Strategic Management & Corporate Policies

Decisions on strategic management and corporate policies are based on the agency theory or the stewardship theory. Such decisions are usually made by the CEO in conjunction with the Board of Directors (BOD) with the express purpose of accomplishing collective goals as opposed to self-centered ones. It should be noted that employee attitude and loyalty is significantly impacted by the manner in which the firm is being governed. And to better conceptualize this, the agent and stewardship theories are addressed here. They determine whether or not the organization will exploit its full potential in terms of growth, employee retention, and stockholder satisfaction (Davidson & Davis1991). The two theories hold opposite views however.

The agency theory is a proponent of the fact that: (1) CEO duality reduces returns to stockholders and (2) Any observable positive effects of CEO duality are triggered by long-term compensation and are spurious. In response to CEO governance though, the stewardship theory offers different hypotheses: (1) CEO duality increases return to shareholders and (2) the positive impact of CEO duality are not caused by the spurious effects of long-term compensation. Here duality means a single person assumes the responsibilities of both the CEO and the chairperson of the BOD.

Wiggenhorn et al. (2014) stress that the BOD's basic function is to protect shareholder interests namely dividends, ROI, increase of stock value etc. Shareholder interests are at huge risk if the CEO is in full control of the BOD. Misappropriation of funds, excessive CEO remuneration, and employee, client and shareholder dissatisfaction would take event if the CEO is allowed a dual role. It makes it impossible to hold the CEO accountable. Donaldson & Davis

(1991) argue further that a huge pay disparity between the CEO and ordinary employees interferes with employee morale, attitude, and loyalty just to mention a few.

Larcker and Tayan (2011) maintain that the BOD plays an advisory and an oversight role. In other words, it consults with management concerning strategic and operational direction of the firm and monitors firm performance and reduce agency budget. For example, the BODD approves the corporate strategy, tests business model and identifies crucial performance measures, designs CEO salary package, approves main asset purchases, safeguard the assets and image of the firm, plans for and chooses new CEO, and makes sure that the firm follows laws and codes.

The audit committee works hand in hand with the BOD. The audit committee oversees legal compliance, discusses risk management approaches, regulates the choice of accounting policies; oversee financial reporting and disclosure, and monitors internal control processes (Larcker & Tayan, 2011).

Clark (2005) argues that poor corporate leadership has plunged many U.S. companies – most of whom wealthy - into bankruptcy. In the early 2000, global economy including America's was collapsing in the wake of CEO and corporate scandals because BODs of respective organizations had failed to advice and to oversee CEO activities. This led to fraud of through-the-roof magnitude. These irregularities were already there but got discovered later thanks to investigations and audits.

The Sarbanes-Oxley Act was formulated to reduce a number of things that can affect corporate success. To reduce conflicts, the Act imposed limits of multiple roles and services by auditors; shift of power to hire and compensate the external auditors, and the reduction of interpersonal bonding between auditors and the audited. Action-inducing rules were also introduced. For example, internal control processes were required, financial reports needed certification, and the need for financial literacy and financial expertise on audit committees became a mandate (Clark, 2005).

In conclusion strategic leadership is imperative in ensuring that shareholders and organizations attain their goals – prosperity and reputation. Strategic leadership must be in the company of strategic auditing. Strategic auditing ensures that corporate resources are used for the greater good – collective success- and not for benefiting a few greedy mouths. Such audit activities serve to limit the influence of the CEO and to enhance fair distribution of powers and resources among other influential figures namely shareholder, the BOD and employees. Most importantly, strategic audit minimize the possibility of organizational fraud.

References

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