**Board Dynamic Capability**

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**Abstract**

*The emerging contemporary approach to corporate governance field emphasizes a holistic perspective, i.e. organizational level of governing the corporation. Since the ongoing business reality assumes a complex, ever-changing corporate ecosystem that requires governance excellence, a permanent upgrading of governance practice is needed in order to provide the company with possibility to take advantage of its effective and efficient corporate governance system. Within that dynamic context, the Board’s role, position and performance become even more salient. This study imports the dynamic capabilities view in the corporate governance discipline, considering it as the useful prerequisite of modern governance. In particular, three constituting dynamic capabilities, sensing, seizing and transforming capability are conceptualized and discussed in order to explain the differences in Board responses to changes in the external and internal corporate environment, and consequently corporate competitive sustainability. The three attributes could be taken as underpinning indicators of the Board dynamic capacity, so we have developed an index as a composite measure, consisting of these three key areas, in order to determine the Board dynamic capability.*

*Though the field researches have already offered a range of tools aimed at measuring Board efficiency, the relevant literature is scarce regarding Board capabilities. By taking the attitude that the Board could be asserted as an empowering or weakening corporate resource and competitive potential, the Board capacity could be evaluated through capability perspective as the vital driver of corporate success, and consequently as a determinant of corporate performance. A Board capable of mastering the organizational level dynamic capabilities essentially demonstrates self-regulating capacity as the distinguishing, corporate governance specific facet. We have empirically tested Board dynamic capability on a simple of Croatian large companies.*

***Keywords:*** *Board Dynamic Capacity, Corporate Governance, Dynamic Capabilities*

1. **Introduction**

Corporate governance (CG) as a discipline faces its paradigmatic transformation, due to the institutional, social, ethical and business context changes. Within the ongoing shifting of the domain’s dominant focus, from its traditional monotheoretical agency roots and complete contracting towards an integrated, multidimensional and multitheoretical perspective, the definition of corporate governance as a sort of a meta-management seems more and more convenient. The apparent consensus within the relevant field work could be traced regarding how to achieve good corporate governance. Since it incorporates the set of relations between the management, board, shareholders and other stakeholders of a firm, and defines the framework for setting goals and determining the means to achieve those goals, as well as for monitoring the performance and efficiency of the firm, the importance of balancing governance mechanisms for a soundness and sustainability of corporations is also well established discipline cornerstone.

But changes in the corporate internal and external complexity, brought by stakeholder principals perspectives, and moreover by the occurrence of incomplete contracting, highlight the phenomenon of boards not only as a mechanism, but more as active, vital body authorized and appointed to govern as well as to bear responsibility for the corporation. Thus boards’ purpose, role, position, functioning, decision making, efficiency and contribution to the overall corporate outcome emerge as the areas of interest that need new or renewed performing prescription in order to match the changed corporate world.

To cope with the obstacles to their sustainability, by using opportunities and assets that are legitimately available, corporations have their board of directors (or a supervisory board, if we deal with the two-tier model) within the resource base (Teece, 2007; Barney *at al.*, 2001), a resource and most likely a capital (Hillman and Dalziel, 2003) that could be engaged in empowering its overall performance. In revealing how boards relate and can improve corporate performance, a good point to start is by posing a question of what boards actually do and is there the better way of doing what they do? Since there is still no firm theory of board governance that can provide a general, parsimonious and coherent framework, Huse *et al*., (2011) called for a new perspective on board research: changing the research agenda towards a more insightful perspective of board’s processes and behavior.

Though the boards-firm performance relationship has long been in the focus of researches, the absence of evidence supporting known theories of boards and links to organizational performance casts doubt on the utility of the agency, resource dependence and stewardship approaches (Lynall *et al.,* 2003; Bonn and Pettigrew, 2009; Carver, 2010). When testing those three paramount theories of corporate governance, Nicholson and Kiel (2007) found that although each theory could explain a particular case, no single theory explained the general pattern of results. These authors therefore called for a more process-oriented approach to both theory and empirical analysis in order to deepen understanding of how corporate boards add value.

Besides, field researchers point to the need for conceptual coherence regarding the board’s role, practices and relationships, and suggest that this should be done by highlighting the irreducible minimum elements of accountability among varied governance theories, concepts and principles that would enable those universal characteristics to be optimized (Carver, 2010). According to Carver, the results should make it possible to isolate the relatively few essential components of responsible governance and thereby construct a foundation that enables all other elements to vary, based on cultural, legal, and idiosyncratic variables for each board.

By taking the challenge of those calls, we are suggesting the dynamic capabilities (DC) perspective (Teece, 2007; Teece *et al.,* 1997) as a distinct, hopefully pivotal prerequisite of modern governance, and introduce the dynamic capability concept into the governance realm. Consequently, we design and propose the board dynamic capability (BDC) as the new breed of dynamic meta-managerial capability, aimed at improving board and corporate performance. Board dynamic capability converges particularly for the new wave of research on the value-creating corporate board.

The article is organized as follows: we screen through the corporate and board governance field new theoretical perspectives as well as through the board roles in the subsequent part, we proceed with dynamic capability framework and highlight the managerial dynamic capability in order to conceptualize board dynamic capability. We conclude with the propositions of the capability model and the dynamic capability index as a composite measure of board’s dynamic capacity.

