Boards of Directors and Strategy: Evidence from Developing Countries

Autoria: Sérgio Nunes Muritiba, Patricia Morilha Muritiba, Maurício José Serpa Barros de Moura, John Lawrence French, Eduardo Vasconcellos

Abstract

In developing countries, governance systems are still recent, or practically non-existent (Shleifer & Vishny, 1997). For this reason, the way their boards behave is not yet clear to the firms in these countries. For foreign investors, the lack of governance structures may represent a risk because it jeopardizes the good corporate governance of the enterprises operating in such regions. With a goal of contributing to this discussion, this study analyzes the involvement of the board of directors in the strategy of enterprises located in developing countries. The study is guided by the following question: In developing countries, what is the difference between the board of directors' current level and its ideal level of involvement in company strategy? Based on the theory of the role of the boards of directors, we present the results of a survey with 32 firms from 19 developing countries. The businesses were chosen among those widely known by international investors, including multilateral financing agencies and commercial banks. Respondents were the chairman of the board of directors or, in some cases, a senior manager referred by him. The results presented show that the European boards have the highest degree of involvement in firm strategy. Although this is seen as favorable in the literature and by this study's participants, one has to consider that in some European countries, particularly in Russia, a high ownership concentration persists in organizations, and owners tend to become very involved in firm management. This can be seen as harmful to governance. Thus, it is necessary to analyze not only the degree of strategic board involvement, but also why that involvement occurs and how it is being conducted. In Asia, the main specific characteristic influencing the board's performance is the high level of government involvement in corporate management. This fact was regarded as harmful to governance, both in the literature and in the results of this study. In Latin America, the predominance of family groups with high ownership concentration also emerges, aligned with the fact that this is the region with the second highest degree of board involvement in firm strategy. However, the reasons here emerge more clearly as being related to governance rules, which in these countries are influenced by both the Anglo-Saxon model and the norms of specific countries. The evolution of the question of board involvement in firm strategy seems to be moving toward a redefinition of the board's role and toward the establishment of international governance rules and standards. Following a trend already pointed out in the literature, this study shows that the level of board involvement enterprises consider to be ideal is still higher than the current one. Findings point to a possible increase in the degree of strategic board involvement in the future.

INTRODUCTION

The board of directors is the body responsible for an enterprise's overall well-being, with authority to supervise the management (Maharaj, 2009). A number of studies have established that the formation, composition and the modus operandi of the board of directors influence firm performance (Abdelsalam, El-Masry, & Elsegini, 2008; Ingley, Van der Walt, & Zealand, 2005; McIntyre, Murphy, & Mitchell, 2007).

The board's role ties in with sound corporate governance principles in enterprises. Because governance is a management mechanism entailing collaboration among shareholders, top management and the board (Chalhoub, 2009), their involvement in firm management constitutes an integral part of this mechanism.

Thus, in addition to analyzing the demographic composition of the boards of directors, studies on corporate governance also need to further investigate the behavioral aspects of the board's action in organizations (Forbes & Milliken, 1999). To some extent, the board's involvement in the strategic management process influences organizational culture, which may be conducive to an environment more favorable to compliance with corporate governance rules and codes (Lightle, Baker, & Castellano, 2009).

The way board members involve themselves in firm strategies has proliferated as a topic of research over the years; yet, little evidence exists about how they become involved in firm strategy (Pugliese, et al., 2009). Inquiries about this theme occur not only in the literature, but also within organizations—with little consensus still—about the extent to which board members should become involved in strategies and how this should occur.

Much of the evidence found about this topic refers to the reality of economically developed countries, which already possess more developed corporate governance codes to regulate the board's action.

In developing countries, governance systems are still recent, or practically non-existent (Shleifer & Vishny, 1997). For this reason, the way their boards behave is not yet clear to the firms in these countries. For foreign investors, the lack of governance structures may represent a risk because it jeopardizes the good corporate governance of the enterprises operating in such regions.

With a goal of contributing to this discussion, this study analyzes the involvement of the board of directors in the strategy of enterprises located in developing countries. The study is guided by the following question:

> *In developing countries, what is the difference between the board of directors' current level and its ideal level of involvement in company strategy?*

We present the results of a survey with 32 firms from 19 developing countries. The businesses were chosen among those widely known by international investors, including multilateral financing agencies and commercial banks. Respondents were the chairman of the board of directors or, in some cases, a senior manager referred by him.

This study analyzes, therefore, both the current degree of involvement of board members in the strategy of enterprises and the level that board members deem ideal.

As for qualitative contributions, we surveyed board members' advice on how to improve firm governance in developing countries and on governance trends they expect to see in such firms in coming years.

The analysis is conducted in two sections. The first analyzes countries by their geographic regions: Asia, Europe, Latin America and Africa. This type of analysis furthers our understanding of the governance systems in force in each of these regions. It is worth underscoring that countries within the same region, like China and India, have different governance systems in several aspects (Rajagopalan & Zhang, 2008). However, governance systems of geographically close countries are influenced by the characteristics of each region,

which this study uses in the analysis of the results obtained. The second section addresses the countries as a group, regardless of their region, and seeks to know the defining characteristics common to enterprises with similar involvement levels.
Next we present an analysis of studies on corporate governance in developing countries and, following that, the results of the quantitative survey.

