

Who Makes the Strategic Decision: An Analysis of Malaysian SMEs

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Abstract: The interplay of the Top Management Team (TMT), Board of Directors (BOD) and the Chief Executive Officer (CEO) in strategy-making in Small-Medium Enterprises (SMEs) has been long debated. Some experts argue the BOD should take a strong role in strategy-making while the alternative point of view is that the CEO is the key man or woman. In a qualitative study with SMEs operating in Malaysia, the TMT is found to be the key player in strategic decision-making. The findings identify how the TMT, BOD and the CEO can combine to add value to the organization in particular how these organization members can team up and interact to achieve a faster, more flexible strategy cycle. The SMEs focus needs to be on giving more emphasis to the empowerment, interaction and creativity of the BOD, CEO and TMT. The TMT should focus on questioning, criticizing, refining and enabling the strategy proposed by the professional managers. However, the study indicates these findings are subject to exception and variation in relation to factors including specialist knowledge, track record of performance, personality attributes, personal power and political and influencing skills. The major focus of attention of the TMT, BOD and CEO is the strategic-thinking related activities in strategy-making.

Key words: Top management team, board of director, chief executive officer, strategic decision-making, small-medium enterprises

INTRODUCTION

Strategic management plays a progressively important role in today's business environment due to rapid globalisation, advances in information technologies, disintegration in value chain, outsourcing and rapid change in consumers' taste and demands (Baum and Wally, 2003). Such rapid changes in business environment are more evident in Malaysia than other countries because of its fast pace of economic development, increasing industry dynamics, accelerating competition, coupled with its transition from a planned to a market-oriented economy (Jocumsen, 2004; Baum and Wally, 2003). Small and Medium Enterprises (SMEs) are an important part of the Malaysian economy as they represent 99.2% of total business establishments in Malaysia and account for about 65% of the total employment in the labour market (Bank Negara Malaysia, 2011). SMEs' contributions make up 19% of the total export value and 32% of the gross domestic product. This study focuses on Strategic Decision Making (SDM) in Malaysian SMEs as SDM has been long regarded as being crucial to a firm's survival and long-term performance.

The practice of strategy has orthodoxly had a strong top-down alignment with company strategy passed down from the Board of Directors (BOD), Chief Executive

Officers (CEO) and top managers to line management for enactment (Chizema and Kim, 2010). However, the strategy works has now agreed widely that organizations have had to cope with more uncertain environmental circumstances in recent years (Hamel, 2000). These developments have implications for the comparative roles of company directors and the CEO. Pye and Pettigrew (2005) states: we still know relatively little about how boards and directors actually behave or conduct their roles effectively and suggest multi-layered vision into strategic leadership of the organization would be esteemed.

The relationship of the BOD and the CEO has been the subject of some speculation in the strategy works (Kroll *et al.*, 2008) with some experts arguing the board should take a stronger role (Kiel *et al.*, 2005; Chizema and Kim, 2010), although this is a matter of some controversy (Nicholson and Newton, 2006; Bonn and Pettigrew, 2009). Recent contributions highlight strategy-making and supremacy as an evolving bargain between the BOD and CEO with subtle and sometimes not-so subtle use of power and manipulating skills (Daily *et al.*, 2003; Shen, 2003; Combs *et al.*, 2007; Payne *et al.*, 2009). Pye and Pettigrew (2005) have emphasized that the understanding of how the BOD, individual directors and CEOs can work quicker and more effectively on strategy-making is limited. There is also some discussion of variation in the

involvement of the BOD and CEO in the day-to-day of business and an evolution of the practices of these players evident in strategy-making which we need to understand better (Combs *et al.*, 2007). There are >30 different definitions of strategy in literature (Daily *et al.*, 2003). A contemporary rational strategist such as Dewally and Peck (2010) sees strategy as defining a company's position, making tradeoffs and forging fit among activities.

