated;
2. Chairman typically high ranking insider,
3. Generally meet 6 times annually, regularly scheduled throughout the year, or 3 times annually during the annual planning cycle, and
4. Approximately half of the subcommittees have additional responsibilities.

#### Insiders vs. Outsiders

Insiders tend to predominate as subcommittee members (Table 5-9). The size of the subcommittees range from 2 to 8 members, with an average size of 5.3 members; 3.4 insiders and 1.9 outsiders.

Except for the industrials the sample size of the various industries is too small to comment on them specifically. Slightly more than two-thirds of the industrial subcommittees are insider dominated. That is the only pattern that the results indicate regarding size and

composition. The size of the industrial's subcommittees are wide-ranging, 2 to 7 members, as is the percentage of inside members, 14% to 100%. In both instances, these are no consistencies to indicate patterns.

#### Subcommittee Chairman Origin

The subcommittee chairman is almost always an insider of the highest rank, chairman, CEO, vice-chairman, or president (Tables 5-9 and 5-10). Even when the subcommittee is outsider dominated the chairman tends to be an insider (Table 5-9). In the 8 outside dominated subcommittees, only 3 are chaired by outsiders. One insider dominated subcommittee is chaired by an outsider.

The value of the outside board members' contribution to the subcommittee is questionable when the chairman of the subcommittee is considered. Since a committee is typically controlled by the committee chairman, the ability of the outside subcommittee members to influence the strategic planning process may be limited with an inside chairman. In fact, the influence of the lower-ranking inside board members on the subcommittee is also questionable. The internal political pressures that might enter into strategy discussions involving higher ranking company personnel could lessen the insider's influence.

Table 5-9. Subcommittee Composition.

INDUSTRY	MEMBERS		TOTAL	CHAIRMAN
	INSIDER	OUTSIDER		
Banks	4	0	4	1-President
Life Insurance	8	0	8	1-Chairman
	6	1	7	1-Chairman
	4	3	7	1-Chairman
Retail	4	1	5	1-Chairman
Transportation	7	1	8	1-CEO
Utilities	1	6	7*	0-CEO
	3	0	3	1-Chairman
Industrials	4	3	7	1-Chairman
	4	3	7	0-President
	4	3	7	?
	1	6	7*	1-Vice Chairman
	6	0	6	1-Exec. V. P. (Fin.)
	6	0	6	1-Chairman
	2	4	6*	1-Chairman
	1	5	6*	0-Banker
	5	0	5	1-President
	4	1	5	1-Chairman
	3	2	5	1-Chairman
	3	2	5	1-Chairman
	3	2	5	1-President
	2	3	5*	?
	3	1	4	1-Vice Chairman
	3	0	0	?
	1	2	3*	1-President
	1	2	3*	1-CEO
	1	2	3*	0-Chairman
	<u>2</u>	<u>0</u>	<u>2</u>	No Chairman
Average	3. 4	1. 9	5. 3	

\*outsider dominated

Table 5-10. Subcommittee Chairman.

INSIDERS		OUTSIDERS	
NO. OF FIRMS	TITLE	NO. OF FIRMS	TITLE
11	Chairman	1	CEO
3	President	1	Investment Banker
3	President, CEO	1	President
2	Vice-Chairman	1	Chairman
1	Exec. V.P., Finance & Planning		
1	Chairman of Exec. Comm.		
1	CEO		

### Board Chairman Involvement

The chairman of the board is extremely involved in the subcommittee's activities whether subcommittee chairman or not (Figure 5-22). The chairman of the board is involved in all subcommittee strategic planning activities in over 75% (22/29) of the reporting firms. The board chairman's involvement increases to over 85% of the firms when the participation/attendance level is dropped to 80% (25/29).

If the chairman of the board is a strong individual his presence at the subcommittee meetings, whether subcommittee chairman or not, may contribute to minimizing the influence of other subcommittee members, whether insiders or outsiders. Since the chairman of the board participates in almost all subcommittee meetings regardless of his role

on the subcommittee (Figure 5-23), the affect of both the outsiders and other insiders on the firm's strategic planning may be minimized.

These speculations plus those in the preceding paragraph raise several questions: Is the chairman of the board taking full advantage of the expertise of outside subcommittee members in determining strategies for the firm? Is the pervasive involvement of the chairman of the board in the subcommittee activities the result of a lack of definition of the subcommittee's role in the firm's strategic planning activities?

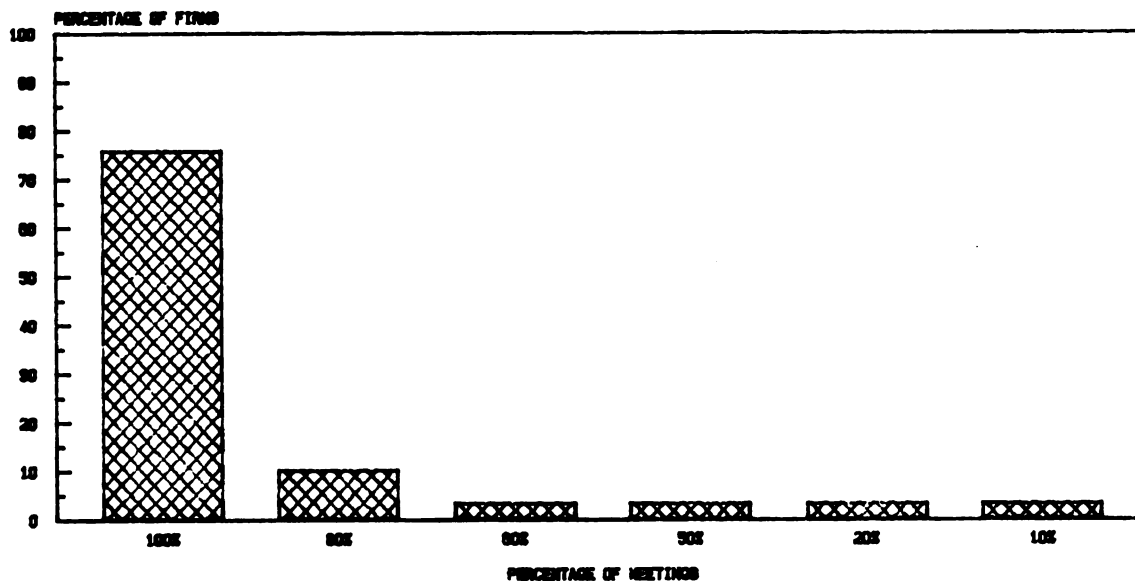


Figure 5-22. Board Chairman Participation in Subcommittee Meetings.

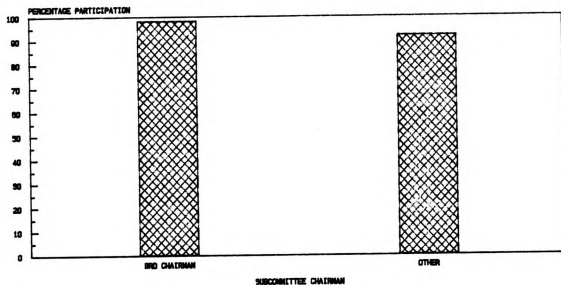


Figure 5-23. Subcommittee Meetings Attended by Board Chairman.

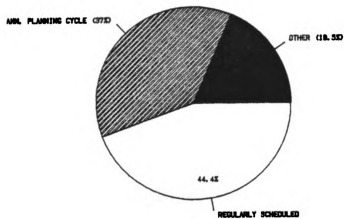


Figure 2-24. Subcommittee Meeting Schedule.

### Scheduling of Meetings

The subcommittees are involved in the strategic planning process on a regularly scheduled basis throughout the year or primarily during the annual planning cycle (Figure 5-24). The number of boards in each of the industries that have subcommittees is too small except for the industrials, to discuss industry differences regarding subcommittee involvement in the strategic planning activities.

In the industrials, subcommittees are involved in strategic planning activities primarily during the annual planning cycle or hold regularly scheduled meetings (Figure 5-24). This annual involvement also characterizes whole board involvement of the industrials. Regular subcommittee meetings occur more frequently than the annual planning cycle meetings, 42% vs. 32%. The regularly scheduled subcommittee meetings imply an ongoing involvement in the strategic planning process. However, as was seen in Tables 5-9 and 5-10 this is not reflected in any differences in board influence.

### Frequency of Meetings

The appointment of a subcommittee by the board implies that the board expects to delegate responsibility to it. Consequently, it would be expected that subcommittees whose responsibilities include strategic planning, would be very involved in the strategic planning process, particularly those that meet on a regularly scheduled basis. This is



not the case. The overall frequency of meetings on strategic planning issues by the subcommittees is just under 5 times annually (Table 5-11). For the industrial subcommittees the average is just over 3 times annually. This is twice the average number of meetings the industrial whole boards hold annually on strategic planning.

When the frequency of meetings is related to when the meetings take place an interesting pattern evolves. Regularly scheduled meetings occur more frequently than the meetings of subcommittees that are primarily involved in the process during the annual planning cycle, 5 meetings vs. 2.5 meetings (Figure 5-25). However, as was shown in Tables 5-9 and 5-10 and will be discussed in detail later, the number of meetings cannot be equated to influence. In spite of the differences in the amount of time spent meeting, the influence of boards associated with both sets of subcommittees is equivalent.

Table 5-11. Average Number Subcommittee Meetings.

INDUSTRY	NO. OF FIRMS	AVE. NO. MEETINGS
Industrials	17	3.3 (2.4) *
Banks	1	12
Div. Financials	-	--
Retailers	1	5.0
Transportation	1	1.0
Utilities	2	3.0 (1.4)

\*Standard deviation

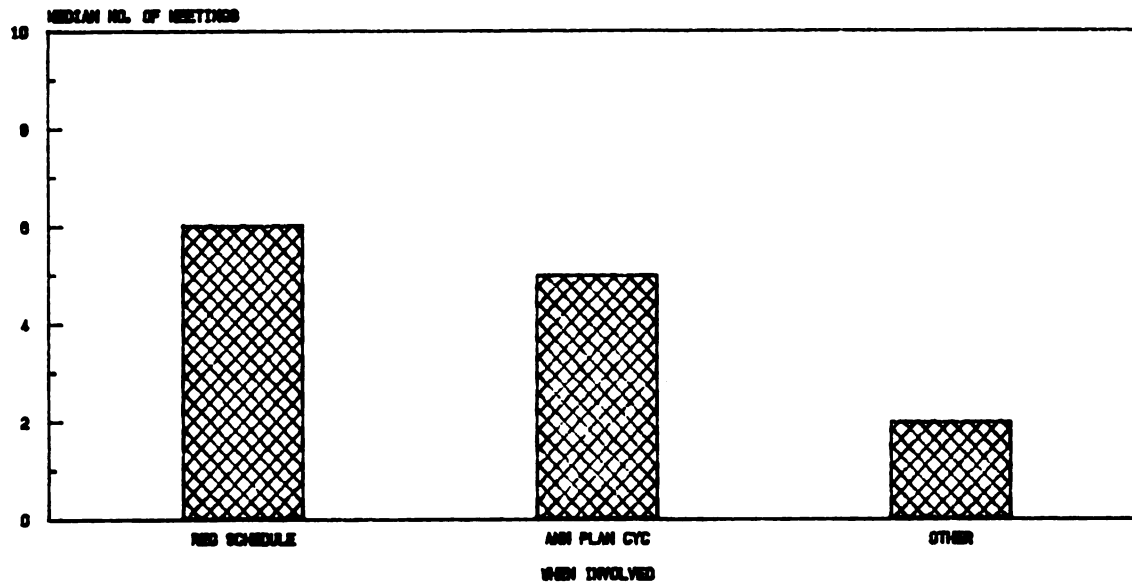


Figure 5-25. Median Number of Subcommittee Meetings per Schedule.

### Responsibilities

Even though the board appoints a subcommittee to be responsible for strategic planning, the responsibility can range from low to 100%. In addition, the subcommittee may be given other responsibilities. For these reasons the subcommittees were categorized into two areas regarding their responsibilities: the amount of responsibility for the strategic planning activities that is typically assumed by the subcommittee and the amount of responsibilities, over and above its strategic planning responsibilities, which the subcommittee might have.

## Strategic Planning

Thirty-six percent of the subcommittees assume total responsibility for the board level strategic planning activities (Figure 5-26). Over 80% of the subcommittees assume responsibility for at least 75% of the board level strategic planning activities. No subcommittee assumes responsibility for less than 50% of the board's strategic planning activities. The average responsibility assumed is 85%.

## Other Responsibilities

The presence of a board subcommittee whose responsibilities include strategic planning activities would seem to indicate that a high degree of importance is placed on the board's input to the planning process. This, however, is not necessarily the case. Just about half of the subcommittees, 46%, have other responsibilities in addition to strategic planning (Figure 5-27).

When the chairman of the board is subcommittee chairman it is more likely that the subcommittee is responsible for more than strategic planning activities than when he is not, 60% vs. 40% (Figure 5-28). When the chairman of the board is not subcommittee chairman the reverse is true, 44% vs. 56%. This suggests that the subcommittee may have different roles depending on whether the chairman of the board is subcommittee chairman or not.

However, further analysis of the data indicates that the subcommittee role is essentially the same regardless if the board chairman is subcommittee chairman or not. The assumption of the board's strategic planning activities is approximately the same regardless of the board chairman's position on the subcommittee. When the subcommittee has no other responsibilities and the board chairman is also subcommittee chairman, the subcommittee assumes 88% of the board strategic planning responsibilities (Figure 5-29). When the board chairman is not subcommittee chairman the board responsibilities assumed are 91%.

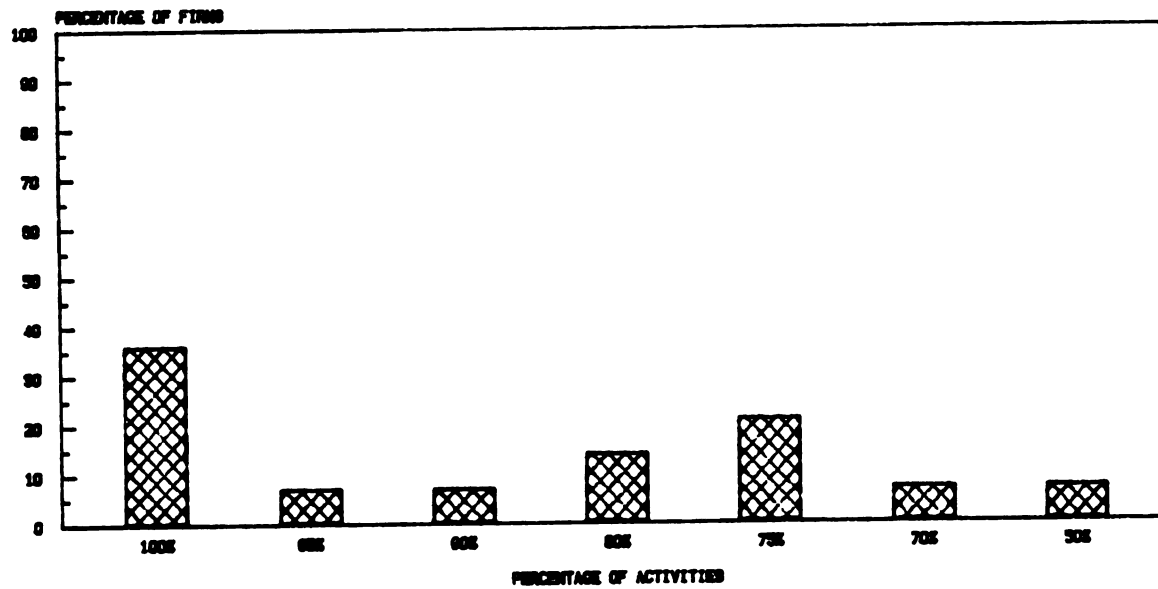


Figure 5-26. Planning Responsibility Assumed by Subcommittee.