THEORY AND HIPOTHESIS

The involvement of boards of directors in developing countries has been little analyzed in the current literature (Ogbechie, Koufopoulos, & Argyropoulou, 2009). However, analyzing this topic entails understanding some aspects of these countries, such as their economic and political models, sound governance practices and the enterprises' characteristics.
Even the corporate organizational model can have different approaches. On the one hand, the Japanese-German corporate model is characterized by the presence of large investors with a significant number of shares, and a closely monitored management. Theirs is a pyramidal structure, and these investors are normally financial institutions and large enterprises, as opposed to family structures (Allen & Gale, 2001). The Anglo-Saxon model is characterized by enterprises with dispersed ownership among various shareholders. A shareholder's individual power is weak due to the small parcel of ownership. Only this duality of choices, which differ in countries from different regions, helps one analyze the involvement of board members, because in the Japanese-Germanic model, for instance, the board tends to centralize most of the strategic decisions (Kriger, 1988).
Developing economies constitute 8 of the 20 largest economies worldwide. They are growing at a speed up to three times higher than that of developed economies. Due to this continuing growth, the global economy is clearly undergoing one of its biggest structural transformations ever. Even the most conservative predictions reach the conclusion that, in 2025, the combined GDP of the 8 biggest developing economies will be as significant as—or higher than—that of the eight biggest developed economies. By and large, developing countries are defined as those the World Bank lists in the average and low-income categories. Among these, the so-called BRIC group—Brazil, Russia, India and China—stand out as the four economies with the largest growth today. The present study surveys data from firms in 19 of these countries.
Studies about corporate governance in developing countries are still rather rare when compared with the literature concerning the reality of developed countries. A survey of the international literature using Proquest databases and the topic "corporate governance" returned, in October 2009, a total of 372 hits, among which 135 (36%) are articles addressing the Chinese reality. Other countries, such as Mexico, which is being considered as a possible addition to the BRICS, were covered in only 18 studies in this survey. This survey does not take into consideration the national literature of these countries, which probably presents much more significant developments in the analysis of the corporate governance issue. However, one can verify that for many developing countries, the analysis of corporate governance—and even of governance mechanisms—is still a topic of growing demand.
The analysis of international theoretical studies on governance in developing countries showed that they share several aspects, despite important local features.

Latin America. Latin America's corporate governance has been deeply influenced by North American legislation. In Mexico and Colombia, for instance, there was a great development of norms covering all aspects of the formation of the corporation and its governance. Chile and Argentina also made adjustments to their norms as a result of North American legislation. In Brazil, the main change was the creation of special listing segment (New Market) of the Sao Paulo Stock Exchange—BM&FBovespa—which brought significant improvements to Brazil's corporate governance.

One of the main characteristics of Latin America's governance reform is the acknowledgement of the problems that affect the region's enterprises, and of the differences between these problems and those faced by North American enterprises. The Sarbanes-Oxley Act, for instance, was designed to protect shareholders from the agency problem— that is, the separation between ownership and control (Fama, 1980), when ownership is pulverized, with shareholders that seldom own more than 5% of the firm (IFLR, 2007; Machuga & Teitel, 2009; Maldonado, 2002). The situation for most listed enterprises in Latin America is completely different. Controlling shareholders have on average 60% to 70% of voting rights. In various regions, small- or middle-sized enterprises controlled by families predominate, (Bedicks & Arruda, 2005). Few enterprises are really publicly owned, i.e., enterprises without a controlling stockholder. Such enterprises are usually either family enterprises with some capital dispersion or a result of the privatization process.

Thus, the focus of governance reforms in Latin America has tended toward the protection of minority shareholders with relation to controllers. Many of these minority shareholders do not have voting rights to elect the board of directors. The question is also cultural, because minority shareholders often do not show interest in participating in board meetings and electing their representatives (Saito & Dutra, 2006).

Studies conducted with boards of directors of Brazilian enterprises showed the need for improvements of their profiles. For instance, boards' procedures are seldom formalized; they are generally too big or too small. Less than 21% of the board members are independent, and only 2% of them are elected by groups of independent shareholders (Leal & Oliveira, 2002).

Even though Latin America's political system is not characterized by a strong governmental interference in the management of organizations, as is Asia's, it is, on the other hand, characterized by democracies that, in various countries, suffered corruption scandals. This is a factor that Mexico has taken into consideration in building the country's codes of best governance practices (Lori Verstegen, 2005).

Africa. The African continent presents a great diversity of ethnic groups, cultures and political systems. Thus, the analysis of corporate governance in Africa has to consider economic, social and political problems, and, in this sense, each of its countries has unique characteristics (Charles, 2004).

Previous studies in African enterprises have showed that boards of directors do not have a high number of independent members, although ownership concentration is, in many cases, dispersed. Also, there are several cases of firms whose majority shareholders do not live in their own country, for social and political reasons, which leads to a geographic dislocation of the firm's shareholders and, often, of the board (Kyereboah-Coleman, 2007).

Most existing studies treat South Africa, due to the country's leading position in the continent. Governance reform in the country has been notable since the fall of the apartheid in 1994 (Vaughn & Ryan, 2006).

In Nigeria, after the change of government in 1999, the economic policies have aimed to attract foreign investments. Although Nigeria has tried to adopt global corporate governance standards, its code of good practices was adapted to reflect its peculiar social, economic and political situation. However, Nigeria's government, like those of other African countries, presents various cases of corruption, a fact which the organizations' corporate governance reflects (Elewechi, 2007).

In Tunisia and other African countries, there is evidence that enterprises have shareholders who concentrate a good portion of the shares, often including families (Mehdi, 2007). As for publicly owned enterprises, they adopted some principles of the Code of Best Practices and, as a result, the board of some enterprises started to become more intensively involved in strategic decisions (Ogbechie, et al., 2009).

Thus, the analysis of African governance shows that first, differences exist in the codes and practices adopted in different countries. Second, many enterprises on the African continent have adopted internationalized best practices codes, partly because their majority shareholders live outside the country and experience external influences. Other enterprises eventually count on governance codes adapted to the local reality—which includes ownership concentration, relative non-independence of the boards, a society exposed to poverty and a situation of government corruption. However, even with all this information about the African continent, details of its firms' governance codes and practices are still little studied in the literature, particularly the international literature.

Asia. Governments are important players in the Asian economy. They act like a regulatory entity, like shareholders and also like those who would secure economic growth. The underlying effects of this fact on corporate governance are controversial. Some experts argue that they are not necessarily bad, insofar as Asia has reached high growth rates. However, other arguments consider this influence harmful at the organizational level, because since governments act as shareholders, but without becoming very involved in the enterprises' strategies, they end up harming firms' corporate governance (Victor, Sonja, & Sonia, 2007; Washington, 2003).

Although some governments may exert this harmful action to Chinese governance, the State structures the concern with codes of governance and compliance with laws in the country. When the Communists took power in 1949, China changed itself to expand its capital market and expose itself to the discipline of the international capital market. From then on, the government started to recognize the importance of corporate governance and develop national laws and norms to ensure its improvement (Doreen, 2007).