Literature review

Malaysian SMEs: The small and medium sector in Malaysia has long been greeted as a key driver of the national economy; it contributes 32% to the national Gross Domestic Product (GDP) (Low, 2007). About 99 out of 100 Malaysian businesses are Small or Medium Enterprises (SMEs) and almost 5.6 million Malaysians work in the SME sector (Low, 2007). As a result of globalization, SMEs in Malaysia are no longer threatened through tariff and non-tariff measures which previously enabled them to gather a significant market share in the country. The largest category of SMEs in Malaysia is made up from the service sector followed by the manufacturing and agricultural sectors, respectively (Bank Negara Malaysia, 2011). Although, SMEs represent 99.2% of the total business foundations in Malaysia, the total value added and output of these businesses to the GDP are only 47.3 and 43.5%, respectively. This is lower than the average input in other Asian countries that is over 50% (Tatum *et al.*, 2003; Ndubisi, 2008). The structure of ownership of SMEs in Malaysia reflects concentrated company ownership and therefore there is a soaring agency cost due to the high probability of misappropriation by the majority shareholders (Tatum *et al.*, 2003; Hill and Stephens, 2003).

In Malaysia, about 72% of companies are family owned which is an echo of the situation in many evolving economies. In addition, about 60% of Malaysian companies have ownership concentration and do not have good corporate governance practices (Himmelberg *et al.*, 2004). Conferring to Claessens *et al.* (2000), Malaysian company tenure is described as an insider model (Schmidt and Spindler, 2002) as it contains a high degree of focus of ownership. In the study, about 40.4% of the 238 sample firms in Malaysia are closely apprehended by a large shareholder. The decision-making process in many SMEs is still with the owners of the company and not with the management (Nam, 2001). Family-controlled companies retain characteristics such as top-down management. This means that the founder of the company who is often the head of the family will make all the major decisions (Park and Kim, 2008; Nam, 2001).

As a result stockholders in SMEs may not be able to sustain their rights, although there are requirements to do so under the common law, section 181 of the Companies Act 1965 and section 181A of the Companies (amendment) Act, 2007.

The modern, 21st century role of the board of directors:

In modern, 21st century strategy-making greater deliberation is given to principal medley with a view to the board and director performance and accountability (Stiles and Taylor, 2001; Dewally and Peck, 2010). Directors need to have some financial skill, understand their legal obligations, how BODs function and knowledge of current management and business practice, especially strategy (Park and Kim, 2008). Stiles and Taylor (2001) contend board candidates should be chosen on the basis not only of their track record and experience but also on their ability to fit into a team environment and to be compatible with other members of the board. Coles *et al.* (2008) found composite firms have bigger boards of directors with more outside directors. They too, found that boards can change their board composition subject to the business setting challenging them to ensure the right mix of knowledge, skills and experience.

On director activities in modern strategy, Kiel and Nicholson perceive: Directors are considered the mind or brain of the organization and are seen to undertake a variety of roles. Kiel and Nicholson classify Chairman and Non-Executive Director (NED) involvement in strategy as taking strategic decisions, shaping strategic decisions and shaping the content, background and manner of strategy. The Chairperson should play a role of counsellor and alter ego of the CEO (Park and Kim, 2008; Stiles and Taylor, 2001; Hill and Stephens, 2003), facilitating and assuring the board's performance of its role and the performance and development of individual directors. Kroll *et al.* (2008) and Chizema and Kim (2010) all recognize the precaution and security provided to the organization by the presence of NEDs to balance the influence of the CEO and executive directors on the board. In an organization with a modern, evolved strategy process all directors are required to think strategically about the organization and not simply their own field of expertise (Park and Kim, 2008; Hill and Stephens, 2003). Executive directors-usually senior executives of the company-should take a broader picture when performing their managerial as diverse from managerial role, taking a more unprejudiced approach to strategic issues in their aptitude as a director.

The SDM process: Decision making is a process which symbolizes every human being and every association.

Without resolutions an organization cannot function, adapt, progress, take advantage of opportunities and overcome crises (Elbanna and Child, 2007). Decision making is intrinsic to any management function because managers are not only proprietors but by their profession, decision makers as well. Various definitions of the decision making process could be found in the literature but they are all stating that it is an incessant, time consuming process for the decision maker, representing the foundation of the business existence and performance and targeting mainly managers (Dewally and Peck, 2010; Elbanna and Child, 2007). Today, when all organizations are trying to keep their portion of the market, their success is more than ever, the result of effective and efficient functioning of the management bureaucracy which is achieved through the decision making process (Hill and Stephens, 2003). Given the complexity of organizations and the problems they face, together with the incapability of decision makers to obtain all information he/she would like to have, it is unbearable to be sure that the choice that has been made in fact, epitomizes the best possible alternative. That is why the decision making process needs to be sketched carefully and managerial decision making should be given a more protuberant position in management theory and practice (Hill and Stephens, 2003).