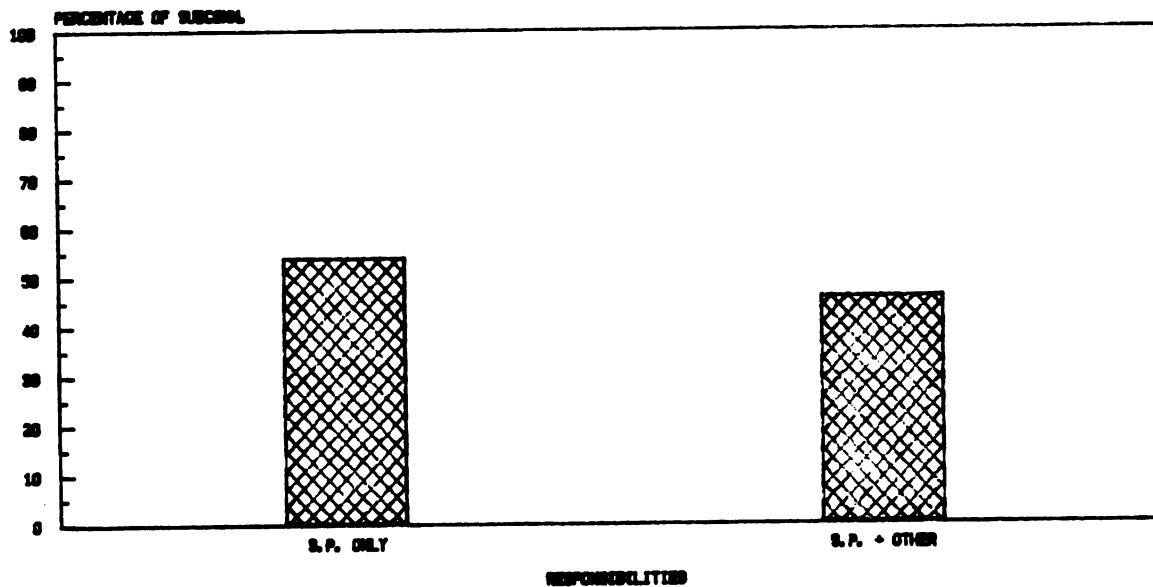


Figure 5-27. Subcommittee Responsibilities.

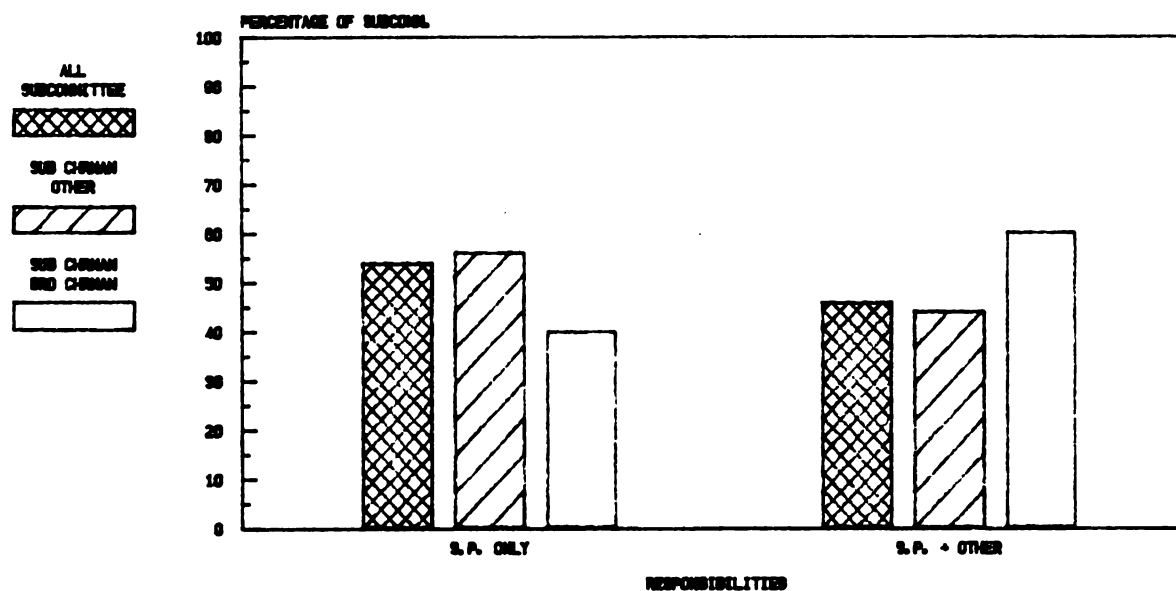


Figure 5-28. Subcommittee Chairman/Responsibilities Relationship.

When the subcommittee has other responsibilities the board responsibilities assumed by the subcommittee drops to approximately 80% regardless of who is chairman (Figure 5-29). The drop is understandable since the subcommittee must devote some of its time to the other areas. However, the role of the board chairman on the subcommittee does not influence the amount of the board's strategic planning responsibilities assumed by the subcommittee. When the subcommittee has other responsibilities and the board chairman is subcommittee chairman the subcommittee assumes 79% of the board's responsibilities. When the board chairman is not subcommittee chairman the board responsibilities assumed is 82%.

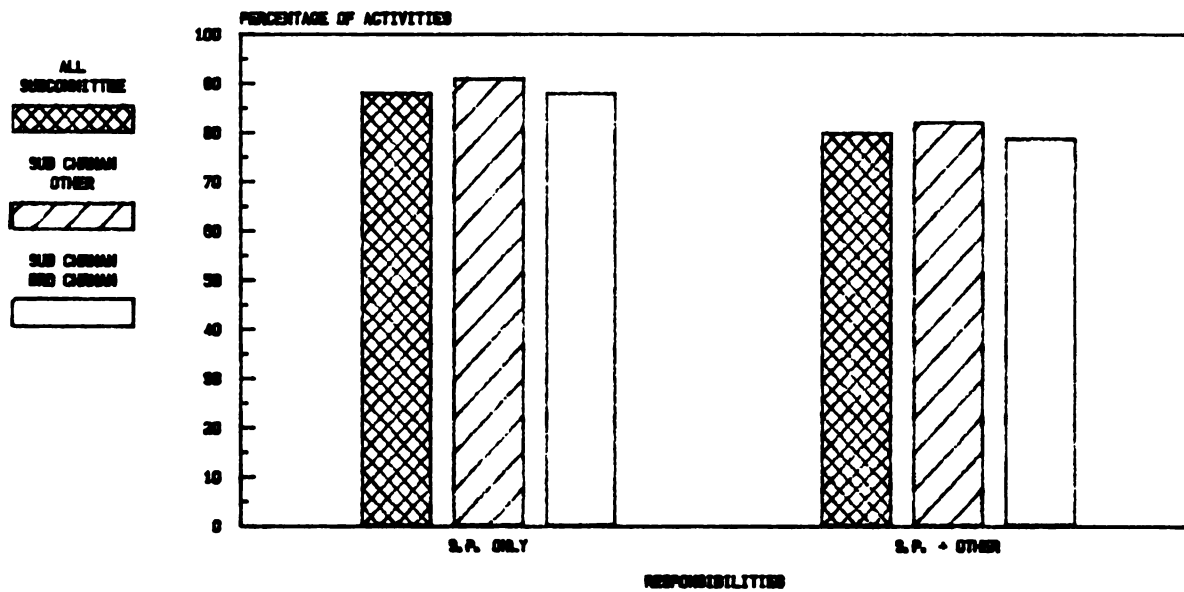


Figure 5-29. Subcommittee Responsibilities/Planning Activities Relationship.

### Name

The names of the subcommittee are indicative of the responsibilities of the subcommittee. The subcommittees that have other responsibilities have names that suggest that they deal with more than just strategic planning activities (Table 5-12). For example, in every instance the Executive Committee carries out the normal responsibilities of that committee in addition to its strategic planning responsibilities. The Corporate Management Committee also performs double duty; it is concerned with management organization, as well as,

strategic planning activities.

It is interesting to note that in two instances where respondents indicated that the board subcommittee had additional responsibilities, these responsibilities are typically considered part of the strategic planning process. Setting company goals and objectives, a responsibility of the Corporate Objectives Committee, and evaluating the economy and sales volumes for markets, for which the Business Review and Planning Committee is responsible, would be considered activities that are associated with the strategic planning process. This appears to be evidence of the lack of understanding of the strategic planning process at the board level.



Table 5-12. Subcommittee Names and Other Responsibilities.

NO. OF FIRMS	SUBCOMMITTEE NAME	NO. OF FIRMS	OTHER RESPONSIBILITIES
3	Executive Committee	9	Normal Executive Committee Responsibilities
3	Planning Committee		
2	Strategic Planning Group		
2	Strategic Planning Committee		
1	Long Range Strategic Planning Committee		
1	Corporate Management Committee	1	Management Organization
1	Long Range Planning Group		
1	Acquisitions Committee		
1	Corporate Objectives Committee	1	Set Company Goals and Objectives*
1	Business Review & Planning Committee	1	Evaluate Economy & Sales Volumes for Markets*
1	Objectives & Policy Committee		
1	Long Range Strategy Committee		
1	Corporate Development Committee	1	Analyze Senior Management Performance
1	Strategy Committee		
2	Committee is an Ad Hoc Committee		

\*Strategic planning related activities

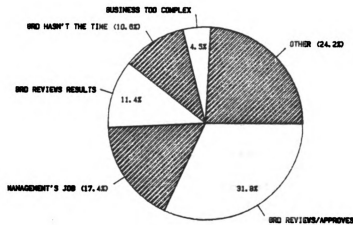


Figure 5-30. Reasons for Board Non-Involvement.

#### No Board Involvement Reasons

Although a majority of the firms responding to the survey consider the board to be not involved in their firm's strategic planning process a breakdown of the reasons suggests that there is involvement in many cases. In fact, later findings will show that virtually all boards are involved in strategic planning activities. However, it is interesting to note that 60% of the responding firms indicated that their board was not involved in the firm's strategic planning process (Figure 5-17). Although numerous reasons were given for the board's non-involvement

(Figure 5-30), the reasons can be grouped into two general categories.

1. The board is a reviewer of management's decisions; and
2. The board is incapable of doing the job.

The primary reason for non-involvement is that the board is considered to be a reviewer of management's conclusions and, as such, is perceived to be out of the mainstream of the strategic planning activities decision-making. When indicating why the board wasn't involved in strategic planning activities 32% of the respondents indicated that the board reviews and approves management's plans. An additional 11% of the respondents indicated the board reviews the end results of the planning process. The former response implies that the board tends to review and approve throughout the strategic planning process. The latter suggests the board becomes involved only after management has reached its final decisions concerning the various strategic planning activities. Nevertheless, it appears that the board is acting as a reviewer in about 43% (57/132) of those firms in which the board is perceived to be not involved in the planning process.

The second general category of reasons for board non-involvement is that the board is incapable of doing the job. The specific reasons include the strategic planning process is considered to be management's job, 17%, and the board doesn't have the time, 11%, or the ability to understand the complexity of the business, 5%. Inability to do the job was given as the reason for non-involvement by almost 20% (43/234) of all respondents.

Some of the reasons given for board non-involvement in the planning process suggest that the board may in fact be involved. As will be seen in the following section the perception of non-involvement and the reality of involvement occur simultaneously.

### Involvement and Influence of Board

#### Introduction

The third question raised by the literature review is concerned with the involvement of the board in the strategic planning process:

Q3: In which steps of the strategic planning process do the Boards of Directors participate? To what degree does this participation occur? At what managerial levels?

#### Scores

1.1

Two issues are related to this question:

1. The loci or location of board involvement in the strategic planning process; and
2. The level or degree of involvement exercised by the board in those planning activities in which the board is involved.

These two issues are addressed in this research by developing two indices. One is the presence score that measures the percentage of firms indicating any non-zero level of influence on the activity under study. The other index is the influence score that measures the average influence of all boards reporting a non-zero influence on the activity under study. These two indices, the presence score and influence score, measure the loci and the level of influence of the board on the strategic planning activity of the firm, respectively. It should be noted that these indices summarize information about an activity across all companies in the study. The indices are aimed at analyzing the research data on an activity by activity basis, rather than studying the data on a company by company basis across activities.

The presence scores and the influence scores measure the involvement of the board in the various activities of the strategic planning process (Table 5-13).

Table 5-13. Planning Activities Question Concerns.

- 
1. Determining mission (general direction) to be followed over next 3 or more yrs.
  2. Determining specific long-term end results to be attained over next 3 or more yrs.
  3. Determining short-term end results to be attained over next 1-2 yrs.
  4. Evaluating opportunities, risks, threats posed by external environment.
  5. Determining resource availability for use in attaining desired long-term (3 or more yrs.) end results.
  6. Determining alternative approaches which may be followed to attain desired long-term (3 or more yrs.) end results.
  7. Determining the specific approach (plan) to be followed to attain desired long-term (3 or more yrs.) end results.
  8. Allocating resources to implement specific plan to attain desired long-term (3 or more yrs.) end results.
  9. Develop contingency plans to be implemented in place of current plan if internal/external environment changes.
  10. Merger activities.
  11. Acquisition activities.
  12. Divestiture activities.
  13. Determining operating plans that must be implemented during the next 1-2 yrs. that are consistent with specific end results to be attained in the next 3 or more yrs.
  14. Continual monitoring by Board of the current and future external environment characteristics which may impact level.
  15. Continual monitoring by Board of impact of level's plans on those aspects of society with whom there is no direct economic relationship.
-

For each item in the survey relating to board involvement in strategic planning, the respondent indicated a percentage of influence attributed to the board. All non-zero influence is considered to be indicative of the "presence" of influence. The presence score for a particular item is simply the percentage of responding firms that indicate some influence other than a "0" or "not applicable".

The influence score for an item is the average influence indicated by the respondents who believe their board has some non-zero influence. Those responses of zero influence, or not applicable, were not used. Only positive responses of influence are used to calculate the influence score. Zero and non-applicable responses are, however, used to compute the presence score.

An example of the presence score and influence score can be illustrated with the determining mission activity at the corporate level in the determines role. Seventy-five percent of the responding firms indicated a presence of influence in this activity, and, of those, the average influence is 56%. The presence score for this activity is 75 and the influence score is 56.

#### Index

Once the average scores, presence and influence, have been computed they provide a base point for comparing an individual firms, subpopulations, or strata of several firms to the overall population. In the industries strata, for example, the life insurance boards have a

presence score of 55. In comparison to the overall industries average of 45, the life insurance boards have an index of 122,  $100 \times 55/45$ . The index indicates that the average insurance board influence is about 22% higher than the average board influence of all companies taken together.

#### Subpopulation

Most firms engage in strategic planning (Figure 5-17), yet differences among them arise clearly when the manner of board involvement is considered. Some firms do not involve the board at all, or only superficially. But for those firms that include the board in the planning process, it was found that two distinct organizational approaches are followed: (1) the board operates as a whole when dealing with strategic planning activities; or (2) the board has a subcommittee charged with the responsibility for strategic planning.

Variants on these two manners of board involvement become numerous when attention is focused on the characteristics of the board and subcommittee. Composition (insiders vs. Outsiders), subcommittee chairperson, and operating characteristics, are among the variants that were observed. A complete breakdown of all possible board and subcommittee compositions and structures complicates the analysis. Such a detailed breakdown could lead to a company by company analysis due to the large number of distinct arrangements each peculiar to particular companies. Instead, this analysis of the influence of the board will concentrate on distinctions between whole board involvement, subcommittee involvement, and no board involvement and relate these



distinctions to each of the strategic planning activities under study (Table 5-13).

In addition, the distinctions between industries were studied.

Table 5-2 lists the board characteristics studied.

This section develops the presence scores and the influence scores associated with the various characteristics of the board's involvement discussed in the previous paragraphs.

### Manner of Board Involvement Comparisons

#### Overview

If the firm engages in strategic planning the board is involved in one of three ways:

1. The board as a whole;
2. The board has a subcommittee whose responsibilities include strategic planning; or
3. The board is not involved.