In August 2001, the China Securities Regulatory Commission (CSRC) expressed its guiding opinion on the establishment of an independent director of the system in listed enterprises. All enterprises listed in the Chinese Stock Exchange (but excluding Chinese enterprises listed abroad) were to regulate internal corporate governance through the institution of an independent director (Donald, 2006).

Two common features of Asian jurisdictions are a high concentration of ownership of national governments and families operating complex business structures (K. David & Phillip, 2005; Gang & Mingzhai, 2008; Huang & Orr, 2007). Thus, for instance, in relation to a country like China, despite its strong performance, internal issues directly affect investments (F. David & Sandhla, 2008).

Recent studies show that some factors may harm the country's governance. These include: a lack of incentives for board members; concentrated power in the hands of few shareholders; underdeveloped systems of external surveillance; and lack of qualified human resources to act as independent directors (Rajagopalan & Zhang, 2008). These difficulties make one consider the board of directors' role in meeting, supporting best management practices, productivity, efficiency and the good functioning of the firm to be unsatisfactory (Khan, 2006). Restructuring publicly owned firms through improvements to corporate governance is more efficient (Lin, Ma, & Su, 2009).

In the case of India, the country has made strides towards adapting an Anglo-American model of corporate governance (Mukherjee, 2002). India's difficulty implementing it and complying with this multitude of new rules corroborates the argument that global convergence is limited, and that conveying ideas from one system to another is highly complex and difficult. Such a process requires political, social and institutional changes that cannot be easily implemented (Afsharipour, 2009).

Europe. In Europe, the principal country considered as an emerging country is Russia. It has a relatively short history of corporate governance, and bonds play a less significant role, when the country is compared to the West (Anatoly & Vladimir, 2005).

As with firms in other regions of the world, Russian enterprises are characterized by a high level of ownership concentration (Dolgopiatova, 2007). There is also a high involvement of majority shareholders in the administration of enterprises, to such an extent that families often run organizations.

Due to these hindrances, Russia's corporate governance has tended towards a unique model (McCarthy & Puffer, 2002). It follows neither the Japanese-Germanic nor the Anglo-Saxon model (unlike China, for instance, where governance reform tends towards the Anglo-Saxon governance model), as seen in recent studies (Chen, 2009; Daniel & Sheila, 2002).

The need for comprehensive organizational and technological restructuring of enterprises led to a new proposal of concentrated ownership structure. The formation of this type of structure in the late 1990s (which occurred, in fact, counter to the government's activities) created the preconditions not only for extending the time horizon of dominant owners and managers, but also for positive qualitative changes in the relations between major Russian companies and their shareholders and investors (Andrei, 2004).

Investors' main concerns with corporate governance include a high involvement of shareholders in enterprise management, the publication of poor financial reports and a lack of regulatory compliance (Darek, 2006).

Corporate governance is best developed in other developing European countries, such as Turkey. Nevertheless, some key issues, including the potential inequality in the treatment of minority shareholders, emerge as factors for improved governance, as well as improved reports (OECD, 2006).

Hypotheses

The analysis of the studies presented about governance in emerging countries generated little information about the board of directors' involvement in strategy, which signals that the theory is still silent about this topic.

A few features of the governance systems of the countries analyzed, however, are factors that directly impact the way boards act. These countries have in common, for instance, high ownership concentration, which influences the role of the board of directors, insofar as the board starts to represent a smaller body of shareholders. Another characteristic common to these countries is the recent adoption of corporate governance models, which are still undergoing reforms and adaptations.

Nevertheless, despite the common characteristics among developing countries from different regions, there are important differences among them. For instance, in analyzing Asia, one notices that the political, social and, consequently, governance systems of India and China are very different. The same occurs when Russia and other European countries are compared.

These characteristics of the governance systems in developing countries influence the way the boards of directors become involved in strategy in these regions. Considering the theoretical body of work on governance in developing countries, we begin with two hypotheses based on existing theory:

> *Hypothesis 1: A firm's ideal level of involvement in strategy in developing countries is superior to the current level.*

A good portion of the studies here presented on governance in developing countries pointed to the newness of the governance systems in developing countries and to the still obscure role boards play. Thus, one can assume that the board members in these countries will tend to point out ideal levels of involvement superior to current ones.

Studies also showed differences in the governance systems adopted in different regions. Corporate governance systems regulate characteristics of the board of directors and are influenced by a country's social, economic and political system. Thus, the second hypothesis of this study assumes that:

Hypothesis 2: Developing countries with different characteristics in their governance system present distinct degrees of board involvement.

This hypothesis is based on the premise that similarities exist between the governance systems of countries within the same region. Countries from Europe, Asia, India and China tend to possess governance systems with local characteristics due to the influence of their political and economic systems (Daniel & Sheila, 2002), but they are also influenced by neighboring countries, thereby tending to have various characteristics in common and follow similar models (Bedicks & Arruda, 2005; Betts, 2002; Enriques & Volpin, 2007; Golstrokeogonbiowska-Tataj & Klonowski, 2009).

On the other hand, although situated in different countries, two firms' boards could have similar involvement in strategy, resulting from characteristics other than the governance system. In analyzing a group of enterprises, one can try to explore which characteristics these are. The third hypothesis of the study is:

Hypothesis 3: There are characteristics common to enterprises in developing countries with similar levels of board involvement in firm strategy.

This hypothesis will be tested through the analysis of conglomerates among the enterprises studied.

METHODOLOGY

This is a quantitative study, aimed at testing theories and exploring relationships among variables (Creswell, 2008).

The body of the study is composed of enterprises in developing countries listed in the stock exchanges with a larger amount of capital concentrated in the shareholders' hands. We considered as developing countries those classified as such by the World Bank (The World Bank, 2009). These enterprises are widely known by international investors, including multilateral financing agencies and commercial banks.

With the support of an institution from the financial sector that asked to remain anonymous, we sent a questionnaire to some 300 firms that fit these conditions. A total of 32 questionnaires, or 10.6%, were returned. Part of the justification for this return concerned the impossibility of following up on the answers and the respondents' high hierarchical level. The questionnaires were answered by the chairmen of the board of directors of these organizations, or by a board member they appointed. This is a non-probabilistic sample because there was no control of respondents or a stratification based on the profile of the body of enterprises.