The strategic decision making is a fundamental managerial activity in all types of business organizations; large and small for profit and not for profit, private and public (Elbanna and Child, 2007). The objectives that the company seeks to achieve could be achieved only by effective strategic decision-making processes (Burgelman and Grove, 2007; Kwan and Tsang, 2001). Successful strategic decision making enables an organization to maintain competitive postures, align internal operations with external environments and survive threats and challenges while conversely because of their magnitude, a single, poorly made strategic decision can lead to the demise of an organization and result in corporate humiliation, precipitous economic losses for stakeholders or bankruptcy (Burgelman and Grove, 2007; Mueller *et al.*, 2007). Despite a substantial body of literature, knowledge about strategic decision making processes is still limited and is mostly based on descriptive research and moulds which are not tested (Kotey, 2005). The precursors and outcomes of strategic decision processes have been the subject of numerous studies over the last three decades (Kotey, 2005). Namely in recent times, some researchers attempted to model the strategic decision making process as well as to identify the types of strategic decision making processes. Others have been interested in investigations of specific physiognomies in strategic

decision making process (Brouthers *et al.*, 1998) while some investigated the effects of these characteristics (dimensions) on organizational outcomes (Kwan and Tsang, 2001; Mueller *et al.*, 2007). Some researchers were interested in factors that influence specific dimensions of the strategic decision making process as well as in the mediating impact of some factors on process output (Kotey, 2005; Elbanna and Child, 2007; Kwan and Tsang, 2001).

MATERIALS AND METHODS

Introduction: This study discusses the methodology for this research. It covers research design, data collection techniques and questionnaire and data analysis techniques.

Research design: This is a descriptive study which attempted to examine whether SMEs do strategic planning and how the strategic planning process is done. This is a field study where all variables were not manipulated thus no artificial setting was created.

Sample and unit of analysis: The sample of this study consisted of SMEs in the Northern region of Malaysia. These SMEs covered those in the State of Perlis, Kedah and Penang. The population's samples were derived from the directory of small medium enterprise provided in the website. The unit of analysis was organization.

The sampling method: A purposive sampling was chosen as the sampling design for this study. This was because companies that were chosen have to qualify certain requirements before they are considered as SMEs.

Time horizon: This was a cross sectional study where data was collected over a period of weeks. In this study, data was gathered from September to December, 2010.

Questionnaire design: As this is a descriptive research to find out if SME do strategic plan and how they do the planning, there were no hypotheses testing. Respondents were asked on whether they do strategic planning and whether they used each tools (as suggested by Wheelen and Hunger) to do their strategic plans for each stage of the four stages of strategic plan. The four stages of strategic planning were environment planning, strategy formulation, strategy implementation and strategy evaluation and control. The strategic planning questionnaire was operationalised using the Wheelen and Hunger Model, 2008. At each stage respondents were asked if they used the strategic planning tools suggested

by the model by Wheelen and Hunger. The Wheelen and Hunger Model for strategic planning in 2008 were shown to the respondents in part C of the questionnaire and respondents were asked if their strategic planning resembles the model. If their strategic planning does not resemble the model, they were again asked which stage of the strategic plan was different from their strategic plan. Hence, the questionnaire were designed in four parts namely part A with questions about the tools of strategic planning like whether respondents used vision, mission, objectives and strategies for their strategic planning, part B talks was about environment scanning and the elements to consider during the scanning process. In part C, respondents were given the model of Wheelen and Hunger and asked whether their strategic planning process resembles that of the model and if it did not resemble their strategic planning process where or how it was different. Finally in part D, respondents were asked to provide the biodata of themselves and of their companies.

