

**Strategic Management for Competitive Advantage**  
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**Lecture – 41**  
**Strategic Management Role and Style of the Board**

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The slide features a blue and white design with the NPTEL logo at the top. The text is centered and reads: NPTEL ONLINE CERTIFICATION COURSES, Strategic Management for Competitive Advantage, Prof. Sanjib Chowdhury, Vinod Gupta School of Management, IIT KHARAGPUR. Below this, it specifies Module 13: Corporate Governance and Lecture 41: Strategic Management Role and Style of the Board.

**NPTEL ONLINE CERTIFICATION COURSES**

**Strategic Management for Competitive Advantage**  
Prof. Sanjib Chowdhury  
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**Module 13: Corporate Governance**  
Lecture 41 : Strategic Management Role and Style of the Board

**CONCEPTS COVERED**

- Corporate Governance and Management
- Roles, responsibilities and power of Board of Directors
- **Strategic Management Role and Style of the Board and Top Management**
- Composition, structure and size of the board
- Keys to improve the Board Effectiveness
- Board & Directors' Performance Evaluation
- Code of conduct, code of business ethics, and corporate governance code
- Gist of various Committee Reports on Corporate Governance

Welcome to the course Strategic Management for Competitive Advantage. Continuing with the last lecture, we will discuss the Strategic Management Role and Style of the Board and Top Management today. The concepts covered in this are the Strategic Management Role and Style of the Board and Top Management. So, let us go through it.

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13. Corporate Governance

➤ Strategic Management : Role of the Board

BoDs, in terms of Strategic Management, has three basic tasks (Bacon and Brown):

- To initiate and determine (Board can delineate org. mission, specify strategic options)
- To evaluate and influence (examine mgmt. proposal, decision, suggest alternatives)
- To monitor (through committees)

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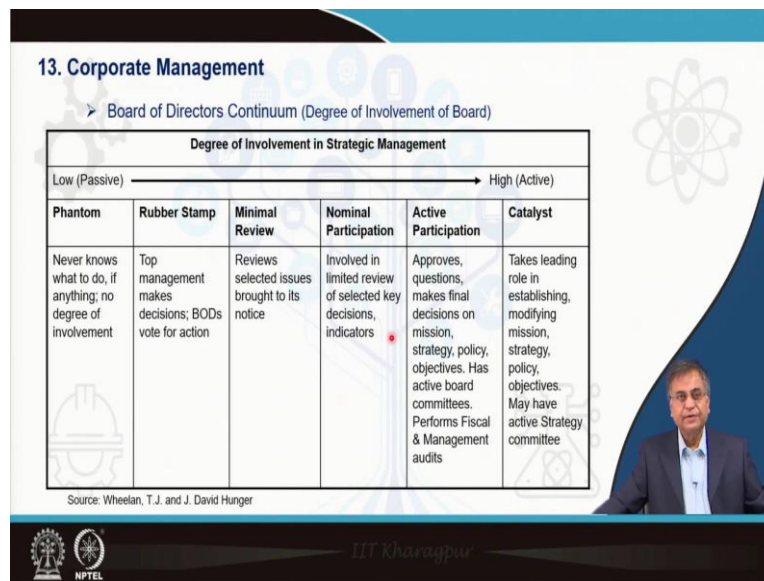
So, what is the Strategic Management: Role of the Board? The BoDs, in terms of Strategic Management, have three tasks according to Bacon and Brown, and what are these three tasks we will discuss? The first thing is for BoDs to initiate, determine broad, and determine what it means. So, the board can delineate the organization's mission, objectives, long term goals. They can do that and specify certain options or look for the existing ones, further deep drive into them, and give suggestions for improvement.

So, these initiate and determine the meaning task of the board of directors. Next is to evaluate and influence. So, what do they do? It means that BoDs can examine Management's proposal, decision, and action. They can examine that and may agree or may disagree If required; they can further probe into it and give suggestions for an alternative course of action. These are the tasks called to evaluate and influence.

Then lastly to monitor how BoD monitors the managerial functions. All this is done through committees; BoDs can form many standing committees, such as the CSR committee, quality control committee, maybe the remuneration committee, risk management committee, then the finance committee, audit committee, and remuneration committee.

So, though there may be many committees, they can form, and through these committees, they can call for any information and the top executives or the top Management for interactions. So this way, they can monitor the functioning of the organizations. So, these are some of the three basic tasks regarding the Strategic Management Role of the Board of Directors.