These three categories of board involvement comprise the elements of the subpopulation analyzed in the following paragraphs.

It must be noted that the manner of board involvement was self-reported. Consequently, the response reflects the perceived manner of involvement. As will be seen the perceived involvement may not be consistent with the actual involvement of the board in the planning activities.

The extent and degree of influence a board has on the firm's strategic planning activities is related to its manner of involvement. Evaluation of the presence scores and influence scores of the boards in each of the three manner of involvement categories has resulted in conclusive findings:

1. Boards tend to be different in involvement and influence because of the existence of subcommittees;
2. Subcommittees appear to influence the board to take a more active role in the strategic planning process;
3. Boards that are involved as a whole board and that perceive themselves to be uninvolved are generally similar to one another in the amount of their involvement and influence;
4. More boards are involved in and exercise more influence in the approves role, than in the determines role, regardless of the manner of involvement;
5. Boards in each group tend to be involved in the approves role to the same extent and degree;
6. Boards with subcommittees show the greatest participation and influence in the determines role;
7. The greatest participation and influence takes place at the corporate level for all boards, regardless of manner of involvement; and
8. The boards with subcommittees have the greatest participation and influence at each of the levels.

As will be seen in the subsequent sections there are sufficient significant findings to suggest that the manner of involvement does impact the board's participation and influence in the firm's strategic planning activities.

## Presence Scores

### Overview.

The evaluation of the presence scores of the boards, on the basis of their manner of involvement, has resulted in the following conclusions:

1. Board with subcommittees are more involved in the strategic planning process than are boards involved as whole boards or boards that are uninvolved;
2. More boards are involved in approving management's recommendations than are involved in determining what is to be done, regardless of the manner of involvement;
3. The boards, regardless of their manner of involvement, participate in the approves role to the same general extent; in the determines role the boards with subcommittees participate the most, while boards involved as a whole board or not involved, generally participate to the same extent;
4. Regardless of the manner of involvement most boards are involved in decision-making concerning strategic planning activities at the corporate level, followed by the intermediate level; the product line and functional levels, which tend to be equivalent, have the lowest board participation;
5. Boards with subcommittees have the highest participation at all levels, while the lower participation of the other two board groups is generally equivalent to one another; and
6. There is some consistency regarding the activities considered to be important among the three groups; two items, external environment evaluation and determination of resource availability, in the approves role at the corporate level, were ranked among the top five items in which most boards participated in each category.

The basis for these findings follows.

Board Role.

There appears to be a strong relationship between the existence of a subcommittee and the extent to which the board makes strategic planning decisions. Boards with subcommittees are much more active in determining, allocating, developing, and initiating actions associated with the planning process. Of the planning activities studied, boards with subcommittees are almost twice as likely to be involved in this determining role than are boards without subcommittees.

Figure 5-31 shows that boards with subcommittees determine to some extent the decisions in 54% of the activities studied. This is almost twice the average determines score for whole boards, 31, and no involvement boards, 30.

If the approves role is considered as somewhat less involved, it seems the subcommittee is not indicative of board involvement. All three groups of boards have similar presence scores in the approves role. Based on these findings, it appears that subcommittees are set up for the purpose of developing, determining, and initiating strategic planning activities and decisions. However, the presence of a subcommittee does not dominate the board actions when the board views itself as an approver of management's actions and decisions. The subcommittee, then, may be created more for the purpose of determining strategic planning decisions than for approving management's plans.

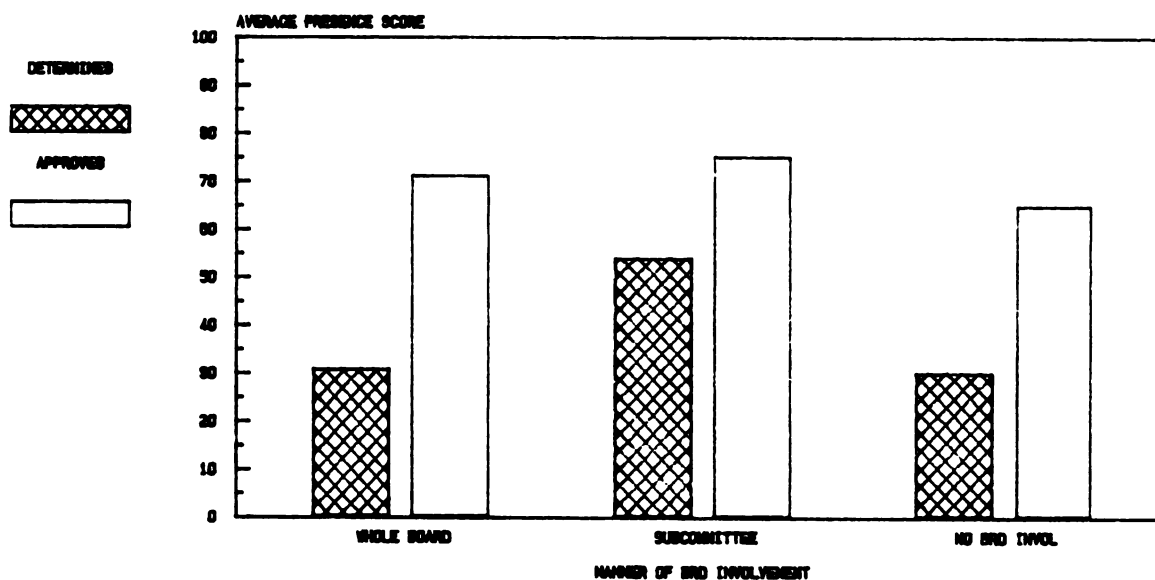


Figure 5-31. Manner of Board Involvement/  
Board Roles-Average Presence Scores.

Table 5-14. Manner of Board Involvement/  
Board Roles-Highest Presence Scores.

DETERMINES ROLE			
ACTIVITY	WHOLE BOARD	SUB-COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	50(163)	67(124)	43(145)
Determine Long Term End Results	38(122)	63(116)	37(123)
Determine Short Term End Results	37(120)	---	36(120)
Evaluate External Environment	47(153)	76(139)	49(165)
Determine Resource Availability	36(114)	63(116)	32(107)
Determine Alternative Plans	---	57(105)	---

APPROVES ROLE			
ACTIVITY	WHOLE BOARD	SUB-COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	80(113)	---	72(109)
Determine Long Term End Results	74(104)	80(106)	67(103)
Determine Short Term End Results	73(103)	80(107)	---
Evaluate External Environment	74(104)	83(110)	73(111)
Determine Resource Availability	---	---	68(104)
Determine Alternative Plans	---	79(105)	---
Determine Specific Plan	---	80(105)	67(103)
Determine Operating Plans	75(106)	---	---

The primary activities in which the boards with subcommittees are most active also suggests a strong relationship between these boards and determining strategic planning decisions. All three groups include the following activities among the five activities in which they are most involved in the determines role (Table 5-14):

1. Determining mission (1.);
2. Determining long-term results (2.);
3. Evaluating external environment (4.); and
4. Determining resource availability (5.).

Boards with subcommittees also include determining alternative approaches to follow to attain long-term results (6.). This activity is unquestionably a strategic planning function. Boards without subcommittees include determining short-term end results (3.) as their fifth primary activity. This activity is more operations oriented than strategic planning oriented. These activities add further credibility to the initial observation that boards with subcommittees are more involved making the strategic planning decisions than are boards without subcommittees.

In the approves role the top five activities suggest that the boards perceived to be not involved in the planning process are more oriented toward strategic planning than those boards involved in the process. Only two activities are common to all three board groups (Table 5-14):

1. Determining long-term end results (2.); and
2. External environment evaluation (4.).

Boards perceived to be not involved also include

1. Determining mission (1.);
2. Determining resource availability (5.); and
3. Determining specific plan to follow to attain long-term end results (7.)

among the top five activities. These combined activities are indicative of a strong strategic orientation in the approves role.

Boards with subcommittees and boards involved as whole boards have, in addition to the two activities mentioned above, determining short-term results (3.) in common. Whole boards also include determining operating plans (13.) among its top five activities. The inclusion of these operational or short-term activities suggests that boards, perceived to be involved in strategic planning, are less involved in approving management's strategic planning decisions than are boards perceived to be uninvolved.

#### Management Levels.

All boards, regardless of the manner of involvement, provide general company-wide influence to the strategic planning process, rather than specific influence. The corporate level, which is the highest level, has the highest involvement of all four levels for all boards (Figure 5-32) while the product line and functional levels, which are



lower, more specific levels, have the lowest involvement.

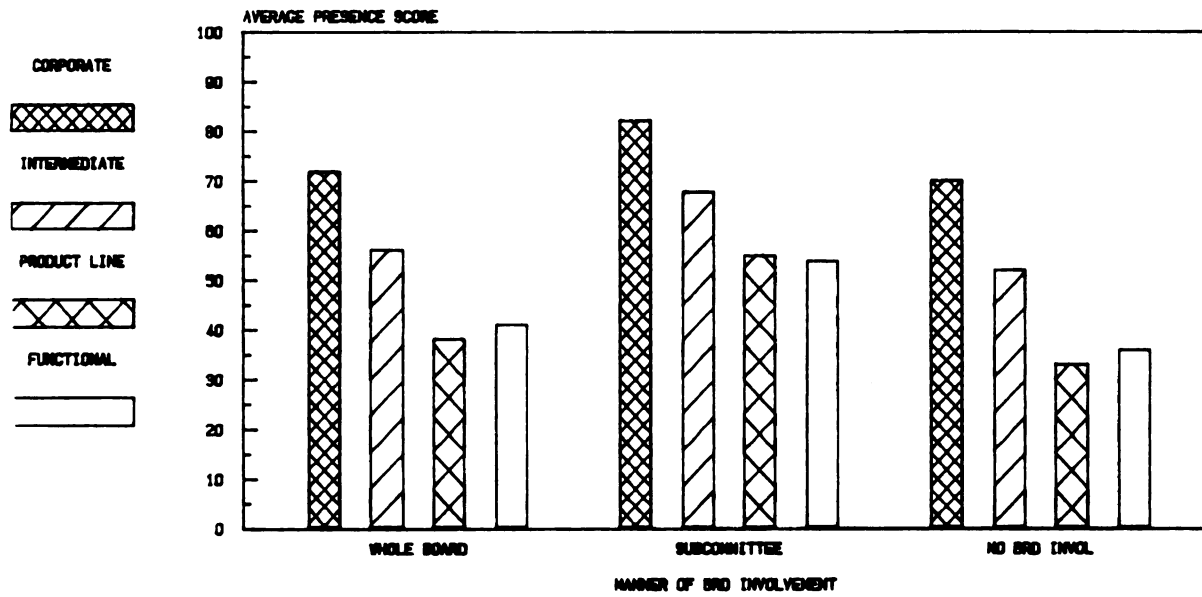


Figure 5-32. Manner of Board Involvement/  
Management Levels-Average Presence Score.

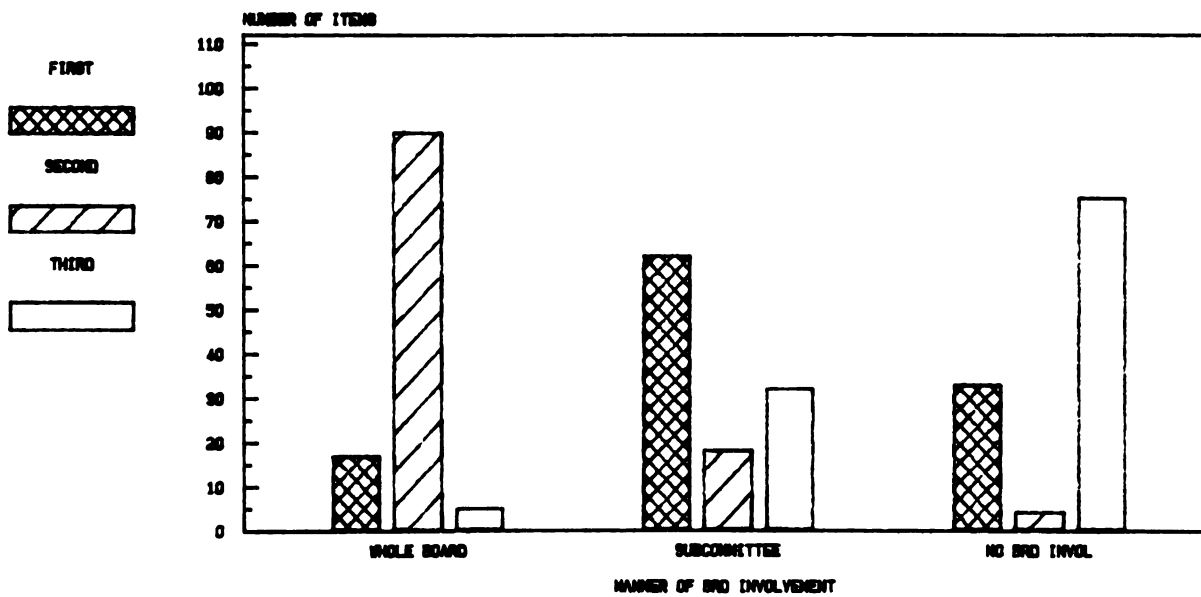


Figure 5-33. Manner of Board Involvement/  
Items-Relative Presence Score.

Table 5-15. Manner of Board Involvement/  
Management Levels-Top Presence Scores.

## CORPORATE LEVEL

ACTIVITY	WHOLE BOARD	SUB- COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	83(115)	---	79(113)
Determine Long Term End Results	81(112)	89(108)	77(110)
Determine Short Term End Results	80(111)	---	76(108)
Evaluate External Environment	85(117)	98(118)	84(119)
Determine Resource Availability	---	89(108)	75(107)
Determine Alternative Plans	---	89(108)	---
Monitor External Environment	88(123)	92(111)	---

## INTERMEDIATE LEVEL

ACTIVITY	WHOLE BOARD	SUB- COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	69(124)	81(120)	65(126)
Determine Long Term End Results	58(103)	76(112)	57(111)
Determine Short Term End Results	---	74(109)	55(107)
Evaluate External Environment	62(112)	79(117)	65(127)
Determine Alternative Plans	57(103)	73(107)	---
Monitor External Environment	71(128)	---	60(116)

## PRODUCT LINE LEVEL

ACTIVITY	WHOLE BOARD	SUB- COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	49(129)	62(113)	39(117)
Determine Long Term End Results	---	62(114)	---
Determine Short Term End Results	---	---	35(104)
Evaluate External Environment	42(112)	68(125)	45(135)
Determine Resource Availability	---	59(107)	---
Acquisition Activities	41(108)	---	---
Divestiture Activities	44(117)	---	34(101)
Determine Operating Plans	53(140)	60(110)	39(117)

## FUNCTIONAL LEVEL

ACTIVITY	WHOLE BOARD	SUB- COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	58(140)	60(112)	46(117)
Determine Long Term End Results	47(114)	---	41(115)
Determine Short Term End Results	50(119)	---	39(110)
Evaluate External Environment	53(127)	72(134)	49(137)
Determine Resource Availability	---	64(119)	---
Determine Alternative Plans	---	60(111)	---
Determine Specific Plan	---	62(115)	---
Monitor External Environment	65(155)	---	56(122)

However, the existence of a subcommittee with strategic planning responsibilities enhances the board's involvement at all levels. Boards with subcommittees have the highest presence scores at all levels. While boards involved as whole boards and boards perceived to be uninvolved are equally involved at all levels.

The boards involved in strategic planning, on the basis of the most involved activities (Table 5-15), are generally strategically oriented. The uninvolved boards indicate a tendency toward operations decision making, as well as, strategic decision making. The occurrence of determining short-term end results (3.) at all four levels suggests the operations involvement.

#### Items.

Differences between board involvement in the 112 planning process items that were studied is attributable to the existence of a subcommittee whose responsibilities include strategic planning. These differences are more pronounced in the items associated with the determines role than in the items associated with the approves role. This observation is consistent with the findings of the earlier board role analysis.