1. **Board and corporate governance field overview**

A new global pattern of business and society integration brings a shift in values and consequently, an emerging higher standard of corporate performance demand in terms of more corporate responsibility and increased requirements of performance. The stressed ongoing changes of corporate governance practices are supported by the latest OECD issue on *Key Findings and Main Messages* (OECD, 2009). In a contemporary business vision the firm is seen as an institution of modern society and as a sovereign social actor (King *et al*., 2010). An understanding of a company as a nexus of relationships (Wu and Eweje, 2008, p.7) instead of a nexus of contracts (Jones, 1995; Jensen and Meckling, 1976) highlights its interconnectedness with and embeddedness into surrounding and global ecosystem[[1]](#footnote-1), spanning the levels of governance issues and structures.

Sir Cadbury has defined corporate governance as “the system by which companies are directed and controlled”, more than two decades ago (Cadbury, 2000, p.8, Cadbury report, 1992). By now, two approaches to the field analysis have been established: a narrow and a broader one. The former, often labeled as agency based view of CG, portrays it as an enforced system of laws and financial accounting, and is nowadays severely challenged by contrasting broader, stakeholder based conceptualization of CG, that emphasizes every business’ responsibility towards the different stakeholders that provide it with the necessary resources for its survival, competitiveness and success (MacMillan *et al.*, 2004).

Actually applied dominant governance theories: agency (Fama and Jensen, 1983; Jensen and Meckling, 1976), resource dependence (Pfeffer and Salancik, 1978) and stewardship (Davis *et al.*, 1997; Donaldson and Preston, 1995), followed by (neo) institutional (Scott, 1995; DiMaggio and Powell, 1983), stakeholder (Freeman, 1984) and social network (Granoveter, 1985; Giulati, 1998) theories have brought our understanding of the field up to date’s level, but seems as if each one, evaluated separately may be considered as a partial dominant logic, while complementing others in offering many good solutions to corporate governance problems. Carver (2010) suggests that too many corporate governance studies examine *what is*, as opposed to *what should be*, pointing to the need for the conceptualization of a more normative approach that builds out the series of principles upon which every corporate governance practices can be evaluated and benefit from. Besides, he highlights the leverage of purpose of governing as a starting point in order to move the field development further. However, the comprehensive environment entails an equal perspective of corporate governance and its existing insights and practices upgrade, so a well governed company could possibly take advantage of its effective and efficient corporate governance system (Tipurić, ed., 2008, p.6). The challenge of contemporary governance, in order to be effective and efficient, requires a holistic investigation and conceptualization of the phenomenon itself (Carver, 2010), as well as the development of related capabilities aimed at leveraging multilevel corporate processes with respect to multilevel corporate perspectives: institutional, legal, ethical, economic and environmental, intricate with stakeholders’ interactions and managerial autonomy and accountability. According to Shen (2003), governance should be conceptualized as an ongoing evolutionary process, embedded in a complex network of relationships and interactions (Huse, 2005). The overarching determinants of the quality of corporate governance are effective and efficient boards and their capabilities, in particular for provision of effective and efficient strategic decision-making.

Motivated by the practical urgency of the issue, recent board’s researches have started applying a multiple theoretical perspectives on boards which consider several board tasks simultaneously (Daily *et al*. 2003; Hillman and Dalziel 2003; Lynall *et al.,* 2003), so to capture the richness and variety of boards' activities. On the other hand, a stream of research that examine the link between boards and firm performance has stepped out of the "input-output" model of boards (Pettigrew, 1992), whereby board composition or board structure (input) is linked directly to firm performance (output), and has started to draw attention to the neglected group-level processes that occur as boards work to perform their tasks, considered to be crucial to unveiling the relational nature of the board and firm performance connection (Gabrielsson and Huse, 2004; Golden and Zajac, 2001). In their overview of empirical research on boards and governance analysis, Gabrielsson and Huse (2004) found that most studies on boards and governance have been influenced by research tradition that treats the board of directors as an isolated black box, based severely on the U.S. tradition with salient shareholder and investor activism and input-output model focused on a single board task or feature. They have therefore emphasized the need for exploring boards in the context of behavioral, contingency and evolutionary perspectives. Shortly, the interesting new insights on boards and governance issues were delivered.

Salient attempt has been offered by Carver and Oliver (2002), supplemented by Carver and Carver (2006). They have conceptualized the prescriptive board governance theory, labeled “Policy Governance”. The theory positions governance as an owner-representative function rather than a management function, provides for resolute board action despite diversity of views among owners and even among directors and claims to balance over-control and under-control through a policy design that enables boards to control what they need to control and safely leave to the CEO what they do not need to control. Besides, the theory endeavors are in: avoiding both rubber stamping and micromanaging; optimizing the values of CEO empowerment and board control; moving directors from advising on management’s job to defining management’s job; forcing the practice of group authority by allowing no way to elude it; ensuring that committees are aligned with dominant board accountability; positioning the topmost of a two-tier board arrangement as the owner-representative “governing” board, and in illuminating any practice or structure that detracts from total board allegiance to agency responsibility (such as executive/inside directors and chair-CEO duality).

Another significant contribution in theory building has come from Bonn’s and Pittigrew (2009). Based upon the concept of temporality, their framework integrates researches on agency, decision-making and resource dependence theories, and propose an organizational life cycle approach that can assist in developing a dynamic theory of boards, thus supporting the Lynall *et al.,* (2003) idea of identifying conditions under which each of the engaged theoretical approach is more applicable to board’s phenomenon. Ultimately, Van Ees *et al.,* (2009) have proposed a behavioral theory of boards and corporate governance with focus on: (1) interactions and processes inside and outside the board room; (2) the fact that decision making is made by coalitions of actors and objectives are results of political bargaining, and (3) the notion that not only conflicting, but also cooperating, interests are part of the boards’ decision making and control over firm resources. Their approach favors actual instead of stylized descriptions of board behavior involving coordination, exploration, and knowledge creation as much as problems of conflict of interest, exploitation, and the distribution of value.