The questionnaire used for the survey comprised six closed questions and two open-ended questions.

To compose the data-collection tool, we mostly used scales already validated by other instruments. A summary of the questions asked in the questionnaire is shown in Picture and, for each one of them, the scale used and how it was validated.

Picture 1—Questions of the instrument, scales and validation

Question	Type	Validation	Scale
1 In your firm, to what extent is the board of directors involved in the process of corporate strategy management? Please grade from 1 to 10, with 0 meaning "no involvement" and 10 meaning "highest involvement possible."	Closed	Siciliano (2008); Muritiba (2009)	Reason
2 In your firm, what are the three main reasons for the degree of involvement mentioned in question 1?	Open question; converted into categories after analysis		
3 In your opinion, to what extent should boards in general (not specifically your firm's) ideally become involved in the process of corporate strategy management? Please grade from 1 to 10, with 0 meaning "no involvement" and 10 meaning "highest involvement possible."	Closed	Muritiba (2009)	Reason

4 If you could advise boards from other enterprises on what they should optimally do to improve their participation in corporate strategy, what would be your top two suggestions?	Open-ended question; converted into categories after analysis		
5 In your opinion, what will future trends be for the involvement of the board in the process of corporate strategy management? Please mention two trends you believe firms will adopt in the future.	Open-ended question; converted into categories after analysis		
6 Regarding the seven growing levels of strategic board participation, choose the alternative that best represents your firm's current level of board participation in strategic decisions: (choose only one alternative)	Closed	Muritiba (2005)	Categoric
7 Sector that best applies to your firm	Closed	Categories of stock markets	Categoric
8 Total number of employees in your firm	Closed	—	Reason
9 Your firm's country	Closed	Secondary data	Categoric

Through Picture 2 we can see that questions 1, 3 and 6 were based on questionnaires already used by Siciliano (2008), Muritiba (2009) and Muritiba (2005). To classify the sector, the stock market codification was used. The remaining questions were open-ended - 2, 4 and 6, or of common knowledge - 8 and 9 - and, for this reason, did not require tested scales. Note that the firm's country was identified by the respondent (question 9), but later checked by means of secondary data, so that only enterprises fitting the criteria of this study were included in the sample.

More specifically, the technique described by Ward (Hair Jr, Anderson, Tatham, & Black, 1995) will be applied. This technique consists of applying the distance between clusters to the sum of the squares of the distance between groupings, over all the variables. In each stage of the grouping process, the internal sum of the squares is minimized over all the partitions that can be obtained by the combination of two aggregates of the previous stage.

Nonqualitative questions, which would require YES or NO objective responses, were transformed in scales of magnitude compatible with the dummy values 0 and 1, respectively, allowing us to quantify the distances between the groupings. This same technique was used by Dilton 1984.

PRESENTATION AND ANALYSIS OF RESULTS

Results presentation will occur in three phases. The first phase profiles the enterprises that participated in the research. It is important to establish the conditions under which this study is representative, i.e., under what conditions the results here presented were obtained. The second phase shows the results of comparing all of the questions of the study per geographic region. The third describes the profiles of groups of firms found to be different through the analysis of conglomerates as well as the profiles of similar enterprises.

Profile of the organizations studied. This study analyzed 32 enterprises, located in 19 countries, and here classified according to their region: Africa, with 3 firms; Latin America, 9 firms; Asia, 13 firms; and Europe, 7 firms.

The sample of firms in this study was limited to developing countries from various geographic regions, divided into four blocks, as seen in **Erro! Fonte de referência não encontrada.**. One can observe that 14 enterprises from the largest emerging countries—Brazil, Russia, India and China—encompass 43.7% of the sample.

The activity sectors of these enterprises showed great variation, including financial (7 enterprises), banking -5-, technology -4-, oil & gas -3-, industrial services -2-, retail -2-, telecommunications -2- and other sectors -7-.

Due to sector diversity and sample size, enterprises of the same industry are not concentrated in the same geographic regions.

Regarding the number of employees, each company had an average of 58,000 employees, considering the entire sample. Despite a very high standard deviation, one can state that they are large enterprises. Only 2 have less than 1,000 employees, whereas the 3 largest enterprises—all Chinese—have over 350,000 employees. This variable accounts, in large part, for the high standard deviation.

The information presented in this section shows that the sample studied encompasses enterprises from different countries, different sectors and of distinct sizes. It was not possible to preselect, in a statistical manner, the survey respondents. Besides that, the number of respondents is rather small, and thus, results cannot be generalized. Nevertheless, since it offers qualitative information about the enterprises—which will be shown next—the survey points out the characteristics of these countries and generates proposals for other research works.

Degree of board involvement in each geographic region

This study's respondents were asked about the extent to which the board of directors of their firms was *currently*—and would ideally—be involved in strategic management. These questions allow one to analyze the difference between current involvement and the type of involvement board members see as ideal for their organizations. The magnitude of this difference indicates potential developments for the corporate governance of organizations (Siciliano, 2008).

Respondents were also asked to choose an alternative among seven board involvement levels in corporate governance, as proposed by Muritiba (2005). Taking into account the meaning of this model and considering the seven involvement levels, the author created a continuum in which level 1 represents a situation in which the board is little involved in the organization's strategies, decentralizing decisions to the top management; at level 7, the reverse occurs, and a situation is represented in which the board shows great involvement in the strategy, even centralizing the implementation of strategic decisions.

Table 1 summarizes these results.