The differences in involvement between the three groups is shown in Figure 5-33. Boards with subcommittees have the highest presence score in over half (62/112) of the 112 items. Whole boards have the second highest presence score in 80% (90/112) of the items, while uninvolved

boards have the lowest presence scores in almost 70% (75/112) of the items. Figure 5-33 indicates the relative differences between the presence scores of the three board groups. This data helps to show the differences in involvement between the boards. However, these differences are not necessarily associated with statistically significant data.

The application of the chi-square test to the three board groups at each of the 112 items indicates the boards with subcommittees are significantly different in involvement in over one-third (42/112) of the items (Tables 5-16 and 5-17). And over two-thirds of these significant items are associated with the determines role. The existence of a subcommittee is associated with a higher board involvement in determining strategic planning decisions. While approving management's specific strategic planning decisions, that is, items, is essentially equivalent in all boards.

It is interesting to note that the top five items for the boards involved in strategic planning include approving management's recommendations concerning the short-term end results (3.) to be attained (Table 5-18). A conscientious commitment to strategic planning involvement doesn't diminish the involvement in operational decision making.

Table 5-16. Manner of Board Involvement; Presence Scores-  
Items with Significant Test Results.

ACTIVITY	ROLE	LEVEL	PERCENTAGE OF BOARDS INVOLVED			
			AVERAGE	WHOLE BOARD	SUB-COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	Determines	Intermediate	56	53	80	53
Determine Mission	Determines	Product line	31	35	52	24
Determine Long Term End Results	Determines	Corporate	65	68	85	59
Determine Long Term End Results	Determines	Intermediate	45	40	69	42
Determine Long Term End Results	Determines	Product line	23	18	52	18
Determine Short Term End Results	Determines	Intermediate	42	37	65	39
Evaluate External Environment	Determines	Corporate	76	71	100	72
Evaluate External Environment	Determines	Product line	38	32	65	34
Evaluate External Environment	Determines	Functional	42	39	65	38
Determine Resource Availability	Determines	Corporate	58	55	81	54
Determine Resource Availability	Determines	Intermediate	39	38	63	34
Determine Resource Availability	Determines	Product line	23	19	52	18
Determine Resource Availability	Determines	Functional	29	30	59	22
Determine Alternative Plans	Determines	Corporate	54	55	82	47
Determine Alternative Plans	Determines	Intermediate	36	35	67	29
Determine Alternative Plans	Determines	Product line	20	22	37	14
Determine Specific Plan	Determines	Intermediate	32	34	56	26
Determine Specific Plan	Determines	Product line	17	11	41	14
Determine Specific Plan	Determines	Functional	24	19	44	21
Allocate Resources	Determines	Corporate	49	50	74	43
Allocate Resources	Determines	Product line	21	15	41	18
Develop Contingency Plans	Determines	Corporate	32	29	56	28
Develop Contingency Plans	Determines	Intermediate	20	19	37	16
Merger Activities	Determines	Corporate	45	34	78	43
Merger Activities	Determines	Product line	16	13	33	14
Merger Activities	Determines	Functional	14	11	30	11
Acquisition Activities	Determines	Corporate	44	35	78	41
Acquisition Activities	Determines	Intermediate	27	24	52	22
Acquisition Activities	Determines	Product line	18	13	41	15
Acquisition Activities	Determines	Functional	14	11	37	10
Divestiture Activities	Determines	Corporate	45	41	69	41
Divestiture Activities	Determines	Intermediate	30	30	54	25
Divestiture Activities	Determines	Product line	21	17	46	17

Table 5-16. (cont'd.).

ACTIVITY	ROLE	LEVEL	PERCENTAGE OF BOARDS INVOLVED			
			AVERAGE	WHOLE BOARD	SUB-COMMITTEE	NO BOARD INVOLVEMENT
Determine Operating Plans	Approves	Corporate	39	38	64	34
Determine Operating Plans	Approves	Functional	20	11	36	20
Determine Long Term End Results	Approves	Product line	53	57	72	47
Allocate Resources	Approves	Functional	56	63	75	48
Merger Activities	Approves	Corporate	87	78	79	93
Acquisition Activities	Approves	Corporate	93	87	90	96
Acquisition Activities	Approves	Product line	57	69	70	50
Divestiture Activities	Approves	Product line	58	71	69	51
Monitor External Environment	----	Corporate	80	89	92	74
Monitor External Environment	----	Functional	50	65	56	44

Table 5-17. Manner of Board Involvement: Presence Scores-  
Roles/Levels with Significant Test Results.

ACTIVITY	ROLE		DETERMINES			APPROVES		
	LEVEL	CORP <sup>1</sup>	INT <sup>1</sup>	PROD <sup>1</sup>	FUNC <sup>4</sup>	CORP <sup>1</sup>	INT <sup>1</sup>	PROD <sup>1</sup> FUNC <sup>4</sup>
Determine Mission			X	X				
Determine Long Term End Results		X	X	X				X
Determine Short Term End Results			X					
Evaluate External Environment		X		X	X			
Determine Resource Availability		X	X	X	X			
Determine Alternative Plans		X	X	X				
Determine Specific Plan			X	X	X			
Allocate Resources		X		X				X
Develop Contingency Plans		X	X					
Merger Activities		X		X	X	X		
Acquisition Activities		X	X	X	X	X		X
Divestiture Activities		X	X	X				
Determine Operating Plans		X			X			
The following activities have only Levels; Roles are not associated with them.								
Monitor External Environment		X						
Monitor Societal Entities					X			

<sup>1</sup>Corporate Level  
<sup>2</sup>Intermediate Level  
<sup>3</sup>Product Line Level  
<sup>4</sup>Functional Level



Table 5-18. Manner of Board Involvement; Items -  
Highest Presence Scores.

ACTIVITY	ROLE	LEVEL	WHOLE BOARD COMMITTEE	SUB- COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	Approves	Corporate	96(189)		95(199)
Determine Long Term End Results	Approves	Corporate			96(202)
Determine Short Term End Results	Approves	Corporate	98(193)	97(149)	
Evaluate External Environment	Determines	Corporate		100(154)	
Evaluate External Environment	Approves	Corporate	98(193)	97(149)	96(201)
Determines Resource Availability	Approves	Corporate	98(193)	96(148)	96(202)
Determine Alternative Plans	Approves	Corporate		97(144)	
Acquisition Activities	Approves	Corporate			96(203)
Determine Operating Plans	Approves	Corporate	98(193)		

## Influence Scores

### Overview.

Evaluation of the influence scores of the boards, on the basis of the manner of board involvement, resulted in the following conclusions:

1. Boards that perceive themselves to be involved in the strategic planning process have greater influence on the process than do boards that are not involved in the process;
2. Boards that have subcommittees with strategic planning responsibilities have the greatest influence on the average;
3. Boards, regardless of manner of involvement, approve management's recommendations far more than they determine what is to be done; in the approves role all boards are similar with regard their influence; in the determines role subcommittees are associated with boards that are much more influential in determining strategy direction;
4. The boards' influence, regardless of the manner of involvement, is directed toward the corporate level more than any other level; and
5. All boards, regardless of manner of involvement, have a tendency to exert the greatest influence on both short term and long term oriented activities.

### Board Role.

Subcommittees are associated with boards that exercise the greatest influence in determining strategic planning decisions. The subcommittees also appear to be related to boards which have a stronger strategic orientation in making and/or approving planning decisions.

Figure 5-34 shows that boards with subcommittees responsible for strategic planning activities have, in the determines role, twice the influence of boards that are involved in the strategic planning process as a whole board or are not involved in the process. The subcommittee boards have an influence score of 21% while the influence scores of the boards in the other two categories are 10%. The influence scores for the approval role, although 2 to 4 times the determines role scores, are essentially the same for each board category, 41%-47%.

The five activities that the boards influence the most include

1. Determining mission (1.);
2. Determining long-term end results (2.);
3. External environment evaluation (4.); and
4. Determining resource availability (5.)

in each of the three board categories (Table 5-19). The fifth activity for boards involved in the planning process as whole boards or not involved is determining short-term end results (3.), an activity that has a decided operational or short-term orientation. The fifth activity for boards with subcommittees is merger activities (10.), an activity with long-term

implications.

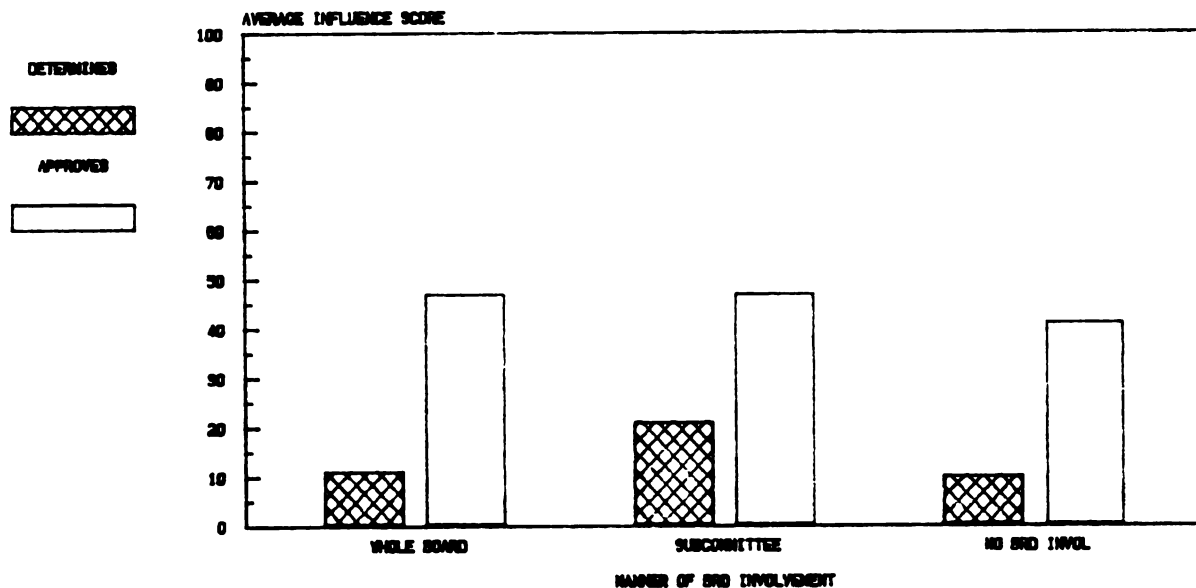


Figure 5-34. Manner of Board Involvement/  
Board Roles-Average Influence Scores.

Table 5-19. Manner of Board Involvement/  
Board Roles-Highest Influence Scores.

#### DETERMINES ROLE

ACTIVITY	WHOLE BOARD	SUB-COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	20(190)	30(143)	15(159)
Determine Long Term End Results	14(137)	25(120)	12(127)
Determine Short Term End Results	14(136)	---	11(113)
Evaluate External Environment	18(168)	31(151)	17(179)
Determine Resource Availability	12(115)	24(114)	11(119)
Merger Activities	---	23(109)	---

#### APPROVES ROLE

ACTIVITY	WHOLE BOARD	SUB-COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	---	---	40 (99)
Determine Long Term End Results	48(103)	49(103)	---
Determine Specific Plan	---	49(103)	---
Merger Activities	52(111)	52(111)	48(119)
Acquisition Activities	59(126)	59(126)	52(128)
Divestiture Activities	53(234)	57(121)	47(116)
Determine Operating Plans	51(110)	---	43(105)

All boards, regardless of the manner of involvement, exercise the same influence on approving management's recommendations concerning strategic planning decisions. Figure 5-34 indicates that the approves role influence score is essentially the same for each group, 41%-47%. However, the primary activities that are influenced by the boards in the approves role differ somewhat by manner of involvement. Each category has the following activities in common (Table 5-19):

1. Merger activities (10.);
2. Acquisition activities (11.); and
3. Divestiture activities (12.),

activities associated with a financial orientation. Boards involved as whole boards and boards that are uninvolved include determining operating plans (13.) among the top five activities. This activity is associated with short-term, 1-2 years, results, indicating an operational orientation. Boards with subcommittees do not include short-term oriented activities in its five most influenced activities in either the approves or determines role.

#### Management Levels.

Although subcommittees are associated with boards that exert the greatest influence on the strategic planning decision process, the differences in the activities influenced among the three board groups is not pronounced across all four management levels. The greatest similarity of board influence, regarding activities, occurs at the

corporate and intermediate levels between boards with subcommittees and boards perceived to be uninvolved in the planning process. The presence of a subcommittee apparently impacts the intensity of involvement, that is, influence, more than providing direction with regard what the board does.

As seen in Figure 5-35, boards with subcommittees have the greatest influence at all four levels. In each board category the greatest influence is at the corporate level, followed by the intermediate level. The influence at the product line and functional levels in each category is essentially the same.

Boards with subcommittees and the uninvolved boards exercise the greatest influence on the same activities at the corporate level and at the intermediate level. Four of the activities are the same at both levels (Table 5-20):

1. Determining mission (1.);
2. External environment evaluation (4.);
3. Merger activities (10.); and
4. Acquisition activities (11.).

The fifth activity at the corporate level is determining long-term end results (2.) and at the intermediate level is divestiture activities (12.).

As can be seen in Table 5-20 there are several common activities between the boards with subcommittees and the boards involved as whole boards. Although the lack of common activities is more notable.

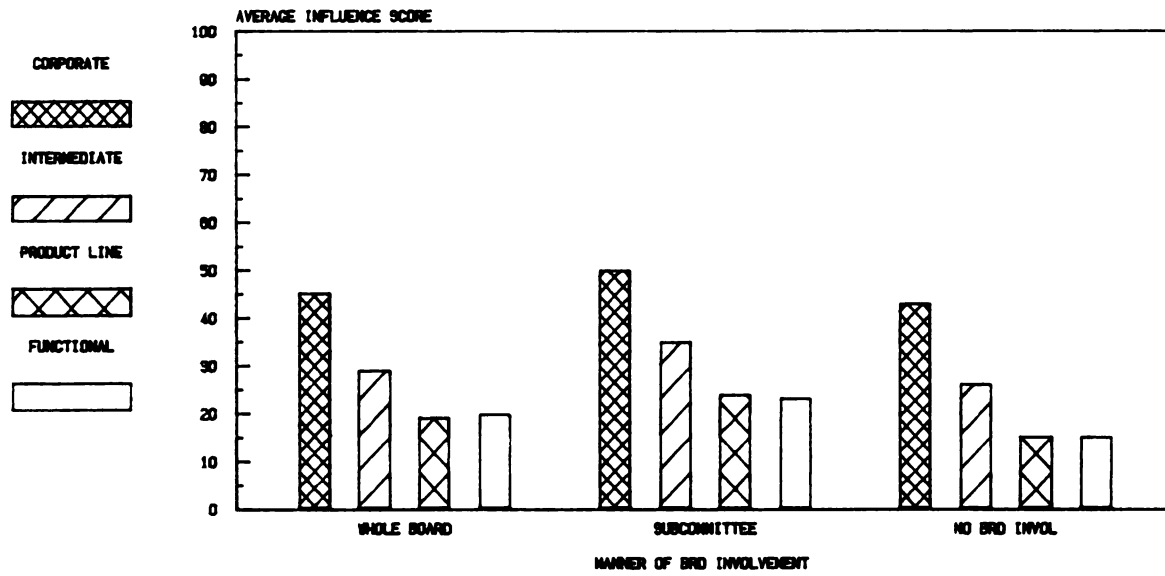


Figure 5-35. Manner of Board Involvement/  
Management Levels-Average Influence Scores.

Table 5-20. Manner of Board Involvement/  
Management Levels-Highest Influence Scores.