In sum, whatever approach has been taken, the researches point undeniably that the board’s position and role are salient, powerful and impacting. Thus it could be expected that boards make a difference between the manners the corporation is governed, and therefore influencing its overall performance. It is generally argued in contrasting various studies, context and theories on board governance that boards may play various roles in carrying out they duty, but according to the literature mainstream, three roles of the board have been recognized as an active board’s work scope: (1) the control role; (2) the strategic role; and (3) the service or resource provision role (eg. Bonn and Pettigrew, 2009; Tipurić and Mešin, 2013). The control role of the board implies its legal duty of monitoring and supervising the company’s operations, current as well as preventive, i.e. the monitoring of business decisions and company’s plans as well as monitoring and controlling top management. The strategic role of the board relates to supporting and leading the management in realizing the firm’s mission and its goals by advising, improving and enhancing the discussion on strategic issues, in particular the strategic problem solving and decision-making. The service or resource provision role of the board is primarily concerned with providing the access to resources and networks and maintaining the formal and informal relationships with firm’s stakeholders aimed at better articulation of corporate interests and overcoming the inherent conflict between the various stakeholders (Bonn and Pettigrew, 2009; Hendry and Kiel, 2004). An active board type (Golden and Zajac, 2001) considers the board as an independent body which actually contributes in shaping the strategic course of a company and in guiding the management to achieve corporate mission and objectives, thus performing its governing responsibilities beyond the minimum related to legal requirements (Hendry and Kiel, 2004).

On the basis of the inclusion or exclusion of the resource-contributory role of the corporate board, Huse (2007) provides a typology of corporate boards that is generic in the sense of being neutral to corporate purpose and distinguish between the “barbarian” (control only) and the “value-creating” (service andcontrol) board. Ideally, the board contributes to corporate value creation and the idea of the value creating board springs from the contrast between agency theory and resource dependency theory (Pfeffer and Salancik, 1978) as well as resource based theory (Barney, 2001; 1991) as applied to the phenomenon of corporate boards. For the two latter theoretical schools, corporate boards should be understood as contributors of resources to the corporation, pivotally complementing the agency theory view of boards as providers of monitoring and control (Fama and Jensen, 1983). According to Huse, the *value-creating board* enjoys both integrity and competence-based trust from management and strikes a balance of independence and interdependence.

In order to enhance the present understanding of how board’s work, behavior and performance might be improved, the renewed or more comprehensive insights of the board purpose, functioning, roles and their interplay are needed, as well as the development of new mechanisms and tools that can be applied to improve board activities, and therefore outcomes. Besides, professional practice has started with the initiative of building more forward instead backward looking boards (Casal and Caspar, 2014), which means shifting the board agenda focus from traditional fiduciary and control activities towards more shaping activities, such as engagement in strategic discussions, market and competitive landscape review, investment proposals, talent quality review, risk management, board education and team building. For those reasons, and in line with Gabrielson and Huse (2004) initiative for more of contextual, behavioral and evolutionary governance perspectives insights, we nominate the dynamic capabilities framework as a new board tool of use in governing the corporation, supposing it could assists boards in mastering important current and emerging governance challenges and in enhancing the board members’ abilities to protect and promote the interests of stakeholders and the corporation itself. Besides, we deem that DCV could boost up board-management dialogue and mutual understanding.

1. **Dynamic capabilities framework**

The changing corporate ecosystem brings to the fore the awareness that the essence of contemporary CG lies in the crafting and continuously refining processes that govern companies’ operations. Unsurprisingly, related capabilities are needed in order to keep pace with corporate surrounding changes, and moreover, to provide the company with possibility to take advantage of its effective and efficient corporate governance system. Consequently, within dynamic context, board activities have become even more salient, so the new board level capabilities, in particular for provision of effective and efficient strategic decision-making related to change, are required. Therefore, this study imports the dynamic capabilities view (Helfat and Winter, 2011; Hodgkinson and Healey, 2011; Augier and Teece, 2009; Teece, 2007; Helfat *et al*., 2007; Teece *et al.,* 1997) in the corporate governance discipline, considering it as the useful prerequisite of governance excellence. In particular, three constituting dynamic capabilities, sensing, seizing and transforming capability are conceptualized and discussed below, in order to explain the differences in board responses to changes in the external and internal corporate environment, therefore assuring or hampering corporate fitness[[2]](#footnote-2) and competitive sustainability. The relevant literature is scarce regarding board capabilities and is oriented predominantly to CEO or managerial capabilities (eg. Kor and Mesko, 2013; Adner and Helfat, 2003 for review). We have traced Macus (2008) contribution as the only exception dealing with board operational capability.

Dynamic capabilities view (DCV) has evolved from the resource based theory of strategy (Wernerfelt, 1984; Barney, 1991; Amit and Shoemaker, 1993; Barney *et al*, 2001; for review Locket *et al*, 2001), aimed at overcoming its static nature problems. Even though being highly criticized for its vague and tautological conceptualization, it has emancipated as the distinct approach to strategic management (eg. Vogel and Guettel, 2012; Barreto, 2010; Helfat and Peteraf, 2009 for review). Irresistible attractiveness of the framework resides within its integrative and change-related nature, in terms of context, process and content, regardless the outcomes it is related or aimed to: competitive advantage, renewal, change, fitness or just sustained firm performance. Besides, it rests on generic, cognitive and behavioral processes underpinning the capabilities that promote organizational learning, adaptation and performance (eg. Hodgkinson and Healey, 2011; Augier and Teece, 2009).

Dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resource base (Helfat *et al*., 2007, p.1). Dynamic capabilities (DC) can be understood as higher-order abilities (managerial and leader’s property) and routines (organizational property) that help in creating, reconfiguring and balancing of organizational resources and capabilities (internal perspective), and in identifying, knowing and realizing opportunities, and in timely detection, offsetting and managing threats (external perspective), thus linking the external and internal company’s environment (Tomšić, forthcoming, 2014). DC[[3]](#footnote-3) builds on Nelson and Winter’s (1982) influential evolutionary theory of economic change, founded on the concept of routines, being considered as equivalents of human genes that transfer tacit knowledge inheritance. In this view, routines represent socially constructed tacit resources composed of individuals’ skills that shape organizational performance. Thus, they are the building blocks of organizational capabilities (Dosi *et al*., 2000; Nelson and Winter, 1982; Winter, 2000). Organizational capabilities are conceived as collective and socially embedded in nature. They are brought about by social interaction and represent a collectively shared way of problem-solving (Cyert and March, 1963). A capability, whether operational or dynamic, is the capacity/ability to perform a particular task or activity in a reliable and at least minimally satisfactory manner (Helfat and Winter, 2011; Helfat *et al.*, 2007). Operational capabilities enable an organization to earn a living in the present (Winter, 2003), while dynamic capabilities concern intentional or purposeful change. The term *dynamic* refers to the capacity to renew competencies (Teece *et al*., 1997, p. 515).

Dynamic capabilities are conceptualized by three dimensions: (1) positions, (2) paths, and (3) processes. *Positions* refer to both internal and external positions. The internal position relates to the specific set of resources available in a firm (financial, technological, reputational, and structural). The external side refers to the specific market position/assets of the focal firm. *Paths* represent the history of an organization. The current position of a firm is basically shaped by the patterns evolved from the past. Hence, where a firm can go in the future depends on its current paths and their shaping force. The dimension *processes* is at the heart of DCV and is twofold. On the one hand, processes are devoted to coordinating and integrating available resources. On the other hand, processes refer to organizational learning and the reconfiguration of resources. The latter sub-dimensions represent the dynamic component. *Learning* covers both processes of improvements (of the current positions) and processes of identifying new opportunities. *Reconfiguration* addresses the transformation of a firm’s asset structure accomplished through alert surveillance of the environment for discontinuities and subsequent radical changes. Dynamic capabilities are heterogeneous across firms because they rest on firm-specific paths, unique asset positions, and distinctive processes (Schreyögg and Kliesch-Eberl, 2007; Teece *et al*., 1997).

The field researches are consent that DC include difficult to replicate enterprise capabilities required to adapt to changing customers and technological opportunities. They also embrace the enterprise’s capacity to shape the ecosystem it occupies, to develop new products and processes and to design and implement viable business models. Moreover, DCV reveals the strategic position of managers and leaders in this paradigm, highlighting their essential role in both identifying and capturing new strategic opportunities, in orchestrating the necessary complementarities and other organizational assets, and in inventing business models and new organizational forms. Since processes are inherently inert, their emergence and operating depends on management’s cognitive and creative abilities.

Being a multidimensional construct, DC can be disaggregated into capacity: (1) to sense and shape opportunities and threats; (2) to seize opportunities; and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise’s intangible and tangible assets (Teece, 2007, p.1319). *Sensing* requires searching and exploring markets and technologies both local to and distal from the organization. *Seizing*, in contrast, necessitates making high-quality, interdependent investment decisions, such as those involved in selecting product architectures and business models. *Transforming/reconfiguring* entails aligning and reconfiguring the firm in response to market and technological changes, such that it retains evolutionary and economic fitness[[4]](#footnote-4). The concept includes the capacity to identify the need or opportunity for change, formulates a response to such a need or opportunity, and implements a course of action, hence can be used as a foundation for understanding the processes of strategic renewal. As different dynamic capabilities serve different purposes, they come in many forms and types (Helfat *et al.,* 2007), among which the managerial and relational are especially relevant for the firm success.

Recently, Hodgkinson and Healey (2011) spanned the boundaries of the framework, from its predominantly cognitive towards a more integrative perspective that harness both emotional and cognitive capacity of individuals’ and groups’ decision making processes, thus opening the opportunity for the board dynamic capability conceptualization that fit board functioning and effectiveness improvements. Hence, for the purpose of this research, dynamic capabilities can be defined as collective, board, managerial and organizational capacity of a corporation to purposefully revitalize and transform its resource base in order to achieve congruence with the changing ecosystem, thus sustaining corporate fitness and competitive prospects (adjusted, based on Helfat *et al.*, 2007; Augier and Teece, 2009). By considering the board as a unique organizational team that holds a focal position in the corporate structure, being a mediator between shareholders, CEO and top management team, and a provider for stakeholders’ alignment, we take the attitude that complexity of governing the corporation within changing ecosystem requires distinct governing excellence and underling dynamic capabilities.

By the governance excellence we refer to: (1) the development of the flexible, effective and efficient, change sensitive governance system and related structures; (2) the permanent upgrading of governance practice; sustained with (3) the effective and efficient performance and leadership of a proactive, prudent and capable board, operating as a value creating team. Nominated governance excellence constituencies are needed for enhancing the overall corporate performance and ecosystem’s corporate fitness, encompassing industrial, social and institutional dimension of company’s landscape congruence. All three fitness categories are considered as antecedents that support corporate sustainable success (Tomšić, 2013, p. 849). For the purpose of this research, proactive board is defined as a corporate collective authority, knowledgeable about its roles, that performs its tasks in a participative, farsighted and committed manner, with respect to the extended governing responsibilities.