Table 1—Comparison of board involvement by region

	Africa	Latin America	Asia	Europe	Entire sample
Current involvement	4.3	6.8	6.0	7.0	6.0
Ideal involvement	8.3	8.2	8.4	9.6	8.2
Difference (ideal–current)	4.0	1.4	2.4	2.6	2.2
Degree of involvement	N2 -3-	N3 -1-; N4-1-; N5-3-; N6-4-	N1-2-; N2-2-; N4-1-; N5-3-; N6-3-; N7-2-	N1-1-; N2-2-; N3-3-; N4-1-; N6-1-	N1 -3-; N2 -7-; N3 -3-; N4 -3-; N5 -6-; N7 -2-

Source: Research data

The first item presented in Table 2 is the board's **current involvement** in firm strategies. The average involvement, on a scale of 0 to 10, given by the 32 firms of the sample, was 6.0. This result shows weaker board involvement in Brazilian enterprises than does the result obtained by Muritiba (2009); yet, this result is similar to that achieved by Bart (2004) and Siciliano (2008) in international organizations. The study of the literature has evidenced an increased involvement of the board in enterprise strategies over the years, signaling a stronger involvement worldwide. The index of 6 can even be considered low within this context.

It is easier to understand this average when one analyzes the profile of each geographic region. For example, the strategic involvement of boards is similar in Europe (7.0) and Latin America (6.8), followed by Asia (6.0) and Africa (4.3).

These results are not robust enough to confirm or reject Hypothesis 2, according to which developing countries with different characteristics in their governance system would present distinct degrees of board involvement. The maximum we could observe was that African enterprises are those showing the smallest degree of board involvement.
The analysis of the literature helps to explain these results. Europe and Latin America are the regions where family enterprises are most concentrated and make most of the organizational decisions, since family shareholders have a large percentage of company shares (Bedicks & Arruda, 2005; Krivogorsky, 2000). In this sense, it is expected that these regions typically show the highest degree of strategic board involvement. Africa, which presents the opposite situation, counts on board members who often live abroad, which hinders an intense involvement on their part in firm strategy.
This result is consistent with the degree of board involvement when the Muritiba (2005) model was used. Europe and Latin America presented the highest degree of enterprise concentration at levels 6 and 7, the levels at which the board centralizes organizational decisions. As for Africa, all of the enterprises analyzed are at level 2. Asia was the region with the most diversified levels. Much of this can be explained by the diversity in culture and styles among the countries classified in this region, such as India and China.
In a previous research work, Muritiba (2005) found, among Brazilian enterprises, a higher involvement at the central levels—4, 5 and 6. This result was not repeated in the present study because the sample is composed of only two Brazilian enterprises, with those remaining residing in developing countries. This fact signals that board involvement varies greatly from region to region and that there is not a pattern among developing countries. There is, according to the results, a trend for involvement to be strongest in European and Latin American enterprises.
The third item shown in this part is the **ideal involvement** of the board in strategy, according to the respondents' opinions. The average of the entire sample (8.2) was high, as occurred in the other countries, whose average was between 8.2 for Latin America and 9.6 in Europe. This result shows that, regardless of current level of involvement, region or emerging country, there is a consensus among the respondents that the board should be more involved in formulating their firms' strategy.
Thus, the first hypothesis of this study is confirmed, according to which the degree of strategic board involvement in enterprises located in developing countries would be higher than the current level. This result is also consistent with the trend pointed to in the literature (Bart, 2004; Siciliano, 2008). The greatest difference between current and ideal involvement is found in Africa, because the current value is much smaller, and in Europe, because the ideal value is superior to that of other regions.

Reasons found for the degree of current involvement

In a qualitative manner, respondents were also asked about the **reasons** that justified the current level of board involvement in strategy. Table 3 summarizes their answers and classifies them according to geographic region.

Table 2—Reasons for current level of involvement

Reasons	Africa	Latin America	Asia	Europe
	Legislation -2- Political questions -2- Shareholders' decision -1- Distance to travel -1-	Legislation -12- Shareholders' personal decisions and styles -5- Specific rules for enterprises listed in the stock exchange -2-	Legislation -14- Shareholders' personal decisions and styles -6- Government influence -4- Specific rules for enterprises listed in the	Legislation -7- Shareholders' personal decisions and styles -7- Preoccupation with governance -1- Political questions -1- Specific rules for

			stock exchange -3-	enterprises listed in the stock exchange -1- Lack of time -1-
N. Firms	3	9	13	7

Source: Research data

Table 2 compiles the most cited responses by region, bearing in mind that this question allowed participants to give multiple responses. An initial analysis of the reasons shows that the issue of legislation is that most cited by respondents, regardless of their region, and it is mentioned in practically every case. Because the current degree of board involvement was higher in Europe than in Asia (the two extreme points), it is suggested that local legislation impacts this question differently, according to the nuances allowed by a country's legislation. On the other hand, since the respondents' ideal level was higher than the current one, it is suggested that the aspect of governing legislation that incentivizes higher levels of strategic board involvement is insufficient.

On the other hand, leaving aside the issue of legislation and analyzing the other reasons yields interesting information about these countries' realities, which makes a lot of sense if the analyzed literature is considered. It is known that in Africa, the political questions in various countries of the continent are still rather complex. It is also known that many shareholders of African enterprises face the issue of distance to travel, which implies less strategic participation in their firms.

In Latin America and Europe, shareholders' personal styles emerge as the second most frequently cited reason for current involvement levels. That is consistent with the corporate condition of a good portion of the firms in these countries, in which family groups own a large percentage of shares.

As for Asia, a region showing different degrees of involvement, shareholders' personal styles also emerges as the second most popular reason, followed by government influence—a reason that only emerged in this region. The Asian government is known for its strong involvement in decisions and even in the corporate aspects of firms. This fact seems to influence the board of directors' behavior. A more detailed analysis of the database reveals that the enterprises that cited government involvement among their reasons for current involvement levels are also those with the lowest degree of board involvement. This fact suggests that government involvement in the board of Asian enterprises may be harming their levels of corporate governance, which also coincides with previous findings regarding Chinese enterprises (Lin, et al., 2009). This factor is also repeated in Europe, albeit on a smaller scale, especially in Russia (Chen, 2009).

Advices to enhance board involvement in strategy

Respondents were also questioned about the advice they would give firms to improve the issue of boards' strategic involvement. Table 3 compiles the types of advice the respondents gave, grouped by region.