## CORPORATE LEVEL

ACTIVITY	WHOLE BOARD	SUB- COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	56(123)	60(120)	52(121)
Determine Long Term End Results	51(112)	60(120)	48(112)
Determine Short Term End Results	50(110)	---	---
Evaluate External Environment	50(111)	56(111)	49(113)
Merger Activities	---	57(114)	52(120)
Acquisition Activities	---	54(108)	51(118)
Monitor External Environment	54(118)	---	---

## INTERMEDIATE LEVEL

ACTIVITY	WHOLE BOARD	SUB- COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	35(120)	40(116)	29(112)
Determine Long Term End Results	31(106)	---	---
Evaluate External Environment	---	40(116)	32(123)
Merger Activities	---	40(116)	30(116)
Acquisition Activities	34(116)	44(128)	31(122)
Divestiture Activities	34(117)	42(121)	29(113)
Monitor External Environment	34(106)	---	---

## PRODUCT LINE LEVEL

ACTIVITY	WHOLE BOARD	SUB- COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	---	24(103)	---
Evaluate External Environment	22(113)	28(119)	17(114)
Allocate Resources	---	---	15(104)
Merger Activities	24(124)	31(132)	19(131)
Acquisition Activities	28(128)	33(139)	21(143)
Divestiture Activities	27(142)	35(146)	---
Determine Operating Plans	---	---	16(109)
Monitor External Environment	23(121)	---	---

## FUNCTIONAL LEVEL

ACTIVITY	WHOLE BOARD	SUB- COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	24(121)	---	17(116)
Determine Long Term End Results	24(119)	26(117)	---
Determine Short Term End Results	22(110)	25(111)	---
Evaluate External Environment	26(130)	28(126)	17(116)
Determine Alternative Plans	---	25(109)	---
Determine Specific Plan	---	26(115)	---
Allocate Resources	---	---	16(107)
Merger Activities	---	---	16(108)
Acquisition Activities	---	---	16(111)
Monitor External Environment	24(122)	---	---



Items.

The existence of a subcommittee apparently acts as a motivating factor in directing the board to take an active role in determining strategic direction. The presence of a subcommittee, however, is not associated with a significant difference in approving management's strategy recommendation.

Figure 5-36 shows that on an item by item basis boards with subcommittees exert the greatest influence and boards perceived to be uninvolved have the least influence. However, the differences in the degree of influence are most pronounced in the determines role. Tables 5-21 and 5-22 indicate that in 37 of the 52 determines role items significant differences in influence scores occur among the three board categories. These differences can be attributed, in every instance, to the higher influence scores of the boards with subcommittees. In the approves role items and in the items associated with external environment monitoring (14.) the significant differences are generally attributed to the lower influence scores of the uninvolved boards.

The items in which the boards exert the greatest influence show no strong commonalities across the three board groups (Table 5-23). However, it is interesting to note that determining short-term end results (5.), an operations oriented activity is among the top activities for all three board categories.

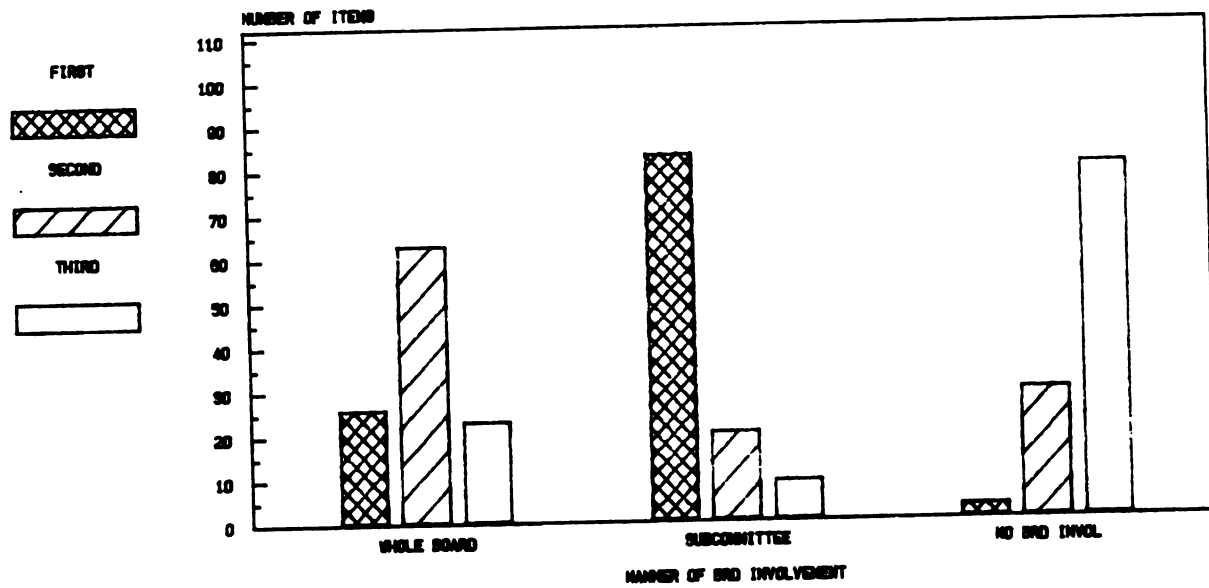


Figure 5-36. Manner of Board Involvement/  
Items-Relative Influence Scores.

Table 5-21. Manner of Board Involvement: Influence Scores -  
Items with Significant Test Results.

ACTIVITY	ROLE	LEVEL	DEGREE OF INFLUENCE			
			AVERAGE	WHOLE BOARD	SUB-COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	Determines	Corporate	36	37	58	31
Determine Mission	Determines	Intermediate	20	24	31	16
Determine Mission	Determines	Product line	7	8	14	5
Determine Long Term End Results	Determines	Corporate	29	28	54	24
Determine Long Term End Results	Determines	Product line	6	6	13	5
Determine Short Term End Results	Determines	Product line	6	7	12	4
Determine Short Term End Results	Determines	Functional	7	9	14	5
Determine External Environment	Determines	Corporate	33	29	49	31
Evaluate External Environment	Determines	Product line	10	12	23	7
Evaluate External Environment	Determines	Functional	12	13	22	9
Determine Resource Availability	Determines	Corporate	25	22	40	23
Determine Resource Availability	Determines	Product line	6	5	13	5
Determine Resource Availability	Determines	Functional	7	8	16	5
Determine Alternative Plans	Determines	Corporate	19	21	35	15
Determine Alternative Plans	Determines	Intermediate	11	11	23	8
Determine Alternative Plans	Determines	Product line	4	3	12	3
Determine Alternative Plans	Determines	Functional	7	6	14	5
Determine Specific Plan	Determines	Corporate	14	17	30	10
Determine Specific Plan	Determines	Intermediate	8	10	20	5
Determine Specific Plan	Determines	Product line	3	3	9	2
Determine Specific Plan	Determines	Functional	6	7	11	4
Allocate Resources	Determines	Corporate	21	18	38	19
Allocate Resources	Determines	Intermediate	12	11	24	10
Merger Activities	Determines	Corporate	20	11	39	20
Merger Activities	Determines	Intermediate	10	6	20	9
Merger Activities	Determines	Product line	6	3	17	5
Merger Activities	Determines	Functional	5	2	14	4
Acquisition Activities	Determines	Corporate	16	11	27	15
Acquisition Activities	Determines	Intermediate	9	7	19	7
Acquisition Activities	Determines	Product line	5	2	14	4
Acquisition Activities	Determines	Functional	4	2	12	2
Divestiture Activities	Determines	Corporate	17	15	30	16
Divestiture Activities	Determines	Intermediate	10	10	20	8
Divestiture Activities	Determines	Product line	6	4	16	5
Divestiture Activities	Determines	Functional	4	1	10	4

Table 5-21 (cont'd.).

ACTIVITY	ROLE	LEVEL	DEGREE OF INFLUENCE			
			AVERAGE	WHOLE BOARD	SUB-COMMITTEE	NO BOARD INVOLVEMENT
Determine Operating Plans	Determines	Corporate	12	11	24	9
Determine Long Term End Results	Approves	Product line	26	33	36	21
Determine Long Term End Results	Approves	Functional	29	39	41	23
Evaluate External Environment	Approves	Functional	30	39	35	25
Merger Activities	Approves	Corporate	79	70	74	83
Acquisition Activities	Approves	Product line	44	55	52	38
Divestiture Activities	Approves	Product line	42	50	53	36
Monitor External Environment	----	Corporate	44	54	50	40
Monitor External Environment	----	Product line	16	23	24	12
Monitor External Environment	----	Functional	17	24	24	13

Table 5-22. Manner of Board Involvement; Influence Scores - Roles/Levels with Significant Test Results.

ACTIVITY	ROLE LEVEL	DETERMINES				APPROVES			
		CORP'	INT'	PROD'	FUNC'	CORP'	INT'	PROD'	FUNC'
Determine Mission		X	X	X					
Determine Long Term End Results		X		X				X	X
Determine Short Term End Results				X	X				
Evaluate External Environment		X		X	X				
Determine Resource Availability		X		X	X				
Determine Alternative Plans		X	X	X	X				
Determine Specific Plan		X	X	X	X				
Allocate Resources		X	X	X					
Develop Contingency Plans									
Merger Activities		X	X	X	X	X			
Acquisition Activities		X	X	X	X			X	
Divestiture Activities		X	X	X	X			X	
Determine Operating Plans		X							
The following activities have only Levels; Roles are not associated with them.									
Monitor External Environment		X		X					
Monitor Societal Entities					X				

'Corporate Level  
'Intermediate Level  
'Product Line Level  
'Functional Level

Table 5-23. Manner of Board Involvement; Items - Highest Influence Scores.

ACTIVITY	ROLE	LEVEL	WHOLE BOARD	SUB-COMMITTEE	NO BOARD INVOLVEMENT
Determine Mission	Approves	Corporate	73(255)		
Determine Long Term End Results	Approves	Corporate	74(257)	67(197)	72(285)
Determine Short Term End Results	Approves	Corporate	73(256)		
Determine Specific Plan	Approves	Corporate	79(275)	81(237)	86(242)
Acquisition Activities	Approves	Intermediate		69(204)	
Acquisition Activities	Approves	Corporate		72(213)	76(304)
Divestiture Activities	Approves	Corporate	79(275)	69(197)	
Determine Operating Plans	Approves	Corporate			

### Whole Board Involvement

#### Overview

The previous section focused on the differences in the extent (presence scores) and the degree (influence scores) of influence that boards have on the strategic planning process on the basis of the manner of their involvement, i.e., whole board involvement, subcommittee involvement, and no board involvement. To further define the characteristics of board involvement in the strategic planning process each of these three categories will be analyzed separately. In this section analysis is focused on those boards that are involved in the firm's strategic planning activities as a whole board.

It was thought that the extent and the degree of influence of the whole board on the planning process might be related to when the board is involved in the process and, also possibly, to the composition of the board. Consequently, two analyses were conducted. In the first analysis the boards are placed in one of two subpopulations on the basis of when they are involved in the strategic planning activities; on a regularly scheduled basis or primarily during the annual planning cycle. In the second analysis the subpopulations are based on board composition; outsider dominated vs. insiders  $\geq 50\%$  of the board.

There are no significant differences in the extent or degree of influence of the whole board on the strategic planning activities on the basis of when the whole board meets to discuss these activities or the composition of the whole board. There are, however, some interesting characteristics which were observed during this analysis:

1. Whole boards that meet to discuss strategic planning activities on a regularly scheduled basis throughout the year tend to be more oriented toward being an initiator of strategic planning decisions;
2. Whole boards that meet to discuss strategic planning activities primarily during the annual planning cycle tend to be more oriented toward being a reviewer of management's strategic planning recommendations; and
3. Whole boards that are insider dominated are more involved in the strategic planning process than are outsider dominated whole boards, but exert no more influence on the process.

#### Scheduling of Planning Involvement

##### Overview.

The whole board is involved in the strategic planning process typically on a regularly scheduled basis throughout the year or primarily during the annual planning cycle (Figure 5-19). This analysis compares the whole board involvement on the basis of when the board is involved: regularly scheduled vs. primarily during the annual planning cycle.



There is no evidence to suggest that there is a significant difference in the extent or the degree of influence of the board of directors on the strategic planning activities on the basis of when the board meets to discuss strategic planning concerns. However, some of the scores do suggest that a particular board orientation is related to where the board meets.

The higher average determines role influence score of the boards that meet on a regularly scheduled basis suggests that meeting throughout the year is associated with providing greater direction to the planning activities. Such action would be consistent with the initiator or participator role. On the other hand, the higher average approves role influence score of the boards that meet during the annual planning cycle suggests these boards act as a reviewer in the strategic planning process.

#### Presence Scores.

##### Board role.

Discussing strategic planning concerns throughout the year on a regularly scheduled basis is apparently conducive to being involved in the planning process in a more deliberate forceful manner. This meeting schedule also is associated with a strategic orientation.

Figure 5-37 shows that whole boards that are involved in the strategic planning process on a regularly scheduled basis throughout the year are more involved determining what is to be done than are whole boards that meet primarily during the annual planning cycle. When the involvement occurs does not impact the approves role involvement.

Analysis of the activities of primary involvement in both roles suggests that the regularly scheduled meetings are more strategically oriented. The activities of the regularly scheduled whole boards in Table 5-24 are all long-term in nature. The annual cycle meeting boards include determining short-term end results (3.) among the top activities in both roles.

#### Management levels.

The continuity of meeting on a regularly scheduled basis over a long period apparently enables more involvement at lower management levels. Although the presence scores for both whole board groups are the same at the corporate level, the regularly scheduled whole boards have higher intermediate level and product line level presence scores (Figure 5-38).

The top activities for both groups do not indicate any unusual or unique characteristics. Although there is a tendency for whole boards that meet primarily during the annual planning cycle to be operations oriented. These boards include determining short-term end results (3.) during the top activities at both the corporate and functional levels (Table 5-25).

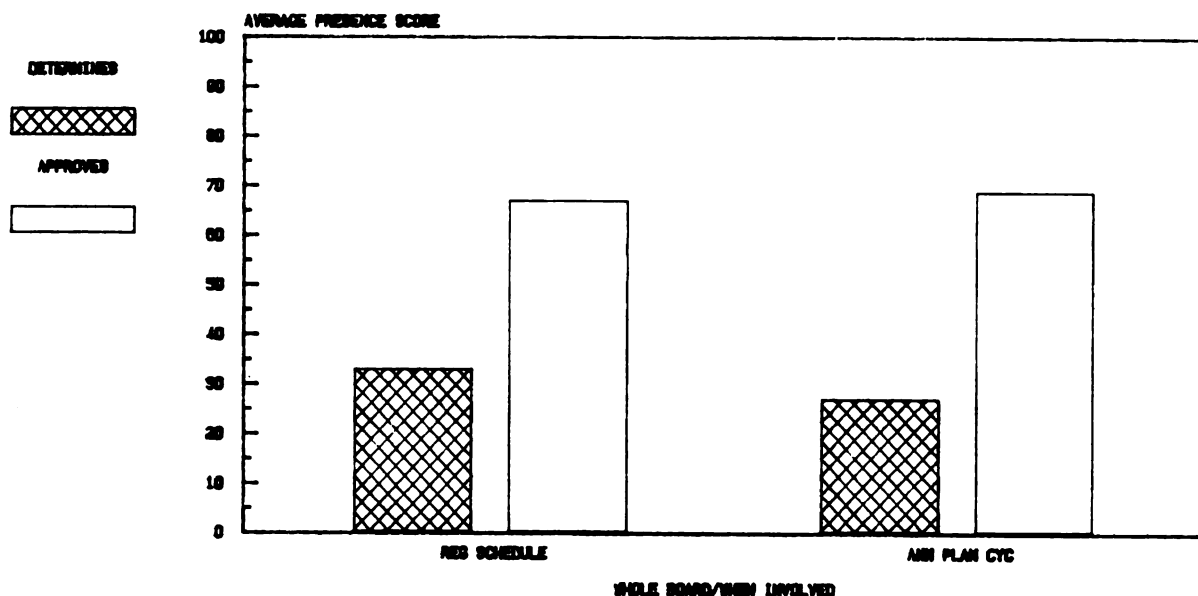


Figure 5-37. Whole Board Involvement; When Involved/  
Board Roles-Average Presence Scores.