1. **Conceptualization of the board dynamic capability (BDC)**

To extend dynamic capabilities perspective from strategic to governance framework, firstly we need to define the board dynamic capability scope, with the aim of depicting the distinction of boards related to managerial level duties and required capabilities. Board dynamic capability deals with the corporate level change, i.e. it engages corporate governing processes and tangible and intangible assets that shape the corporate resource base. The complexity of mentioned activities implies internal organizational perspective as well as external, and related capabilities calibrating. Therefore, fallowing Ambrosini *et al.,*(2009) suggestion that there are three levels of DC: incremental, renewing, and regenerative, the board dynamic capability refers to the regenerative DC level. Incremental and renewing capabilities utilize and leverage the current resource base, but regenerative dynamic capabilities evaluate and adapt the overall portfolio. To establish well-understood boundaries of different capabilities levels, we have systematized the organizational capabilities taxonomy, presented in Table 1.

Table 1: The taxonomy of organizational capabilities

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ORGANIZATIONAL CAPABILITIES | | CORPORATE PERFORMANCE | ENVIRONMENT STATUS | CHANGE | DECISON MAKING LEVEL |
| Operational/Ordinary | | Satisfactory | Stability | Know HOW | Operational |
| Dynamic | Incremental | Improved | Volatile | Know WHERE | Tactic |
| Dynamic | Renewing | Differentiated | Turbulent | Know WHAT | Strategic Business |
| Meta capabilities  ------------  Board dynamic capability | Regenerative | New | Ever-changing | Know WHEN and WHY | Strategic Corporate |

Tomšić, D. (2014). The role of corporate reputation in building dynamic capabilities of firms.

Doctorial thesis in preparation. Zagreb: Faculty of Economics and Business.

In line with Teece, 2007); Helfat *et al*., 2007; Teece *et al.,* 1997; and Adner and Helfat, 2003, we define board dynamic capability as the board’s capacity to purposefully create, integrate and reconfigure corporate level resources and competences to address changing ecosystem. Board dynamic capability is composed of sensing, seizing and transforming capacity by which a board: (1) monitors and directs company’s operations; (2) controls, evaluates and enhances managerial performance; and (3) eases the external information, resources and networks access and inflow, thus contributing to the corporate performance and fitness. Since dynamic capabilities are processes that impact upon resources, we propose that the board governance control, direction and provisioning processes lie in the heart of board dynamic capability, where directing and provisioning processes are predominantly knowledge based and relational in nature. Resource base, upon which the board dynamic capability operates, includes: (1) management team and (2) corporation strategic and behavioral positions, paths and processes.

The election of CEO and management team members, as well as monitoring and evaluating their performance, is the duty of board, inherent to its control role. The corporation strategic and behavioral postures are the board’s duty inherent to its directing role, emerged as the output of board strategic decision-making, risk taking and stakeholder principals’ goals and expectations alignment. Thus, BDC theoretically and pragmatically operates as meta-managerial dynamic capability, aimed at empowering and regulating corporate, as well as managerial performance. Hence, fundamental board roles: control, directing and provisioning, taken from the capability perspective, require so to say instrumental approach to board governance; to be abreast of ongoing or incoming changes in environment, board needs to elevate its farsighted and calibrating abilities, i.e. its dynamic capacity. By mastering dynamic capabilities, boards could improve its control and directing aspects of decision-making in timely manner and in line with long-term oriented corporate goals, as well as calibrate the level of risks taking, in order to seize opportunities and deter threats. Figure 1. depicts the conceptual BDC framework.

Figure 1: Board dynamic capability conceptualization

**BOARD DYNAMIC CAPABILITY PROCESS**

Direct relations

Indirect relations

**CORPORATE PERFORMANCE ││ FITNESS**

**Dimensions of evaluation**

* Corporate positions, paths and processes
* Management performance

**Underlying constituencies**

* Human capital – expertise
* Social capital – networks and relations
* Cognition – cold and hot

**Internal perspective**

**Resource base management**

**Transforming capacity**

Integrating, building, reconfiguring and balancing the corporate resource base

**Sensing and shaping** opportunities and deterring threats capacity

**Seizing**

opportunities capacity

**External perspective**

**Entrepreneurial management**

**BOARD GOVERNANCE DOMINANT LOGIC**

**CONTROL││DIRECTING││PROVISIONING PROCESSES**

**BOARD PERFORMANCE**

**BOARD DYNAMIC CAPACITY**

**BOARD PERFORMANCE**

Although Minichilli *et. al*. (2008, p.62) have based their theoretical model on control and service tasks duality, in which strategic participation relates to service tasks, while strategic control relates to control tasks, with respect to strategic and holistic nature of DCV, the board accountability for governing the corporation, as well as the board governance fundamental purpose, we consider control, direction and provisioning processes, their functioning and underlying capabilities interplay, as the focal constituencies of corporate governance system flexibility. Along with board member’s capabilities and commitment, we hold those processes the most impacting on the board performance, which consequently, mediate and moderate corporate performance.