Table 3—Advice given by respondents

Advice	Africa	Latin America	Asia	Europe
	More transparency -1- Adopt international governance rules -1- Hold more meetings -1- Professionalize board members -1- Better represent minority shareholders -1-	Adopt international governance rules -5- Have more independent members -2- Better represent minority shareholders -2- Improve flexibility -1- Exchange experiences with other boards -1-	Adopt international governance rules -4- Have less government interference -2- Have more independent members -2- Change governance rules -1- Better represent minority shareholders	Have more independent members -3- Have more strategic discussions -3- Operate in a more open economy -1- More transparency -1- Less political interference -1- Better use technology

		Shift board members -1- Hold virtual meetings -1- Exchange more information -1-	-1- Train board members -1- Interact more outside meeting space -1- Increase flexibility -1- Eliminate dual roles -1- Shift board members -1- Hold more meetings -1- Financially incentivize board's involvement in strategy -1-	tools -1- Increase interaction among board members -1-
N. firms	3	9	13	7

Source: Research data.

Analysis of the advice given shows, again, the influence of local characteristics on the responses, government influence being criticized in the European and Asian cases. However, some advice is repeated, regardless of the region, which underscores important changes that can be carried out in the corporate governance of enterprises. These include: an increase in the number of minority shareholders, the adoption (and creation) of international governance rules that could be adopted in various countries, increased interaction among board members; incentives for the use of technology tools to facilitate interaction among board members.

Trends in board involvement

Respondents were also asked about trends in board involvement in enterprise strategy. Table 5 illustrates that respondents pointed out the ideal degree of involvement as higher than the current degree and compiles the other trends pointed out, by region.

Table 4—Trends in board involvement

Trends	Africa	Latin America	Asia	Europe
	More independent board members -2- More diversity on the board -1- Better representation of minority shareholders -1- Increased transparency -1- Professionalization of board members -1-	More independent board members -9- Development of internationally recognized governance standards -4- Better representation of minority shareholders -2- More discussions about risk -1- Meetings beyond firm borders -1- Adoption of more standardized procedures -1- Adoption of intensive technological procedures -1-	More independent board members -6- Less government involvement -4- Board members with international experience -2- Meritocracy at board level -2- Better representation of minority shareholders -2- Decision-making more oriented to market -1- Better definition of board members' roles -1-	More independent board members -5- Fewer political problems -4- Elimination of dual roles-1- More information -1- Better definition of board's role -1-
N. firms	3	9	13	7

Source: Research data.

Analysis of Table 4 shows as the principal trend the increase in independent members on the board of directors. This fact emerges among the trends in all four regions studied. By and large, trend analysis allowed the observation of fewer specific characteristics of each region. Among the few characteristics observed are: a decrease in political problems in Europe (4

cases) and a lower degree of government involvement in Asia -2-. An interest was also noted in the development of internationally accepted standards of corporate governance. This result signals a future convergence of the Anglo-Saxon and Japanese-Germanic models to form a more international model.

Profile of groups of enterprises

Although it has been possible to observe quite distinct characteristics among the respondents of the four regions analyzed, the analysis of conglomerates helps to verify whether there are enterprises with similar profiles regardless of the region where they are located.

The results obtained from the introduction and classification of the data in the Data Analysis and Statistical Software (STATA) follow next. To that end, the following variables were taken into consideration: current board involvement; ideal involvement; number of employees; sector of performance; and degree of involvement.

Table 5—Results from multivariate analysis

Final result				
Quantity of clusters = 3				
	Quantity of observations	Sum of squares within each cluster	Average distance from central element	Maximum distance from central element
Cluster 1	11	576.545	6.822	12.526
Cluster 2	13	623.333	13.633	19.888
Cluster 3	9	100.576	2.182	4.001
Distances between central elements of each cluster				
	Cluster 1	*Cluster* 2	*Cluster* 3	*Cluster* 4
Cluster 1	0	53.839	8.299	11.098
Cluster 2	53.939	0	58.315	45.072
Cluster 3	8.290	58.145	0	18.666

Source: Research data

The result of the technical application revealed the existence of three different enterprise groups with similar profiles. The principal characteristic distinguishing these groups is the board of directors' current level of involvement.

The three groups have different current involvement levels. Whereas Group 1 was composed of enterprises with a high degree of board involvement (average of 9.0), Group 2 has an average involvement level (6.3), and Group 3, a low one (3.3).

The analysis of the three groups therefore enables one to perceive the differences between enterprises with high, average and low levels of current board involvement.

Another important characteristic is the fact that all three groups of enterprises identified that the ideal board involvement level is high. This result indicates that, regardless of the current degree of board involvement, the respondents' perception is that it should be stronger.

Some firms' current board involvement level is superior to that of others; an analysis of the profile of the enterprises classified in each group shows few characteristics in common among them, as summarized in Picture 2.

Picture 2—Group characteristics

	Group 1	Group 2	Group 3
Current involvement	9	6.3	3.2
Optimal involvement	9.1	8.7	8.5
Main reason for current involvement	Legislation -15-; Concern with governance -6-; Shareholders' wishes -3-	Legislation – 12-; Shareholders' wishes -5-; Board members' personalities -5-	Political or governmental influence -7-; Legislation -6-; Shareholders' wishes -4-;
Different methods to improve participation	Adoption of international governance standards; Have a clear definition of	More transparency; Adoption of international governance standards	More interaction with minority shareholders; Less political interference

	board members' roles		
Sector	Financial -8-; Tourism -1-; Construction -1-	Financial services -3-; Oil and gas -3-; Industrial -2-; Other -7-	Bank -2-; Several -7-
Average number of workers	45.190	47.255	94.945
Countries	Brazil; Chile; China; Colombia; Guatemala; India; Peru; Thailand; Turkey; Arab Emirates	Russia -3-; China -2-; India -2-; Brazil -1-; Paraguay -1-; Peru -1-; South Africa -1-; Turkey -1-; Vietnam -1-	China -3-; Albania -1-; Liberia -1-; Mexico -1-; South Korea -1-; South Africa -1-; Ukraine -1-
Regions	Latin America -5-; Asia -4-; Europe -1-; Middle East -1-	Asia -5-; Europe -4-; Latin America -3-; Africa -1-;	Asia -4-; Europe -2-; Africa -2-; Latin America -1-

Source: Research data.