Table 5-24. Whole Board Involvement; When Involved/  
Board Roles-Highest Presence Scores.

#### DETERMINES ROLE

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	60(182)	45(166)
Determine Long Term End Results	41(124)	36(133)
Determine Short Term End Results	---	35(131)
Evaluate External Environment	42(127)	46(169)
Determine Resource Availability	43(130)	30(111)
Determine Alternative Plans	43(128)	---

#### APPROVES ROLE

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	77(115)	78(113)
Determine Long Term End Results	71(107)	---
Determine Short Term End Results	---	73(106)
Evaluate External Environment	---	73(106)
Determine Resource Availability	71(106)	---
Determine Alternative Plans	75(112)	---
Allocate Resources	73(109)	---
Acquisition Activities	---	74(107)
Determine Operating Plans	---	73(107)

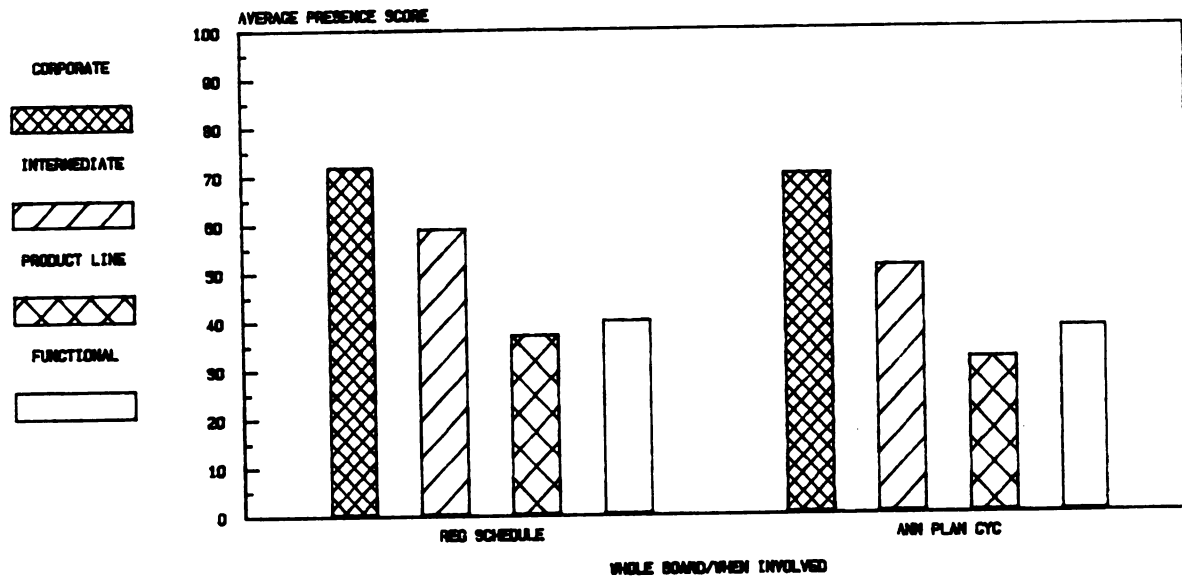


Figure 5-38. Whole Board Involvement; When Involved/  
Management Levels-Average Presence Scores.

Table 5-25. Whole Board Involvement: When Involved/  
Management Levels-Highest Presence Scores.

## CORPORATE LEVEL

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	84(115)	82(116)
Determine Long Term End Results	---	83(118)
Determine Short Term End Results	---	82(116)
Evaluate External Environment	---	89(125)
Determine Resource Availability	82(113)	---
Determine Alternative Plans	85(117)	---
Determine Specific Plan	81(111)	---
Monitor External Environment	91(125)	85(121)

## INTERMEDIATE LEVEL

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	71(121)	65(127)
Determine Long Term End Results	---	53(103)
Evaluate External Environment	---	59(115)
Determine Resource Availability	70(118)	57(111)
Determine Alternative Plans	67(113)	---
Determine Specific Plan	67(113)	---
Allocate Resources	71(120)	---
Monitor External Environment	82(138)	63(121)

## PRODUCT LINE LEVEL

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	52(139)	45(137)
Evaluate External Environment	---	38(115)
Determine Alternative Plans	44(118)	---
Acquisition Activities	---	39(120)
Divestiture Activities	48(127)	38(116)
Determine Operating Plans	44(118)	---
Monitor External Environment	45(121)	47(144)
Monitor Societal Entities	64(170)	---

## FUNCTIONAL LEVEL

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	68(167)	53(141)
Determine Long Term End Results	47(116)	44(116)
Determine Short Term End Results	---	47(124)
Evaluate External Environment	---	52(136)
Determine Resource Availability	49(121)	---
Monitor External Environment	64(157)	58(153)
Monitor Societal Entities	55(134)	---

Items.

The difference in involvement between the whole boards that meet on a regularly scheduled basis and the whole boards that meet primarily during the annual planning cycle is not significant on an item by item basis. Although the regularly scheduled boards have the highest presence score in 65% (73/112) of the items, Figure 5-39, the application of the chi-square test to each indicates only two items with significant differences (Table 5-26).

Evaluation of the top items in each category indicates considerable similarities (Table 5-27).

1. Determining mission (1.);
2. Determining short-term end results (3.);
3. External environment evaluation (4.); and
4. Determining resource availability (5.)

are common to each category. The inclusion of determining short-term end results (3.) suggests an operational orientation of both boards.

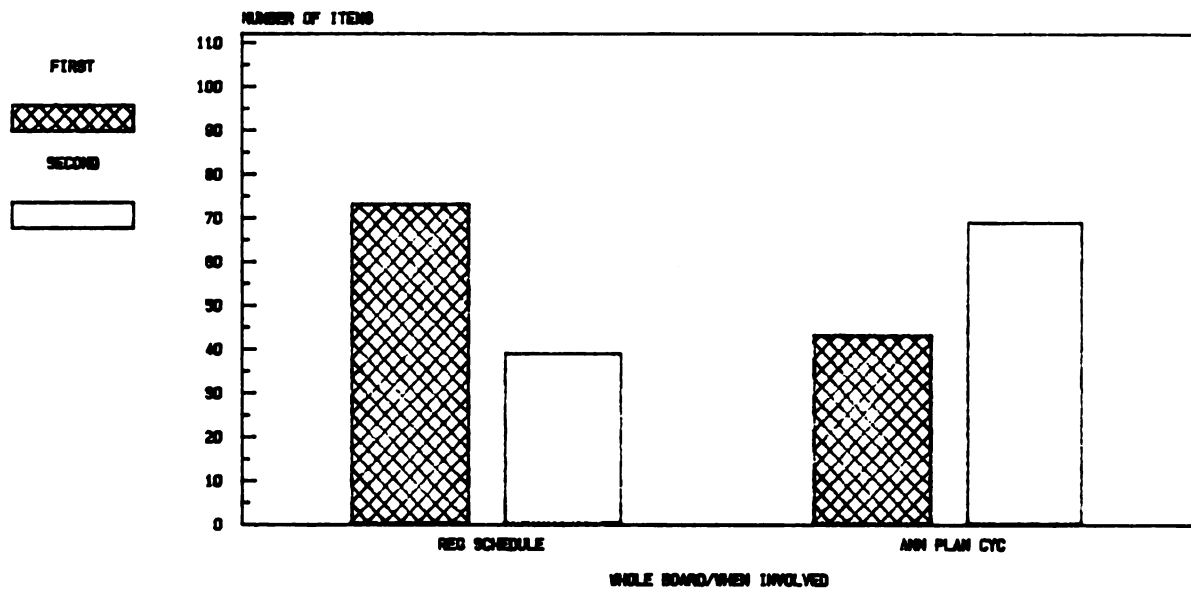


Figure 5-39. Whole Board Involvement; When Involved/  
Items-Relative Presence Scores.

Table 5-26. Whole Board Involvement; When Involved/Presence Scores-  
Items with Significant Test Results.

ACTIVITY	ROLE	LEVEL	BOARD PRESENCE SCORES		
			AVERAGE	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Operating Plans	Determines	Product Line	10	30	3
Monitor Societal Entities	---	Product Line	33	64	22

Table 5-27. Whole Board Involvement; When Involved/  
Items-Highest Presence Scores.

ACTIVITY	ROLE	LEVEL	ANNUAL	
			REGULARLY SCHEDULED	PLANNING CYCLE
Determine Mission	Approves	Corporate	92(184)	97(203)
Determine Long Term End Results	Approves	Corporate	92(184)	
Determine Short Term End Results	Approves	Corporate	100(199)	100(209)
Evaluate External Environment	Approves	Corporate	92(184)	100(209)
Determine Resource Availability	Approves	Corporate	100(199)	97(203)
Determine Alternative Plans	Approves	Corporate	100(199)	
Determine Operating Plans	Approves	Corporate		100(209)



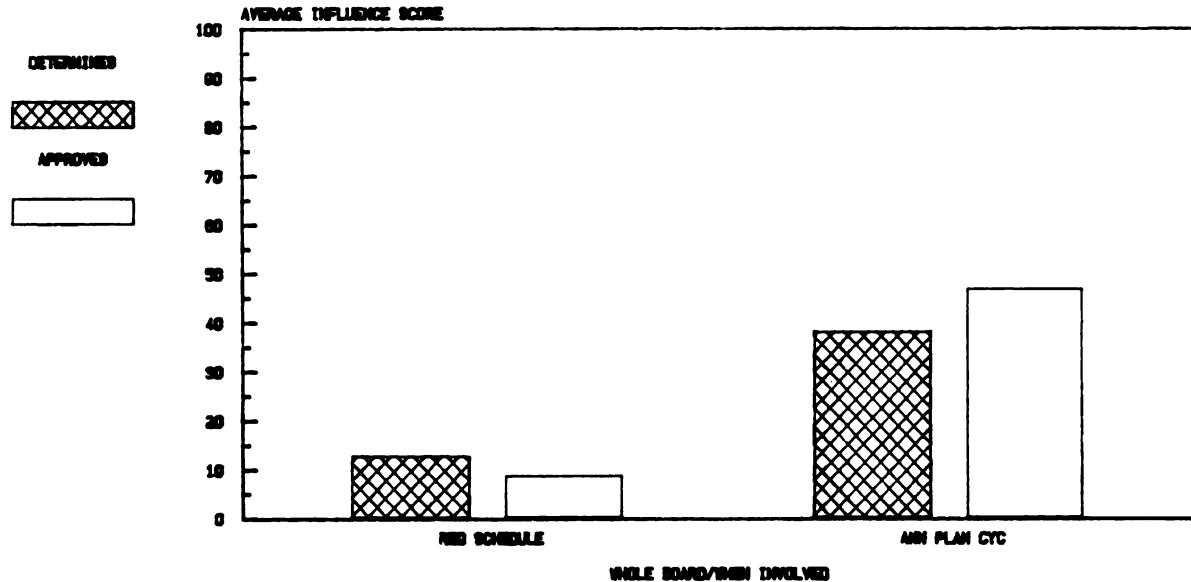


Figure 5-40. Whole Board Involvement; When Involved/  
Board Roles-Average Influence Scores.

Table 5-28. Whole Board Involvement; When Involved/  
Board Roles-Highest Influence Scores.

#### DETERMINES ROLE

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	22(177)	19(210)
Determine Long Term End Results	---	13(148)
Determine Short Term End Results	---	13(145)
Evaluate External Environment	16(118)	17(187)
Determine Resource Availability	18(133)	---
Determine Alternative Plans	15(113)	---
Allocate Resources	---	10(108)
Determine Operating Plans	16(118)	---

#### APPROVES ROLE

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	44(110)	49(105)
Determine Long Term End Results	44(114)	---
Determine Resource Availability	41(107)	---
Merger Activities	---	54(115)
Acquisition Activities	41(108)	63(133)
Divestiture Activities	49(128)	51(107)
Determine Operating Plans	---	51(109)

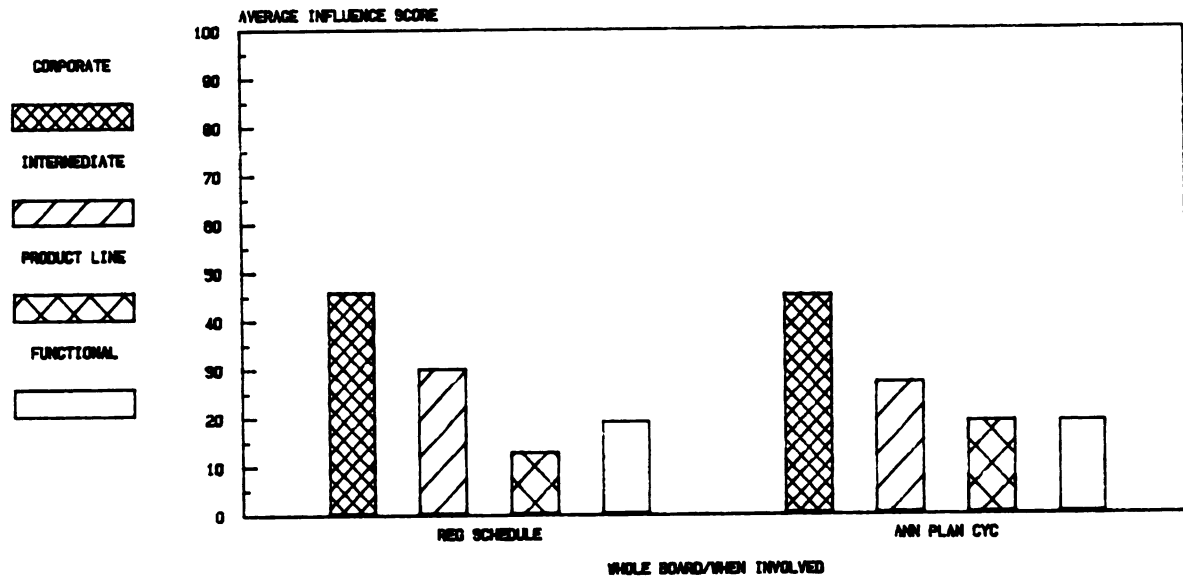


Figure 5-41. Whole Board Involvement; When Involved/  
Management Levels-Average Influence Scores.

Table 5-29. Whole Board Involvement; When Involved/  
Management Levels-Highest Influence Scores.

## CORPORATE LEVEL

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	54(118)	58(130)
Determine Long Term End Results	---	53(119)
Determine Short Term End Results	---	52(116)
Evaluate External Environment	48(104)	50(113)
Determine Resource Availability	50(108)	---
Determine Specific Plan	52(113)	---
Monitor External Environment	66(144)	48(107)

## INTERMEDIATE LEVEL

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	36(121)	34(126)
Determine Long Term End Results	33(112)	---
Determine Resource Availability	33(105)	---
Merger Activities	---	31(116)
Acquisition Activities	---	35(128)
Divestiture Activities	33(111)	32(117)
Determine Operating Plans	---	30(112)
Monitor External Environment	43(144)	---

## PRODUCT LINE LEVEL

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	15(113)	20(108)
Evaluate External Environment	---	21(114)
Merger Activities	16(118)	24(130)
Acquisition Activities	---	31(165)
Divestiture Activities	23(173)	26(137)
Monitor External Environment	24(187)	---
Monitor Societal Entities	21(159)	---

## FUNCTIONAL LEVEL

ACTIVITY	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	26(139)	24(126)
Determine Long Term End Results	24(126)	23(124)
Determine Short Term End Results	---	22(119)
Evaluate External Environment	---	26(139)
Determine Resource Availability	24(124)	---
Acquisition Activities	---	23(121)
Monitor External Environment	25(134)	---
Monitor Societal Entities	21(110)	---

Influence Scores.