Data collection techniques: Data in this study was collected via mail questionnaires and individual administered questionnaire. An official letter and a research proposal which explained the objectives of the study and seek the SMEs participation were sent to selected companies and through the assistance of students. Through mail, about 250 companies were informed to participate in the study. The survey questionnaires were mailed directly to the companies and companies were given 1 week to answer the questionnaires. The questionnaires were returned directly to the researcher using the self-addressed envelope provided. In addition to this, students assisted in the distribution of questionnaires and some respondents were visited individually to obtain their responses.

Data analysis techniques: Statistical Package for the Social Sciences (SPSS) version 14.0 was used to analyze the data collected in this study. For data processing, five statistical techniques were used for different purposes. These included descriptive statistics, mean, median, standard deviation. For inferential statistics, crosstab results were obtained and Chi-square results were conducted.

Descriptive statistics: Respondents' demographic variables were analyzed using descriptive statistics such as frequencies and percentages. Meanwhile, other items that were measured based on the six point Likert scale, hence an ordinal measurement scale have been used in the research instrument. Due to this reason, only non-parametric tests such as Chi-squares were performed to analyze the results.

Summary: The sample of this study consisted of companies in the SMEs directory which were located in the Northern states of Malaysia, namely Perlis, Kedah and Penang. The unit of analysis for this study was organization. About 250 questionnaires were mailed to the respective SMEs with the help of a research assistant and another 100 questionnaires through self-administered method with the help of students. SPSS software was used to analyze the data collected.

RESULTS AND DISCUSSION

Result of QC4: Who made the decision most of the time on strategic planning? From Table 1, researchers can say that most strategic planning is done by top management (42%), CEO (34%) followed by Board of Directors (14%). In the past, much effort has been done to compare decision-making practices of managers in large firms with entrepreneurs in small firms. The assumption that entrepreneurial decision-making in small firms is a one-way phenomenon seems to provide a too narrow view of how decisions are made in practice (Aguilera and Cuervo-Cazurra, 2009). This research has sought to understand contemporary arguments in the strategic management and governance literature in relation to these research questions and then critically analyse the interpretations of the interviewees to improve understanding of these important matters for organizations (Burgelman and Grove, 2007). A contribution of this study is the rare insight into strategy and governance in the Malaysian, small to medium sized business setting (Iyengar and Zampelli, 2009). There are different opinions expressed in the received literature and in the interview transcripts by the interviewees on the best way for the BOD and the CEO to work together and the best way for the BOD and CEO to work together is subject to exception and variation. The best way forward for an organization depends on circumstances in particular the skills, experiences, knowledge, capabilities and performance attributes of the firm, the

Table 1: Who made decision most on strategic planning?

Planing	Frequency	Percent	Valid (%)	Cumulative (%)
Valid				
CEO	37	34.3	34.6	34.6
BOD	15	13.9	14.0	48.6
Top mangement	45	41.7	42.1	90.7
Middle mangement	7	6.5	6.5	97.2
Missing	3	2.8	2.8	100.0
Total	107	99.1	100.0	-
Missing				
System	1	0.9	-	-
Total	108	100.0	-	-

BOD, the CEO and the Top Management Team (TMT) (Kiel *et al.*, 2005). SMEs are theoretically distinct from larger firms with respect to the knowledge process impediments they face and the role played by TMT members in managing the top-down and bottom-up processes.

The findings, based on the questionnaire data are thus, consistent with Coles *et al.* (2008) statement that no other group including the board of directors has as great a potential for affecting the form and fate of an organization as the small group of senior executives residing at the apex of the organization. It is evident that mostly TMT considers planning as the starting point only not as the integral part of managing necessary tasks (Kiel *et al.*, 2005). Top management assigns the planning process to planning department yet it plays a vital role in recognizing the hidden opportunities and clear understanding of goals, market and competition (Miller and Triana, 2009).