In accordance with the organizational level conceptualization of dynamic capability as the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base (Baretto, 2010), board dynamic capabilities constituencies: sensing, seizing and transforming capacity, would each be individually discussed and explained. We have no intention to enter board characteristics, composition or efficiency debate; instead, we are elevating the unit of analysis to the board level, relating to corporate decision-making and risk taking activity, and in line with Hodgkinson and Healey’s (2011) psychological foundation of dynamic capabilities, sustained with Adner and Helfat (2003) concept of dynamic managerial capabilities, we design board dynamic capability, aimed at empowering the board’s effectiveness. The effectiveness is a qualitative measure of firm performance and can be evaluated relatively, as a goal setting and achieving score ratio, as well as in term of performance fitness.

* 1. **Board sensing capacity**

Board bears risks and responsibility for the overall corporate performance. Besides, board activities shape governance performance and behavior. Being in position to leverage all the perspectives of corporate performance, board should improve its understanding about corporate internal and especially external environment. The contemporary business reality requires, likewise the management, the farsighted and prudent board, aware of and able to cope with ecosystem’s changes. “Governance arguably suffers most when boards spend too much time looking in the rear-view mirror and not enough scanning the road ahead” (Casal and Caspar, 2014). To be able to timely spot, understand or even initiate new, as well as to support or correct ongoing company’s operations and management performance, the board should build, improve or elevate its dynamic sensing capacity. Hence,

***Proposition 1.*** *Sensing board empowers corporate purposeful changing potential.*

Sensing and shaping new opportunities is very much a scanning, creating, learning, and interpretive activity. Investment in research and related activities is usually a necessary complement to those activities, being performed both local to and distal from the organization. The importance of sensing the opportunities and threats is needed for proper calibration of strengths, weaknesses, and technological and market trajectories (Teece, 2007). In addition, opportunity discovery and creation originate from the cognitive and creative, *right brain capacities* of individuals, requiring access to information and the ability to sense and shape developments. Moreover, based on the psychological foundations of DC, Hodgkinson and Healey (2011) point out that the identifying and creating opportunities through searching, synthesizing and filtering information stems from the interaction between reflexive and reflective cognitive and emotional capabilities. In particular, recognizing, scanning and shaping depend on the capability to harness emotions to update mental representations and skilled utilization of intuitive processes to synthesize information and form expert judgments.

Board sensing capacity, being introduced as collective meta-managerial dynamic capability, does not imply that the board should overtake and perform the part of managerial tasks. Instead, it is aimed to operate as a kind of meta-cognitive capability that empowers board directing quality, sustaining simultaneously the managerial as well as organizational capabilities, and reducing the preventive control activities to a minimum required. Adner and Helfat (2003, p.1012) have defined dynamic managerial capabilities as „those enabling managers to build, integrate, and reconfigure organizational resources and competencies”. They have insightfully identified the three underpinning capabilities’ attributes, namely: (1) managerial human capital, (2) managerial social capital, and (3) managerial cognition. Applied to the board level, their concept can be helpful for explaining the differences in board’s response to changes in the external as well as internal corporate environment. The three attributes could be taken as underpinning indicators of board sensing dynamic capacity aimed to monitor and shape opportunities. In argument, Schreyögg and Kliesch-Eberl (2007) have already stressed the importance of incorporating a capability monitoring function that continuously scans the capabilities landscape and the environmental changes. Performed at the board level, it will overcome the managerial framing of opportunities and threats, often burdened by short term performance goals, and possibly blurred due to bounded rationality. The articulated corporate strategy, mission and vision can become a filter, so that the board attention is not diverted to every opportunity and threat the search reveals.

In line with Teece’s (2007) DC conceptualization, opportunity detection occurs because of two classes of factors. First, board members can have differential access to existing information. Second, new information and new knowledge can create opportunities. Related to the former factor, social capital and interlocks on individual and collective board level can powerfully influence the board sensing capacity, by diversity of information, originating not only from the business landscape, but more widely from institutional, regulatory and social environment. Regarding the later factor, with respect to the information flow, ill-informed board would take the suboptimal decisions, or not take them at all when needed. Therefore, board human capital and cognition can empower managerial, aiming at sensing, and consequently, overall performance upgrade. Board social capital, engaged in sensing, empowers board provisioning role by easing the external information, resources and networks access and inflow, therefore strengthening managerial and corporate performance.

In sum, sensing board capacity will relate to boards’ propensity to sense opportunities and threats. The observation refers to those opportunities and threats already brought or even before they have been brought to the board room by management. Moreover, with respect to its directing function, sensing board would alert management timely that the corporate position is to be aligned with the salient legitimate, powerful or urgent stakeholders’ claims or expectations that, if neglected, may become corporate threat or weakness. Boards need to look further out than anyone else in the company, so to monitor and direct company’s operations effectively. “As executive teams grapple with the immediate challenge of volatile and unpredictable markets, it’s more vital than ever for directors to remain abreast of what’s on (or coming over) the horizon” (Casal and Caspar, 2014). Besides, once management alerts the board upon the need for change, so the business can stay fit, sensing board could better understand and support or properly react to the managerial-CEO claims. Consequently, with respect to its control function, sensing board would timely notice if the management team or any team member underperforms its managerial dynamic capability function, or tends to the self-opportunistic behavior, thus weakening corporate opportunities and augmenting threats possibilities. Arguably, a corporation without a board capable of sensing the need for change of the actual corporate positions, in terms of actual corporate and management performance, behavior or stakeholder expectations’ gaps, has a huge obstacle in its way to become ecosystem’s fit.