In analyzing the groups' characteristics, one can perceive subtle differences among them. This makes it statistically impossible to accept Hypothesis 3, according to which common characteristics exist among enterprises from developing countries with similar degrees of board involvement in enterprise strategy. However, Picture 2 points out some important observations. First of all, political and governmental influences were the main reason given by the firms in Group 3—low involvement— explaining their current degree of involvement. This also confirms the proposition that governmental influence on firm governance can lead boards to be less involved in firm strategy, thereby harming corporate governance. On the other hand, concern with governance was one of the reasons given by the enterprises with higher levels of current board involvement in strategy.

Concerning the countries, distribution among the groups did not align in terms of country or region; countries from all regions are represented in each group. And the issue of government interference, typically prevalent in Asia and sometimes in Europe, gains a different dimension. Enterprises with low involvement also appear in other regions, and Asian enterprises appear in all three groups. This suggests a hypothesis that the government interferes in one part of Asian enterprises, but not in another.

CONCLUSIONS

This study analyzed the differences among enterprises from different developing markets concerning the degree of board involvement in firm strategy. First, it showed that such differences do exist. When the study analyzed board involvement in the strategy, different profiles were found for Asia, Africa, Latin America and Europe.

Various reasons were found, both in our results and in the literature, for the different levels of strategic board involvement. Broadly, one can conclude that economic and social factors, ownership concentration and governmental influences are among the main drivers of a smaller or greater degree of involvement.

Boards explain a higher degree of involvement in strategy with the following reasons: legislation, board members' profiles and concern with governance. A lower degree of board involvement was associated with government influence and with legislation failing to foster such involvement.

The results presented show that the European boards have the highest degree of involvement in firm strategy. Although this is seen as favorable in the literature and by this study's participants, one has to consider that in some European countries, particularly in Russia, a high ownership concentration persists in organizations, and owners tend to become very involved in firm management. This can be seen as harmful to governance. Thus, it is necessary to analyze not only the degree of strategic board involvement, but also why that involvement occurs and how it is being conducted.

In Asia, the main specific characteristic influencing the board's performance is the high level of government involvement in corporate management. This fact was regarded as harmful to governance, both in the literature and in the results of this study.

In Latin America, the predominance of family groups with high ownership concentration also emerges, aligned with the fact that this is the region with the second highest degree of board involvement in firm strategy. However, the reasons here emerge more clearly as being related to governance rules, which in these countries are influenced by both the Anglo-Saxon model and the norms of specific countries.

The evolution of the question of board involvement in firm strategy seems to be moving toward a redefinition of the board's role and toward the establishment of international governance rules and standards. Following a trend already pointed out in the literature, this study shows that the level of board involvement enterprises consider to be ideal is still higher than the current one. This points to a possible increase in the degree of strategic board involvement in the future.

This study is limited by the small size of the sample, its non-probabilistic nature and the few cases analyzed per country. The conclusions here found, therefore, need to be confirmed in a more robust manner in future studies, although they do offer important contributions to the problem proposed.

The theme investigated here still lacks studies in the literature. The results proposed suggest various fronts for future investigations, such as: the nature of the board's role, international governance norms, governmental influence on enterprise governance, and board members' qualifications.

REFERENCES

Abdelsalam, O., El-Masry, A., & Elsegini, S. (2008). Board composition, ownership structure and dividend policies in an emerging market; Further evidence from CASE 50. *Managerial Finance, 34*(12), 953-964.

Afsharipour, A. (2009). Corporate Governance Convergence: Lessons from the Indian Experience. *Northwestern Journal of International Law & Business, 29*(2), 335.

Allen, F., & Gale, D. (2001). Comparing financial systems. *MIT Press Books, 1*.

Anatoly, Z., & Vladimir, I. S. (2005). Russia's Evolving Corporate Governance in the Cultural Context. *Journal of Transnational Management, 10*(3), 19.

Andrei, Y. (2004). Evolution of Corporate Governance in Russia: Government Policy vs. Real Incentives of Economic Agents. *Post - Communist Economies, 16*(4), 387.

Bart, C. (2004). The governance role of the board in corporate strategy: an initial progress report. *International Journal of Business Governance and Ethics, 1*(2), 111-125.

Bedicks, H. B., & Arruda, M. C. (2005). Business Ethics and Corporate Governance in Latin America. *Business and Society, 44*(2), 218.

Betts, P. (2002, Feb 11). Storming Fortress Europe: Several European shareholders are building their defences against the introduction of new codes of corporate governance, writes Paul Betts. *Financial Times,* p. 06.

Chalhoub, M. S. (2009). Relations between Dimensions of Corporate Governance and Corporate Performance: An Empirical Study among Banks in the Lebanon. *International Journal of Management, 26*(3), 476-486,488.

Charles, C. O. (2004). Corporate governance and disclosure in Africa: Issues and challenges. *Journal of Financial Regulation and Compliance, 12*(4), 359.

Chen, A. (2009). Corporate Governance in Russia and Some Points of Comparison with China. *The Chinese Economy, 42*(3), 41.

Creswell, J. (2008). *Research design: Qualitative, quantitative, and mixed methods approaches*: Sage Pubns.

Daniel, M., & Sheila, P. (2002). Corporate governance in Russia: Towards a European, US, or Russian Model? *European Management Journal, 20*(6), 630.