In relation to the research question, a number of key themes in relation to the role of the TMT emerged. In the questionnaire, evidence the strong strategy-making role for the TMT agreeing and setting strategy parameters with the BOD and CEOs was articulated as well as the two types of TMT; first the powerful thinker and active personality and second, the TMT as an organizer who designs the strategy process and engages people (Kiel *et al.*, 2005). These insights connect well with the description of the role of the TMT by Markides and Mang (2000). The questionnaire also identified the TMT's leadership and collaboration role inside and outside the organization and the need for TMT interaction with internal and external stakeholders (Hamel, 2000). The questionnaire identified the theme that different styles of leadership are required for evolutionary and revolutionary change programs in organizations. The need for different styles of leadership for evolutionary and revolutionary change programs in an organization questions learning from Tushman and O'Reilly (1997) on ambidextrous organizations and provides an opportunity for future research in exploring this issue more deeply.

Another useful insight was that the creative, participative, people-oriented activity in strategic thinking also consumed much more focus of attention and time from CEOs and BOD. Planning had its role in formalizing, documenting, managing risk and satisfying stakeholder demands for information (Hamel, 2000). It was evident in the interviews and then the transcripts that most TMT attention and time over the course of a year was consumed by the strategic thinking activities in strategy-making and this insight later helped to inform development of the strategic plan (Kiel *et al.*, 2005). There is a collection of some important findings, some new in

relation to the research question in the analysis. The questionnaire evidence does indicate that the power and influence of the TMT is subject to exception and variation (De Wit and Meyer, 2004). The power and influence of the TMT is enhanced where he/she has a strong track record of performance, especially strong long-term positive movements in share price when it comes to SMEs. The TMT who is highly regarded by key stakeholders in particular the Chairman, the NEDs, the executive directors and the investment community (i.e., stockholders, fund managers, share market analysts, etc.) for his/her overall business contribution, knowledge and skill, also enhances TMT power and influence (De Wit and Meyer, 2004). The TMT is in a very strong position where he/she has had time to influence the composition of the CEOs and BOD and cultivate the trust and confidence of the other executive and NEDs within the SME. This is a matter argued by Shen (2003) and supported in this research. To achieve this trust and confidence, it is favourable if the TMT understands the value of interpersonal skills and it was evident in the results that not every TMT does.

There have been some new insights made in relation to the role of the CEOs and BOD. It is worthwhile highlighting that there was overwhelming evidence in the transcripts that the people-oriented, interactive, participative aspects of strategic thinking in strategy-making consumed a greater portion of director focus of attention and time than the rational planning activity. There were also some interesting remarks made that director encouragement for professional management to use reflection to inform future strategy (thinking in time) should take place more frequently. Reflection helps the executive understand the past, present and future of the organization-its history, culture and ethos. The insight gained from reflective practice can be very helpful in identifying and chasing opportunities for wealth creation. This insight complements, Hamel (2000)'s more general remarks on the practice of strategic thinking and informs how organizations can achieve a faster strategy cycle. Pye and Pettigrew (2005) preached that the creative, intuitive, participative, stakeholder oriented emphasis to the company director's role is critical in managing environmental uncertainty and speeding up the development of solutions to strategic problems and opportunities.

CONCLUSION

The preceding discussion suggests that by drawing on diverse theoretical perspectives, future studies can further insights into the role of TMTs in formulating and implementing successful decisions in SMEs. To date, TMT demographics and crisis responses have received

the majority of research attention in the strategic decision making literature on SMEs. This research has sought to gain the interpretations of the interviewees in relation to the role of the BOD, CEO and TMT working together. A constructive, robust insight has been developed. In putting into action this learning, the researcher wishes to emphasize that the running of an small to medium sized organization is a complex challenge and that a lack of timely attention to detail or the correct behaviour and/or strategic thinking required for the circumstances confronting an organization can undermine successful implementation of many of the insights in this study. There was clear evidence of exception and variation in relation to the role of the BOD, CEO and TMT in the multi-layered analysis. The exception and variation related very much to the personality, experience, role, intuition, instincts and track record of the parties involved. The TMT is not always as structured in its predictability as Shen (2003) have argued in their influential theoretical researches. Often it is but sometimes there are moments of exception and variation which determines who is the boss and in what circumstances. Small to medium organizational life can be somewhat chaotic and prone to misadventure in the circumstances identified in this study in the Malaysian SMEs and it is here this study makes part of its contribution. Personality, performance and circumstance play their part in determining the role of TMT, BOD and CEOs can play, the time they have as a member of the organization and their capacity to influence organization performance for the better.

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