* 1. **Board seizing capacity**

Once a new (technological or market) opportunity is sensed, it must be addressed through new products, processes, or services (Teece, 2007, p.1326). Seizing, in contrast to sensing, necessitates making high-quality, interdependent investment decisions, such as those involved in selecting product architectures and business models. Therefore, having in mind Augier and Teece’s phrones saying that a company excellent at making the wrong things will fail (Augier and Teece, 2009, p. 411), it seems noteworthy to identify why some board actions have been taken tamely, with the delay or not taken at all.

***Proposition 2.*** *Seizing board empowers corporate strategic positions and enables changing potential.*

The corporate surrounding requires understanding of the businesses the corporation deals with as well as understanding of the overall corporate ecosystem context and emerging occurrences. “Addressing opportunities involves maintaining and improving technological competences and complementary assets and then, when the opportunity is ripe, investing heavily in the particular technologies and designs most likely to achieve marketplace acceptance. Moreover, the manner and time at which an enterprise needs to place its bets depend on competition in the ‘input’ markets and on the identity of the enterprise itself. Seizing innovative investment choices requires the overriding ‘dysfunctions’ of decision making” (Teece, 2007, pp.1326-7). Hence, the board’s propensity to seize will relate to its awareness of the corporate positions and the availability of competing paths that are on the board disposal to enable the wanted or needed change. The decision making about whether to change and which changes of the resource base should be made is the essential component in dynamic capability, as suggested by Moliterno and Wiersema (2007). If the corporation is able to move rapidly in new directions, the value of emerging opportunities would have been dissipated without the action of leaders to enable the transforming changes that made them possible. Building on Teece’s (2007) analysis review, Hodgkinson and Healey (2011) highlight two major psychological barriers that potentially undermine seizing capabilities. First, organizations must be able to evaluate sensed opportunities and threats in a progressive, forward-looking manner and, where appropriate, commit to them in a timely fashion. Second, in order to do so, they must be able to unlock dysfunctional fixations with existing strategies to mitigate or remove decisional bias, inertia, and strategic persistence. Alleviating bias and inertia requires both cognitive and emotional capabilities. Moreover, seizing opportunities requires the fostering of appropriate emotional reactions to new directions (Hodgkinson and Healey, 2011, p.1502).

To understand the need for change, in order to enhance its directing and control roles, board should build and sustain its sensing capacity. To enable the calibrated change, board should build and sustain its seizing capacity. While established capabilities, complementary assets, and/or administrative routines can exacerbate decision-making biases against innovation, board level seizing capability may be used as a path-dependency breaking ability, that balance managerial and organizational level core rigidities (Leonard-Barton, 1992), thus enabling purposeful better-calibrated change. Moreover, since managerial sensing capabilities are not affect free (Hodgkinson and Healey, 2011), having in mind their propensity to achieve short term corporate goals related to individual performance, board’s seizing capability may leverage the managerial (possibly opportunistic) investment initiative by optimizing the level of corporate risks implicated to the suggested activities, in line with the long term corporate goals and stakeholders alignment.

According to past studies, two particular decision-making propensities are relevant. On one hand, the timing of the decisions regarding the modification of the resource base plays a fundamental role. Eisenhardt and Martin (2000, p. 1117) asserted that the potential for long term competitive advantage lies not only in the ability to change existing resources but also in doing it sooner, by the ability to quickly accomplish reconfiguration and transformation ahead of competitors (Teece *et al*., 1997, p. 521). On the other hand, as argued by Adner and Helfat (2003), decision making is relevant for dynamic capabilities not only in terms of the *timing* of managerial decisions but also in what concerns the *content* of such decisions. Thus, the direction of major decisions matters as much as their timing. Besides, crucial element of such directional tendency is the extent to which a given firm systematically pays attention to precisely capturing of resources and capabilities required for selected directional tendency. Hence, board capable of seizing would timely react and undertake the optimal decisions with respect to corporate positions, paths and processes, thus calibrating managerial and corporate performance. Arguably, board unable of seizing, in form of making strategic decisions as well as the timely investment decisions, aligned with the level of risk the corporate positions could tolerate, harms corporate opportunities, resource base and its future potentials.

* 1. **Board transforming capacity**

As explained in Teece (2007), reconfiguration is needed to maintain evolutionary fitness and, if necessary, to try and escape from unfavorable path dependencies. It refers to top management ability to coordinate and execute strategic renewal and corporate change. The transforming capacity within BDC perspective actually encompasses management team oriented actions, with respect to its performance. It also relates to the corporate strategic and behavioral positions, paths and processes, when corporate performance is not in balance with the salient stakeholder expectation, important for its competitiveness and sustainability, which management team, tough highly competent, might not be aware of, due to inherent bounded rationality. The election of management team members, as well as monitoring and evaluating their performance, is the duty of board, inherent to its control role. The corporation strategic and behavioral postures are the board duty inherent to its directing role, while have emerged as the output of board strategic decision-making and stakeholder principals’ goals and expectations alignment. Hence,

***Proposition 3.*** *Board transforming capacity moderates corporate changing potential and performance.*

Successful performance breeds some level of routine, as it is necessary for operational efficiency. Routines help sustain continuity until there is a shift in the environment. Changing routines is costly, so change should not be embraced instantaneously.“Departure from routines will lead to heightened anxiety within the organization, unless the corporate culture is shaped to accept high levels of internal change. If innovation is incremental, routines and structures can probably be adapted gradually or in (semi-continuous) steps. When it is radical, then there will be a mandate to completely revamp the organization and create an entirely new ‘break out’ structure within which an entirely different set of structures and procedures is established”(Teece, 2007, p.1335). However, as noted by Augier and Teece (2009), and highlighted by Hodgkinson and Healey (2011), one of the foremost behavioral challenges associated with the reconfiguration of the enterprise concerns managing the effects of transformation on the core identities and motivations of key individuals and groups. In this sense, the fundamental identity of the firm may become a trap that constrains its adaptive capacity, but board understanding of the company’s positions, processes and paths, as well as on the CEO and management team profile, may tiger the changes within the management team aimed at designing the new fluid organizational identity that facilitates adaptation (Gioia *et al.*, 2000).