Darek, K. (2006). Venture Capitalists' Perspectives on Corporate Governance in Transition Economies: A Comparative Analysis of Hungary, Poland, the Czech Republic, Slovakia, and Russia. *Problems of Economic Transition, 49*(8), 44.
David, F., & Sandhla, S. (2008). Understanding the main motives for foreign direct investment, an East-West country contrast: is the host country legislation an important factor? *Corporate Governance, 8*(5), 661.
David, K., & Phillip, L. (2005). Corporate Governance and Business Ethics in the Asia-Pacific Region. *Business and Society, 44*(2), 178.
Dolgopiatova, T. (2007). Ownership Concentration and Russian Company Development. *Problems of Economic Transition, 50*(5), 7.
Donald, C. C. (2006). The independent director in chinese corporate governance. *Delaware Journal of Corporate Law, 31*(1), 125.
Doreen, M. M. (2007). Corporate Governance in China. *The Business Review, 8*(1), 52.
Elewechi, N. M. O. (2007). Corporate Governance in Nigeria: the status quo. *Corporate Governance : An International Review, 15*(2), 173.
Enriques, L., & Volpin, P. (2007). Corporate Governance Reforms in Continental Europe. *The Journal of Economic Perspectives, 21*(1), 3.
Fama, E. F. (1980). Agency Problems and the Theory of the Firm. *The Journal of Political Economy, 88*(2), 288-307.
Forbes, D. P., & Milliken, F. J. (1999). Cognition and Corporate Governance: Understanding Boards of Directors as Strategic Decision-Making Groups. *The Academy of Management Review, 24*(3), 489-505.
Gang, W., & Mingzhai, G. (2008). Ownership structure and corporate governance in China: some current issues. *Managerial Finance, 34*(12), 934.
Golstrokeogonbiowska-Tataj, D., & Klonowski, D. (2009). When East meets West: corporate governance challenges in emerging markets of Central and Eastern Europe - the case of Polish Aggregate Processors. *Post-Communist Economies, 21*(3), 361 - 371
Hair Jr, J., Anderson, R., Tatham, R., & Black, W. (1995). *Multivariate data analysis: with readings*: Prentice-Hall, Inc. Upper Saddle River, NJ, USA.
Huang, R. H., & Orr, G. (2007). China's state-owned enterprises: Board governance and the Communist Party. *The McKinsey Quarterly*(1), 108.
IFLR (2007). The Latin approach. *International Financial Law Review*, 1.
Ingley, C., Van der Walt, N., & Zealand, P. (2005). Do board processes influence director and board performance? Statutory and performance implications. *Corporate Governance: An International Review, 13*(5), 632-653.
Khan, M. A. A. (2006). Corporate Governance and the Role of Institutional Investors in India. *Journal of Asia - Pacific Business, 7*(2), 37.
Kriger, M. (1988). The increasing role of subsidiary boards in MNCs: An empirical study. *Strategic Management Journal, 9*(4), 347-360.
Krivogorsky, V. (2000). Corporate ownership and governance in Russia. *The International Journal of Accounting, 35*(3), 331.
Kyereboah-Coleman, A. (2007). Corporate Governance and Shareholder Value Maximization: An African Perspective. *African Development Review, 19*(2), 350.
Leal, R. P. C., & Oliveira, C. L. T. (2002). An evaluation of board practices in Brazil. *Corporate Governance, 2*(3), 21.
Lightle, S. S., Baker, B., & Castellano, J. F. (2009). The Role of Boards of Directors in Shaping Organizational Culture. *The CPA Journal, 79*(11), 68-72.
Lin, C., Ma, Y., & Su, D. (2009). Corporate governance and firm efficiency: evidence from China's publicly listed firms. *Managerial and Decision Economics, 30*(3), 193.
Lori Verstegen, R. (2005). Corporate Governance and Business Ethics in North America: The State of the Art. *Business and Society, 44*(1), 40.
Machuga, S., & Teitel, K. (2009). Board of director characteristics and earnings quality surrounding implementation of a corporate governance code in Mexico. *Journal of International Accounting Auditing & Taxation, 18*(1), 1.

Maharaj, R. (2009). View from the top: what directors say about board process. *Corporate Governance, 9*(3), 326-338.
Maldonado, G. C. (2002). Corporate governance in Brazil. *International Financial Law Review*, 145.
McCarthy, D., & Puffer, S. (2002). Corporate governance in Russia: towards a European, US, or Russian model? *European Management Journal, 20*(6), 630-640.
McIntyre, M. L., Murphy, S. A., & Mitchell, P. (2007). The top team: examining board composition and firm performance. *Corporate Governance, 7*(5), 547-561.
Mehdi, K. E. I. (2007). Empirical Evidence on Corporate Governance and Corporate Performance in Tunisia. *Corporate Governance : An International Review, 15*(6), 1429.
Mukherjee, R. A. (2002). Corporate governance reforms in India. *Journal of Business Ethics, 37*(3), 249.
Muritiba, S. N. (2005). *Participação dos Conselhos de Administração na Estratégia Empresarial no Âmbito da Governança Corporativa.* Universidade de São Paulo, São Paulo.
Muritiba, S. N. (2009). *Envolvimento dos Conselhos de Administração na Estratégia das Empresas.* Universidade de São Paulo, São Paulo.
OECD (2006). Turkey should improve corporate governance. *Organisation for Economic Cooperation and Development. The OECD Observer*(257), 4.
Ogbechie, C., Koufopoulos, D. N., & Argyropoulou, M. (2009). Board characteristics and involvement in strategic decision makin. *Management Research News, 32*(2), 169.
Pugliese, A., Bezemer, P.-J., Zattoni, A., Huse, M., Bosch, F. A. J. V. d., & Volberda, H. W. (2009). Boards of Directors' Contribution to Strategy: A Literature Review and Research Agenda. *Corporate Governance, 17*(3), 292-306.
Rajagopalan, N., & Zhang, Y. (2008). Corporate governance reforms in China and India: Challenges and opportunities. *Business Horizons, 51*(1), 55.
Saito, R., & Dutra, M. G. L. (2006). Boards of Directors of Publicly-Held Companies in Brazil: profile and implications for minority shareholders. *Corporate Governance : An International Review, 14*(2), 98.
Shleifer, A., & Vishny, R. W. (1997). A Survey of Corporate Governance. *The Journal of Finance, 52*(2), 737-783.
Siciliano, J. (2008). A comparison of CEO and director perceptions of board involvement in strategy. *Nonprofit and Voluntary Sector Quarterly, 37*(1), 152.
The World Bank (2009). *Developing countries investment report*. Retrieved oct./2009. from www.worldbank.org.
Vaughn, M., & Ryan, L. V. (2006). Corporate Governance in South Africa: a bellwether for the continent? *Corporate Governance : An International Review, 14*(5), 504.
Victor, N., Sonja, O., & Sonia, W. (2007). Developmental State and Corporate Governance in China. *Management and Organization Review, 3*(1), 19.
Washington, S. (2003). Managing Corporate Governance in Asia. *Finance India, 17*(4), 1389.