## Board role.

Meeting throughout the year on strategic planning activities apparently provides the opportunity for the whole board to play a more decisive role in determining what is to be done. On the other hand, meeting to discuss the planning activities during a specific annual period appears to be associated with a more intensive review of management's recommendations. The basis for this conclusion is the higher influence score of the regularly scheduled whole boards in the determines role and the higher influence score of the whole boards that meet primarily during the annual planning cycle in the approves role (Figure 5-40).

The top activities in each role for the determines role indicate no unique pattern. However, the occurrence of

1. Acquisition activities (11.); and
2. Divestiture activities (12.)

in both categories in the approves role suggests a financial orientation (Table 5-28). This is particularly true for the annual planning cycle whole boards which also include merger activities (10.) in the top activities.

### Management levels.

The average level influence scores are generally similar across each level for both board categories (Figure 5-41). Comparison of the most influenced activities between the subpopulations indicate some differences in the activities (Table 5-29). However, there is no pattern or consistency that suggests a unique approach to dealing with the strategic planning activities at any management level exists in either of the subpopulations or that there is a significant difference between the boards that comprise the two groups.

### Items.

There is essentially no difference in the degree of influence each of the two whole board groups exert on the items of the strategic planning process. Figure 5-42 indicates the two groups are relatively balanced with regard having the highest influence score on an item by item basis. Table 5-30 shows that only two of the 112 items exhibited significant differences between the influence scores of the two groups.

The top activities, Table 5-31, also indicate nothing unique, although, each group does include an operations oriented item among its most influenced items. Determining operating plans (13.) is included in the regularly scheduled items and determining short-term end results (3.) is among the annual planning cycle group.

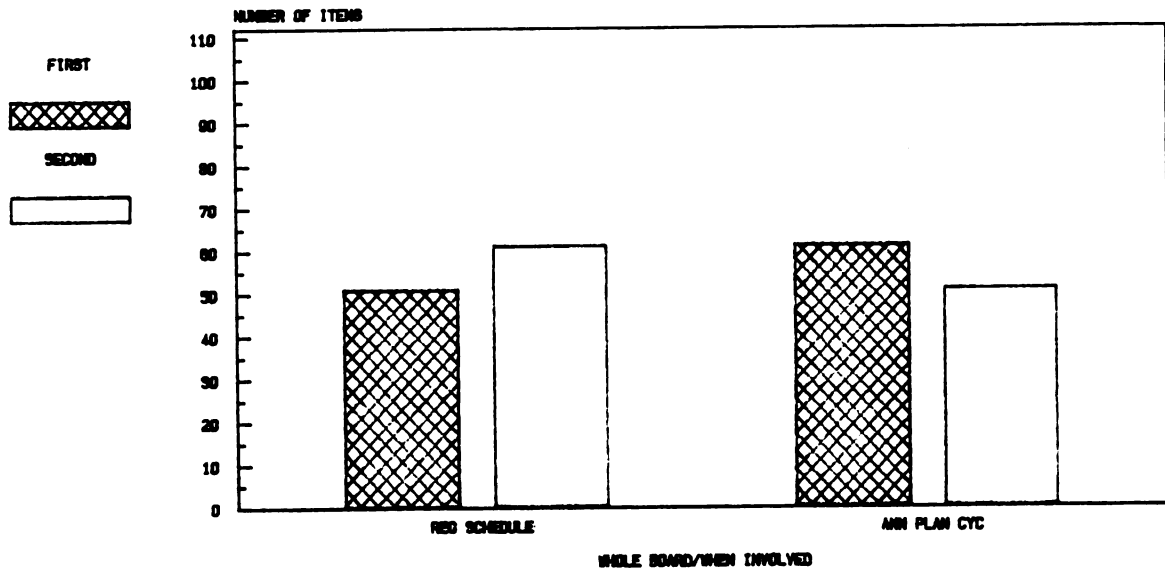


Figure 5-42. Whole Board Involvement; When Involved/  
Items-Relative Influence Scores.

Table 5-30. Whole Board Involvement; When Involved/Influence Scores-  
Items with Significant Test Results.

ACTIVITY	ROLE	LEVEL	BOARD INFLUENCE SCORES		
			AVERAGE	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Operating Plans	Determines	Intermediate	6	16	3
Determine Operating Plans	Determines	Functional	5	14	1

Table 5-31. Whole Board Involvement; When Involved/  
Items-Highest Influence Scores.

ACTIVITY	ROLE	LEVEL	REGULARLY SCHEDULED	ANNUAL PLANNING CYCLE
Determine Mission	Approves	Corporate		80(284)
Determine Long Term End Results	Approves	Corporate	69(268)	77(276)
Determine Short Term End Results	Approves	Corporate		78(278)
Evaluate External Environment	Approves	Corporate	70(271)	
Determine Specific Plan	Approves	Corporate	77(297)	
Allocate Resources	Approves	Corporate	68(271)	
Acquisition Activities	Approves	Corporate		82(293)
Determine Operating Plans	Approves	Corporate	77(297)	80(284)

## Insider Dominated vs. Outsider Dominated

Overview.

The second analysis of those boards that perceive themselves to be involved in the strategic planning process as a whole board focuses on the composition of the board. Two elements comprise the subpopulation: insider boards, that is, boards with inside members that are  $\geq 50\%$  of the board membership and outsider boards, that is, boards with outside members that are  $> 50\%$  of the board membership.

There are no significant differences with regard the extent and the degree of influence on the strategic planning activities between outsider dominated and insider dominated boards who consider themselves to be involved in their firm's strategic planning activities as a whole board. It is interesting to note, however, that insider boards are more involved than outsider boards in both the approves role and determines role, while exercising more influence only in the determines role. There is no clear explanation for this. Possible explanations include an unwillingness of the chairman to involve outsiders in the planning process or the outsiders are unable to be involved because of lack of knowledge necessary to make meaningful decisions.



### Presence Scores.

#### Board roles.

There is an apparent unwillingness on the part of the chairman to involve outsiders too deeply in the planning or an inability on the part of the outsiders to become too involved in the process. The reason is not clear, but the outsider boards are less involved in the planning process than are insider boards in both board roles.

The board role presence scores indicate that the insider boards tend to be more involved in the firm's strategic planning activities than are outsider dominated boards (Figure 5-43). The average board role presence score for both the determines and the approves role is greater for the insider boards. However, the activities in which each whole board category is most involved are reasonably similar in both roles (Table 5-32), suggesting that no particular pattern or orientation of involvement is associated with board composition.

#### Management levels.

The increased involvement in the planning by insider boards also occurs at each of the four management levels. The reason for the lower outside board involvement is not clear. Although, the reasons given for the difference in the board role presence scores, the chairman's unwillingness or the outsider's inability, could also apply here.

The average level presence scores for the insider boards are larger than the presence scores of the outsider boards (Figure 5-44). On the basis of level involvement there are more insider boards participating in the planning activities than outsider dominated boards. The greatest participation of both board groups occurs at the corporate level, with intermediate level involvement being the next most frequent for both groups. However, the activities in each subpopulation at each level are similar enough to suggest that there are no differences between outsider dominated and insider dominated boards on the basis of level orientation (Table 5-33).

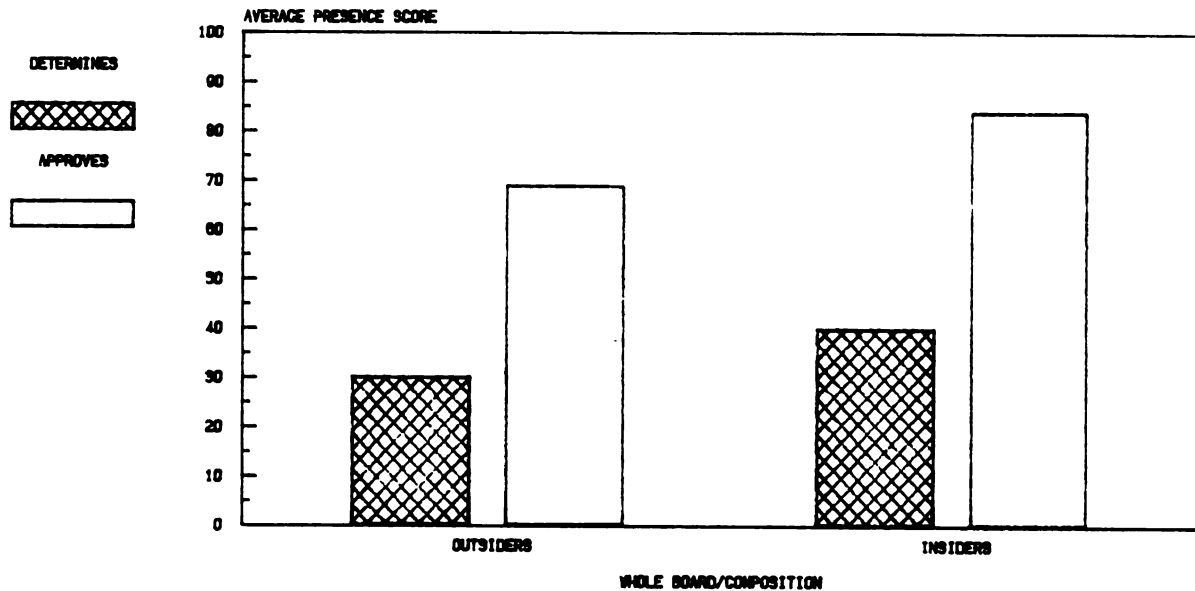


Figure 5-43. Whole Board Involvement; Composition/  
Board Roles-Average Presence Scores.

Table 5-32. Whole Board Involvement; Composition/  
Board Roles-Highest Presence Scores.

#### DETERMINES ROLE

ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	47(156)	75(188)
Determine Long Term End Results	35(117)	65(163)
Determine Short Term End Results	36(120)	50(125)
Evaluate External Environment	47(157)	50(125)
Determine Resource Availability	34(113)	50(125)
Determine Alternative Plans	---	55(138)

#### APPROVES ROLE

ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	79(113)	90(107)
Determine Long Term End Results	72(104)	90(107)
Determine Short Term End Results	---	95(113)
Evaluate External Environment	---	90(107)
Determine Resource Availability	73(105)	---
Allocate Resources	---	90(107)
Acquisition Activities	---	90(107)
Divestiture Activities	---	90(107)
Determine Operating Plans	73(106)	90(107)

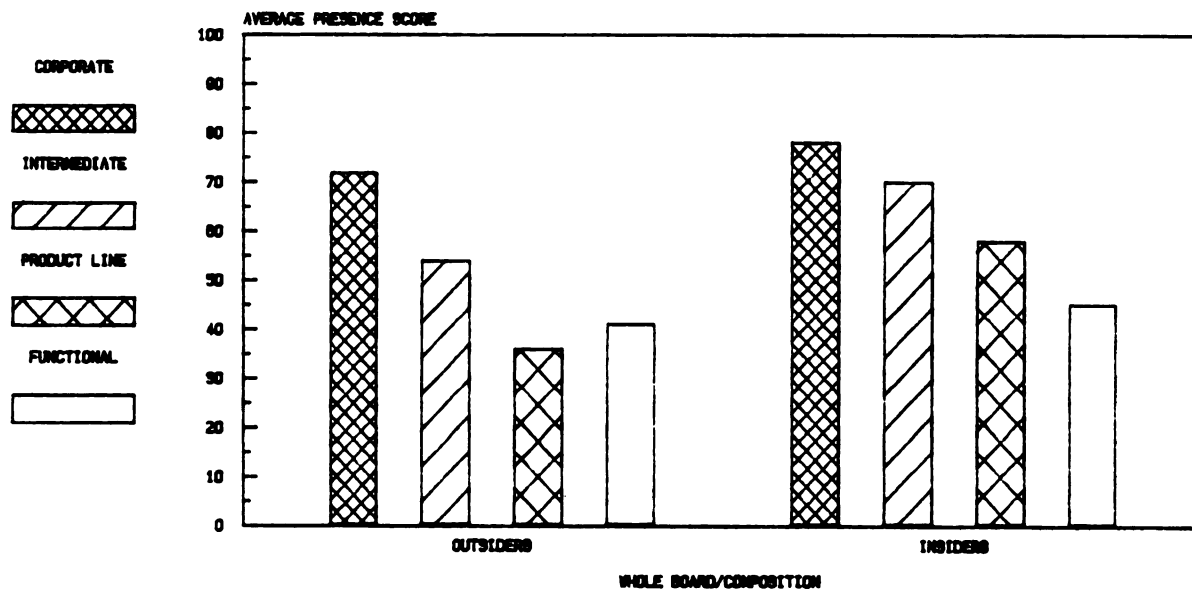


Figure 5-44. Whole Board Involvement; Composition/  
Management Levels-Average Presence Scores.

Table 5-33. Whole Board Involvement; Composition/  
Management Levels-Highest Presence Scores.

## CORPORATE LEVEL

ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	83(116)	80(103)
Determine Long Term End Results	80(112)	90(116)
Determine Short Term End Results	80(112)	80(103)
Evaluate External Environment	85(119)	80(103)
Determine Resource Availability	---	90(116)
Determine Alternative Plans	---	90(116)
Determine Specific Plan	---	80(103)
Allocate Resources	---	80(103)
Monitor External Environment	87(112)	100(129)
Monitor Societal Entities	---	80(103)

## INTERMEDIATE LEVEL

ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	67(123)	90(128)
Determine Long Term End Results	---	90(128)
Determine Short Term End Results	---	80(114)
Evaluate External Environment	60(112)	80(114)
Determine Resource Availability	60(111)	---
Determine Alternative Plans	---	80(114)
Determine Specific Plan	56(105)	---
Allocate Resources	---	80(114)
Monitor External Environment	70(130)	80(114)

## PRODUCT LINE LEVEL

ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	45(127)	80(139)
Determine Long Term End Results	---	80(139)
Determine Short Term End Results	---	70(122)
Evaluate External Environment	39(111)	70(122)
Acquisition Activities	39(108)	---
Divestiture Activities	42(119)	---
Determine Operating Plans	---	63(109)
Monitor External Environment	52(146)	---

## FUNCTIONAL LEVEL

ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	56(136)	80(176)
Determine Long Term End Results	47(114)	50(110)
Determine Short Term End Results	48(118)	60(132)
Evaluate External Environment	53(129)	50(110)
Determine Resource Availability	---	50(110)
Determine Alternative Plans	---	50(110)
Allocate Resources	---	60(132)
Monitor External Environment	65(158)	60(132)

Table 5-34. Whole Board Involvement; Composition/  
Items-Highest Presence Scores

ACTIVITY	ROLE	LEVEL	OUTSIDER DOMINATED	INSIDER ≥ 50%
Determine Mission	Approves	Corporate	98(197)	
Determine Mission	Approves	Intermediate		100(162)
Determine Mission	Approves	Functional		100(162)
Determine Long Term End Results	Approves	Corporate		100(162)
Determine Long Term End Results	Approves	Intermediate		100(162)
Determine Long Term End Results	Approves	Product Line		100(162)
Determine Short Term End Results	Approves	Corporate	98(197)	
Determine Short Term End Results	Approves	Intermediate		100(162)
Determine Short Term End Results	Approves	Product Line		100(162)
Evaluate External Environment	Approves	Corporate	98(197)	
Evaluate External Environment	Approves	Intermediate		100(162)
Evaluate External Environment	Approves	Product Line		100(162)
Determine Resource Availability	Approves	Corporate	98(197)	100(162)
Determine Alternative Plans	Approves	Corporate		100(162)
Determine Alternative Plans	Approves	Intermediate		100(162)
Determine Specific Plan	Approves	Corporate		100(162)
Allocate Resources	Approves	Corporate		100(162)
Allocate Resources	Approves	Intermediate		100(162)
Develop Contingency Plans	Approves	Corporate		100(162)
Acquisition Activities	Approves	Corporate		100(162)
Acquisition Activities	Approves	Intermediate		100(162)
Acquisition Activities	Approves	Product Line		100(162)
Divestiture Activities	Approves	Corporate		100(162)
Divestiture Activities	Approves	Intermediate		100(162)
Divestiture Activities	Approves	Product Line		100(162)
Determine Operating Plans	Approves	Corporate	98(197)	100(162)
Determine Operating Plans	Approves	Intermediate		100(162)
Determine Operating Plans	Approves	Product Line		100(162)
Monitor External Environment	---	Corporate		100(162)