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Next, look at this diagram. This figure is a Board of Directors Continuum, and here it is this Continuum. It is based on the Degree of Involvement of the BoDs in Strategic Management Activities. So, if you see the left side, the extreme left is the low Involvement of BoDs. They are the passive BoDs, and as you go right, the Involvement increases, and the extreme right is the highly involved BoDs called Active BoDs. The Degree way of Involvement varies. They are categorized as different types of BoDs, say the Phantom BoDs. What is it they never know? Board members never know what to do. If anything no degree of Involvement. So, they are Phantom.

So, a bit better is called Rubber Stamp here. Top Management makes a decision. BoDs vote for action. They are only alive at the meeting. So, these are the Rubber Stamp BoDs. So, then the minimal review that involvement is review selected issues brought to its notice.

So, these three left are the passive BoDs you will find mainly in the private sector and family-owned businesses, and you will find mostly these passive BoDs; as you go to the right, the Involvement of BoDs increases. Nominal Participation is involved in the limited review of key decisions and indicators.

Then Active Participation approves questions and makes final decisions on mission, strategy, policy, and objectives. Has active board committees. Perform the functional Fiscal and Management audits, and Catalyst is highly active, taking a leading role in establishing and modifying mission, strategy, policy, and objectives. They may have an active strategy committee their BoDs may have.

So, the so, very excellent companies you will find are mostly having these Catalyst BoDs participate, they participate BoDs participate along with the Top Management for policy decisions and all and actively contribute to the growth of the cause of the organizations. So this is called the Continuum Board of Directors based on the Degree of Involvement of the Board.

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13. Corporate Governance

- Role of Top Management
  - Leadership and Direction
  - Vision and Standards
  - CEO - Strategist, org. builder, Decision maker
  - Co. performance, Monitor
  - Focus differs in small & large Cos.

The slide features a background with a stylized tree of icons representing various business functions. In the bottom right corner, there is a small video inset of a man in a suit. The bottom of the slide has a dark blue banner with the IIT Kharagpur logo and NPTEL text.

Next, we will be talking about the Role of Top Management. So, long we have discussed the Role of the Board of Directors, the Top Management is the internal functionaries of the organizations they run. So, what should be their role? This role should not conflict with the BoDs, so it should be a clear-cut mission like.

So, the Role of Top Management is Leadership and Direction, like directors and internal directors. The CEOs of the organization give the business leadership or the leadership or corporate leadership to and the directions to the organizations. They set the Vision and Standards for the organization to attain, and those standards and all they said. The CEO role is very delicate, and the CEO is a Strategist for the organization. He is the top strategist and the organizational builder and has to make his team.

So, they pursue those to achieve those long-term goals and objectives, and he is the Decision maker's main Decision maker. From him, everything percolates throughout the organization down the organizations. So, the CEO's role is very important for an organization, and the CEO is responsible for the performance of the company he has. That is why he has to constantly monitor how the organization's performance and activities are going.

So, he is the CEO, thus the success of their strategy success if organization successes then that CEO is responsible for that also. If it fails, then who is accountable CEO is accountable for that. If the strategy fails if the performance is not good CEO has to answer it. So, the role of the top Management is very important. So, the focus differs from top Management focus in a small company and large company focus.

In a small company, your focus can be very concentrated, and your business volume is less than your business lines. Product lines are also fewer, and you can concentrate more on it, but the large companies' focus has to be broad-based, so it differs. So, these are the Role of Top Management.

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13. Corporate Governance

► **Functions of Top Management (Reilly)**

- Set objectives of business
- Establish policies
- Assign responsibility
- Select and develop key personnel
- Measure and evaluate result and performance
- Stimulate creative thinking