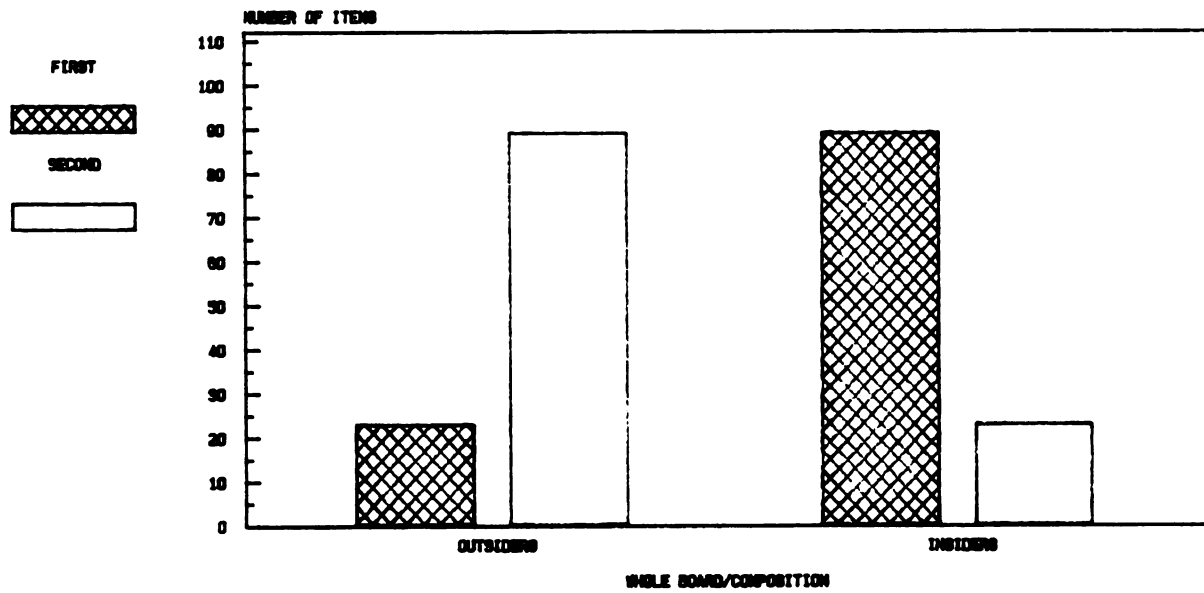


Figure 5-45. Whole Board Involvement; Composition/  
Items-Relative Presence Scores.

Table 5-35. Whole Board Involvement: Composition/Presence Scores -  
Items with Significant Test Results.

ACTIVITY	ROLE	LEVEL	BOARD PRESENCE SCORES		
			AVERAGE	OUTSIDER DOMINATED	INSIDER ≥ 50%
Determine Mission	Determines	Product line	34	80	29
Determine Long Term End Results	Determines	Intermediate	39	80	34
Determine Long Term End Results	Determines	Product line	17	60	12
Determine Mission	Approves	Corporate	96	80	98
Determine Long Term End Results	Approves	Product line	56	100	51
Determine Short Term End Results	Approves	Product line	54	100	49
Evaluate External Environment	Approves	Product line	52	100	47



Items.

The predominance of insider board involvement is further substantiated by the high proportion of items in which insider boards have the greatest participation. There are 28 items, 25% (28/112) of the items, in which 100% of all insider boards are involved (Table 5-34). There is no item in which all outsider boards are involved. Also, the insider board presence scores are higher in almost 80% (89/112) of the items (Figure 5-45). However, only seven items demonstrate presence scores sufficiently different to be considered statistically significant (Table 5-35).

#### Influence Scores.

Board role.

Firms with insider dominated boards apparently leave some strategic planning decision making to be done by the insiders in the interactive environment of the board room. Insider dominated boards are given more opportunity to participate in such decision making than are outsider dominated boards. The outsider dominated boards are more concerned, than insider boards, with reviewing what management believes should be done with regard the strategic planning activities. Apparently insider board members see less advantage to reviewing decisions they and their peers, the firm's management, made at some earlier point in time.

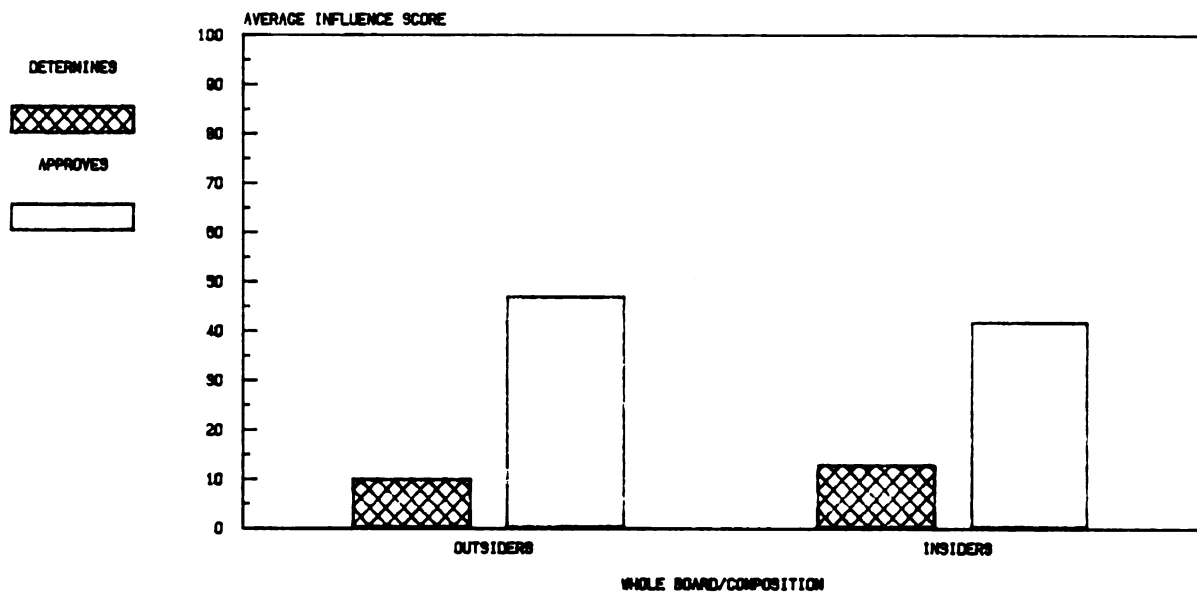


Figure 5-46. Whole Board Involvement; Composition/  
Board Roles-Average Influence Scores.

Table 5-36. Whole Board Involvement; Composition/  
Board Roles-Highest Influence Scores.

DETERMINES ROLE		
ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	19(181)	33(252)
Determine Long Term End Results	14(132)	23(172)
Determine Short Term End Results	14(134)	14(107)
Evaluate External Environment	18(171)	20(149)
Determine Resource Availability	12(119)	---
Determine Specific Plan	---	15(111)

APPROVES ROLE		
ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	49(104)	---
Determine Short Term End Results	---	42(100)
Merger Activities	53(111)	45(107)
Acquisition Activities	58(123)	67(160)
Divestiture Activities	52(111)	63(150)
Determine Operating Plans	51(108)	52(124)

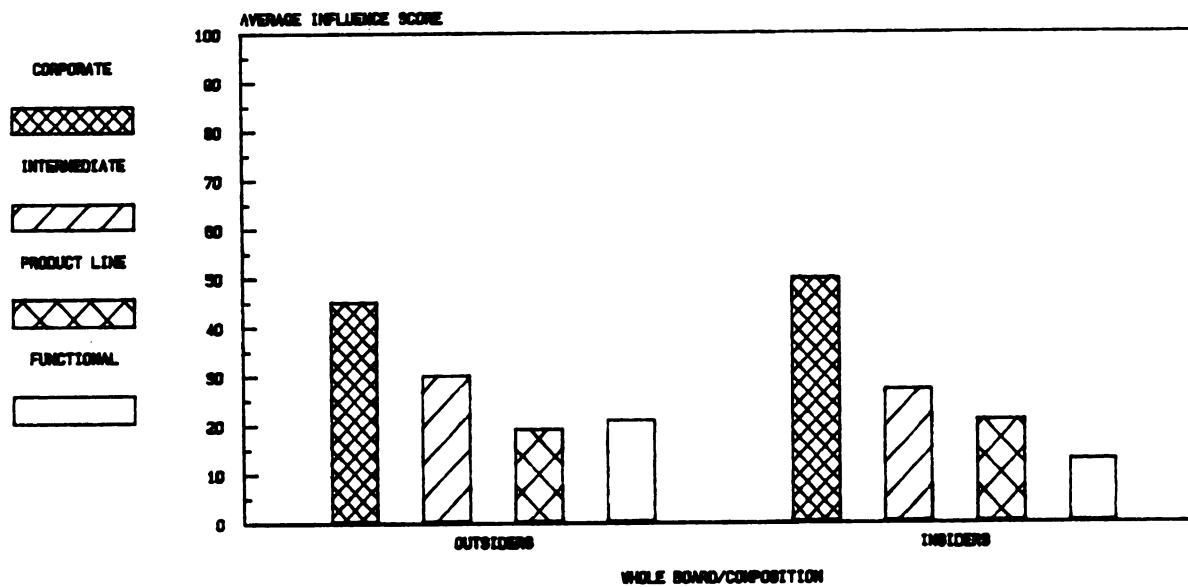


Figure 5-47. Whole Board Involvement; Composition/  
Management Levels-Average Influence Scores.

Table 5-37. Whole Board Involvement: Composition/  
Board Roles-Highest Influence Scores.

## CORPORATE LEVEL

ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	55(122)	65(129)
Determine Long Term End Results	50(112)	57(114)
Determine Short Term End Results	50(111)	---
Evaluate External Environment	50(112)	51(102)
Determine Specific Plan	---	54(108)
Monitor External Environment	51(114)	76(151)

## INTERMEDIATE LEVEL

ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	35(120)	34(125)
Determine Resource Availability	32(110)	---
Acquisition Activities	34(114)	39(143)
Divestiture Activities	33(112)	45(165)
Determine Operating Plans	---	35(127)
Monitor External Environment	33(112)	38(140)

## PRODUCT LINE LEVEL

ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Long Term End Results	---	27(131)
Determine Short Term End Results	---	24(116)
Evaluate External Environment	22(115)	---
Merger Activities	24(124)	24(116)
Acquisition Activities	28(146)	35(169)
Divestiture Activities	26(139)	34(164)
Monitor External Environment	23(123)	---

## FUNCTIONAL LEVEL

ACTIVITY	OUTSIDER DOMINATED	INSIDERS ≥ 50%
Determine Mission	25(121)	---
Determine Long Term End Results	25(121)	---
Determine Short Term End Results	23(110)	---
Evaluate External Environment	27(132)	---
Allocate Resources	---	16(122)
Merger Activities	---	20(152)
Acquisition Activities	---	23(175)
Divestiture Activities	---	18(137)
Monitor External Environment	25(121)	18(137)

These scenarios are suggested by the higher influence scores of the insider boards in the determines role and the higher influence scores of the outsider boards in the approves role (Figure 5-46).

The top activities of each board group in the determines role suggest no particular orientation of either group. The top activities in the approves role suggests a strong financial and organizational orientation for both board groups (Table 5-36). The influence on

1. Merger activities (10.);
2. Acquisition activities (11.); and
3. Divestiture activities (12.)

is directed toward activities that typically involve considerable capital movements and organizational changes.

#### Management levels.

There are no apparent differences between the influence scores of the two board groups which suggest a particular pattern of influence by either board. As was seen with the role scores the level scores tend to be similar for both types of boards at each level (Figure 5-47). The corporate level influence scores are the highest indicating both sets of boards have their greatest influence at that level. The intermediate level is the level of second greatest influence.

The activities that each board type includes among the five in which it expresses its greatest influence tend to be similar at each level except the functional level (Table 5-37). At the functional level the insider board is more financially oriented;

1. Merger activities (10.),
2. Acquisition activities (11.), and
3. Divestiture activities (12.)

are among the top three activities which these boards influence.

It is interesting to note that there are no activities which are common to both subpopulations across all levels. The outsider boards have the only common activity across the four levels. It is external environment monitoring (14.).

These data contain no findings that could be considered unique.

Items.

Although the outsider dominated boards have higher influence scores in 56% (63/112) of the items the insider and outsider boards are similar to one another (Figure 5-48). There is only one item in which the influence scores are significantly different (Table 5-38). Also the top items in each whole board category are similar (Table 5-39).

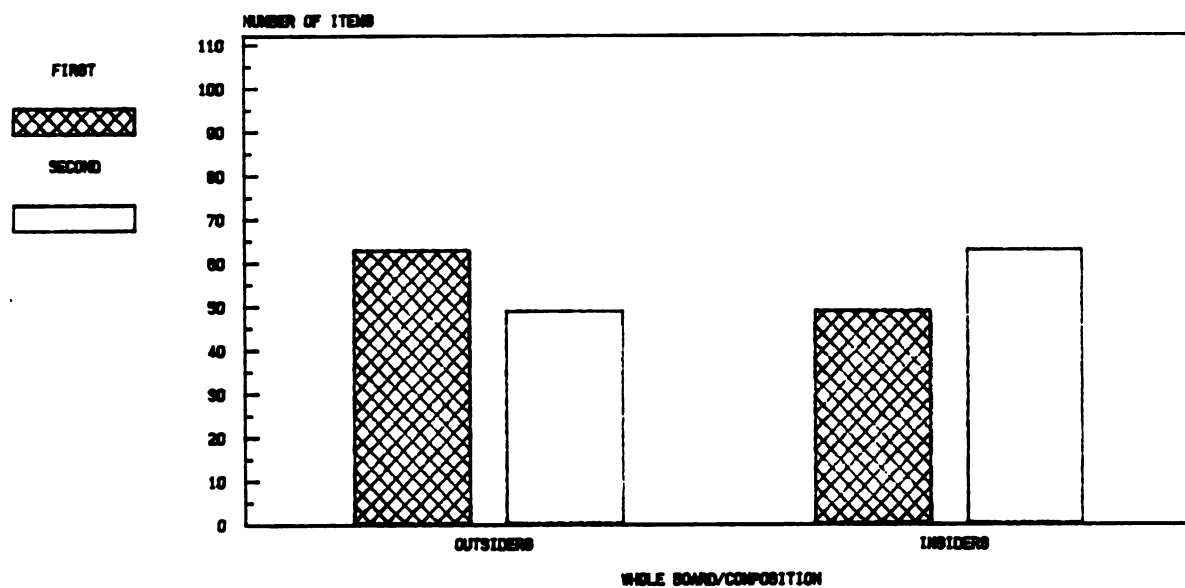


Figure 5-48. Whole Board Involvement; Composition/  
Items-Relative Influence Scores.

Table 5-38. Whole Board Involvement; Composition/Influence Scores-  
Items with Significant Test Results.

ACTIVITY	ROLE	LEVEL	BOARD INFLUENCE SCORES		
			AVERAGE	OUTSIDER DOMINATED	INSIDER $\geq$ 50%
Determine Mission	Determines	Corporate	36	74	32

Table 5-39. Whole Board Involvement; Composition/  
Items-Highest Influence Scores.

ACTIVITY	ROLE	LEVEL	OUTSIDER DOMINATED	INSIDER $\geq$ 50%
Determine Mission	Approves	Corporate	76(265)	
Determine Mission	Determines	Corporate		74(270)
Determine Long Term End Results	Approves	Corporate	74(256)	
Determine Short Term End Results	Approves	Corporate	73(255)	74(270)
Acquisition Activities	Approves	Corporate	79(276)	
Divestiture Activities	Approves	Corporate		82(299)
Divestiture Activities	Approves	Intermediate		74(270)
Determine Operating Plans	Approves	Corporate	79(276)	