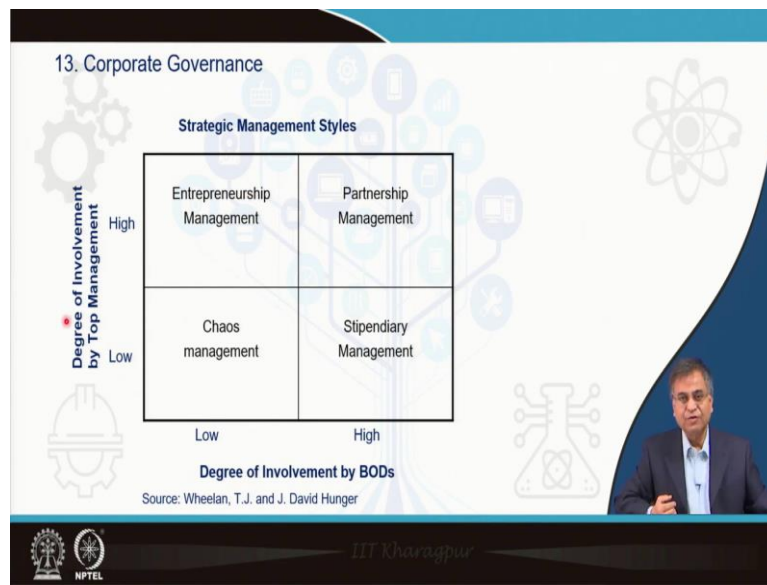
The slide features a background with a tree diagram where the trunk and branches are composed of various business-related icons like gears, charts, and documents. In the bottom right corner, there is a small video inset showing a man in a suit speaking. The bottom of the slide has a dark blue banner with the IIT Kharagpur logo on the left and the text 'IIT Kharagpur' in the center.

Then what are the Functions of Top Management? As suggested by Reilly, the functions of Top Management are this: Top Management should set the businesses and top-level objectives. So, it is also set or Established the policies organizational policies have to be developed or formulated by the Top Management, also Assigning responsibility to various groups and various individual managers. So, this is another essential function of the Top Management.

Then Select and develop key personnel the succession planning the in the future who will be the potential CEOs or directors or the functional group heads. So, they must select and groom those key personnel over the years. So that they are they can shoulder higher responsibilities in the future.

Then Measure and evaluate results and performance. The Top Management should constantly evaluate the performance and results of various groups, organizations, managers, key managers, and employees. They have to look at it, and then they are also responsible. Other duties are Stimulating creative thinking by stimulating innovative thinking and fostering a culture of innovation and creativity. So, these are some of the functions of Top Management.

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So, next, what we will be discussing is going through this diagram. Then I will discuss it in detail. This is a Strategic Management Style, and this is called Strategic Management Style. This is based on the Degree of Involvement of BoDs and the Degree of Involvement by Top Management. You have seen in the few slides back that based on the Degree of Involvement of BoDs, and the BoDs are categorized as Phantom, Rubber Stamp, Minimal Participations to the highly Active Participations and Catalyst BoDs.

So, here the said Degree of Involvement of BoDs may be low or high. Similarly, the Degree of Top Management involvement may be lacking and high. Now what is the best scenario for an organization to prosper or grow? It should be a high degree of Involvement by the BoDs and a high degree of Involvement by the Top Management. If it happens, this quadrant is called Partnership Management. So, here the BoDs are Catalyst, and the Involvement of Top Management is also very high.

So, you are sure it may be sure that organizations will grow faster and will do excellent in the business or competitive advantage and all those things. This is called Partnership Management. Now if the Degree of Involvement of BoD is high but the Degree of

Involvement of Top Management is low, this is called Stipendiary Management. What does it mean, and why does it happen?

Now, here is Stipendiary Management. Why does this Top Management involvement is low? This is because when the BoDs are reluctant to give the given space to the Top Management. BoDs here are highly involved and do not want to give the strategic decision makings to the Top Management. They do it themselves and pass the order to Top Management to do that operation.

So, here Top Management is the CEO and acts more as a COO and Chief Operating Process Officer. Why does BoD are highly involved? This is the case of those BoDs, which are very powerful, like they have a high stake, high financial stake involved in their supposed family-owned businesses. They do not want some companies do not want to delegate the decision-making power.

So, they decide themselves, and the CEO makes that decision. So, more of like a chip operating officer, this is called Stipendiary Management. Even for small things, it is said that to change the deciding colour of the office building, the CEO has to take the permissions and all from the BoDs. So this is the calls Stipendiary Management.

Now what is Entrepreneurship Management? Here Degree of Involvement of BoDs is low, but the Involvement of Top Management is high. This is Entrepreneurship Management, and here BoDs are willing to be a rubber stamp. BoD they are eager to be a rubber stamp, and the Top Management is very powerful. Top Management takes the decision all strategic decisions and all they do, and BoDs vote it and approve that that is all.

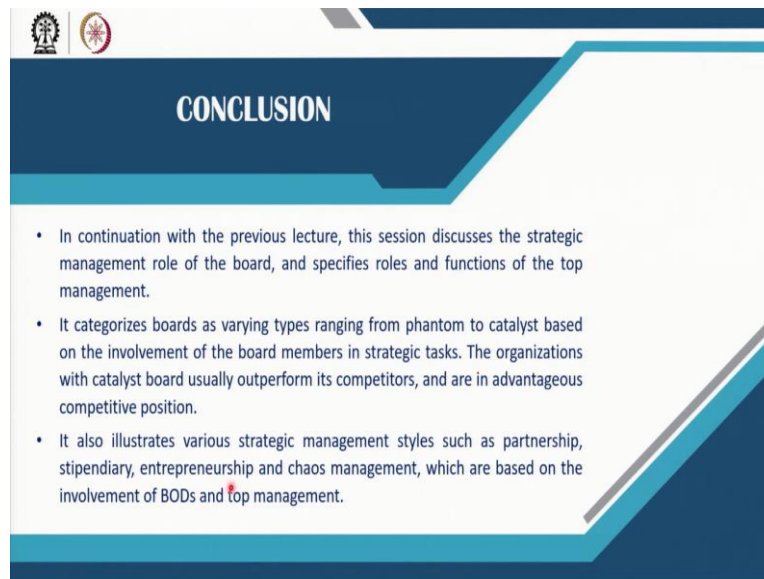
So, some companies prefer these where those CEOs and the Top Management they wanted to take decisions and all so that BoDs do not question. Some companies choose this situation. This is called Entrepreneurship Management.

Now, when this quadrant is called Chaos Management, the Degree of Involvement of BoDs is low, and the Degree of Involvement of Top Management is common. So, what does it mean no one is concerned with the organizations? So, organizations are drifting. It means there is no strategic plan in the organization. It is just going on the whatever was being done in the past it is going on, on that line. So, they do not feel that there is a need to change it; they have the opinion say if the founding father of the organization followed this course of action or this path.



So, if that was successful in the past, why not? It will be successful now. So, maybe the Founding Father was a powerful personality and strong industrialist. So, you can find many family-run businesses and all like this. I can give you some examples, but I would not cite the name. So, this. So, they prefer to go like that. So this is called Chaos Management means the organization do not have any strategic plan worth considering. These four styles of Strategic Management are based on the Degree of Involvement of BoDs and Top Management.

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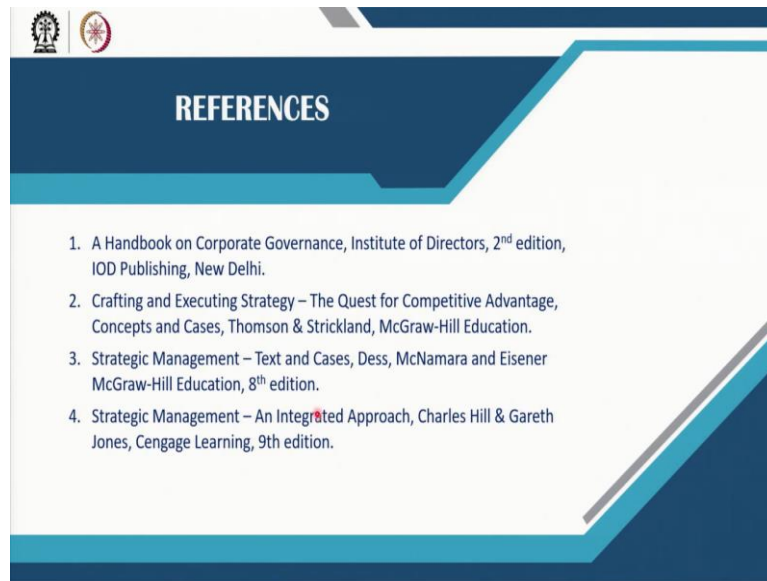


Then to summarize this session, we can say we have learnt that in this session, we discussed the strategic management role of the board and specific roles and functions of the top Management, we have discussed it and learnt it. Now, we have also seen how to categorize boards as varying types ranging from Phantom to Catalyst, based on the Involvement of the board members in the strategic task.

Organizations with catalyst boards usually outperform their competitors and are in advantageous competitive positions. We have also shown various strategic management styles, such as partnership management, stipendiary Management, entrepreneurship and chaos management, based on the Involvement of BoDs and top Management. So, these are the summary of today's discussion.

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Now, I will show you some references. Say Handbook of Corporate Governance This is a very useful book, then Crafting of Executing and Executing Strategy by Thomson and Strickland. The other books are Strategic Management by Dess and Strategic Management Integrated Approach by Charles Hill and Gareth. So, these are the references you can go through and enrich yourself further. Thank you very much for attending.