Ambrosini *et al.,* (2009, p.S19) suggest that “the regenerative dynamic capabilities could also come from inside and outside the corporation, altogether. For instance, a new CEO could be brought in, who has experience of transforming other firms, or strategic change consultants could be deployed”. While being new to the firm, these capabilities would impact on the firm’s current set of dynamic capabilities. Therefore, board propensity to transform the corporate resource base, would trigger and impact managerial ability to coordinate and execute strategic renewal and selected corporate change direction. Board’s position in the corporate and stakeholder network, along with the pertaining credibility and competence, if present, may calibrate and facilitate changing processes as well as new trajectories to safely emerge, for board is authorized for navigating the company and for legitimately interacting as well as communicating the long-term corporate benefits related to selected change, being weighed carefully by holistic situational judgment, knowledge and expertise.

According to Hodgkinson and Healey (2011, p.1509) “the capacity to reconfigure social identities using reflexive and reflective processes in concert is critical to successful organizational transformation. Self-regulation in transforming concerns the ability of managers at all levels to identify, interpret, and respond to the emotions of stakeholders throughout the organization”. Hence, board provisioning role is performed at an extended, but effective manner. Arguably, board unable of transforming the management team timely, which implies the replacement of CEO and underperforming managers, rewarding of over-performing, or undertaking courses of action when corporate performance is not in balance with the salient stakeholder expectation important for its competitiveness and sustainability, could be considered as the board with unsatisfying transforming capacity.

In sum, board unable of performing necessary control, directing and provisioning sensing, seizing and transformation oriented activities at a corporate level, could be considered as the board with unsatisfying dynamic governance capacity, and so seems to threaten the corporate changing potential, and weaken its overall performance, as well as its prospects for survival. Moreover, with respect to its control and strategic directing role, board that does not sense, act and intentionally correct all the corporate activities that endanger corporate performance or its reputation, might be considered as failing in its both, monitoring and directing role, that will consequently weaken its services or resource providing role too.

To facilitate group decision making regarding the optimal course of action, board needs an overarching governance goal, consistent with the mission, core values, vision, personality and reputation of the corporation that would serve as dominant board logic, and help in cognitive adaptation, framing and reconciliation of embedded assumptions of board members (Hodgkinson and Healey, 2011). Kor and Mesko (2013) argue that the three elements of dynamic managerial capabilities are vitally linked to the notion of managerial dominant logic such that they are the key inputs in shaping this logic, so, in order to extend the view of board as a balancing corporate governance mechanism and as a determinant of corporate performance, the concepts of board dominant logic is to be introduced, aimed at empowering the board’s effectiveness as well as the better aligning of the board’s and managerial mind set.

* 1. **Board dominant logic**

Dominant logic concept (Prahalad and Bettis, 1986) deals with the articulation of the fundamental strategic beliefs, assumptions, and intentions of the CEO and senior management (Lampel and Shamsie, 2000). In line with Kor and Mesko (2013, p. 235), managers’ dominant logic refers to “the way in which managers conceptualize the business and make critical resource allocation decisions”, representing management’s view of the world, where the firm stands in its business environment, and what it ought to be doing. Elevated to the board level, dominant logic could be defined as the board’s interpretation of corporation’s external and internal environment, i.e. its positions, paths and processes. Since board is supposed to acts in the name of the corporation, on behalf of shareholders and main stakeholder’s principals, it is very important to align the board’s and management’s view of the corporation and its corresponding environment and tangible and intangible assets positions, for board and management views may significantly diverge. Management may be too much eager for short term performance, while board is to look after long term goals and sustainable corporate performance.

In order to sustain effectiveness of corporate performance, an overachieving corporate governance long term goal should help in the convergence of perspectives. Corporate fitness, as well as corporate reputation, might serve as ones. If taken as the board dominant logic, such powerful overarching goals would impact the way in which board conceptualizes its monitoring, directing and provisioning function, as well as the way management perform its tasks. Board dominant logic may also leverage *cold cognition* decision biases as well as inertia forces, being recognized as undermining sensing, seizing and transforming capability, thus contributing to board timely reactions, to the better handling the affective response to conflicting information (Hodgkinson and Healey, 2011), and to the clearer judgment of the decision-making context and content, as well as to the board dynamic capacity. Moreover, sustaining ecosystem’s corporate fitness, if taken as the board and management overarching goal, helps in minimizing agency problems. Eventually, ecosystem’s corporate fitness, performing as the board dominant logic upon company’s goals are set, strategies are approved, monitoring tasks and provisioning service are performed, along with the firm mission, core values and vision, could arguably be regarded as governance balancing yardstick, assisting board in ensuring that shareholder rights are safeguarded and stakeholder and manager interests are reconciled.

***Proposition 4****. Board dominant logic enhances and facilitates board dynamic capacity.*

By following an overarching governance goal, board would be strongly motivated to commit to sensing activities in corporate overall context, pertaining not only to corporate industry and business environment, for they are inherent to a management level sensing, but to its whole operating ecosystem. By sharing the very same overarching governance goal with the management, board would have gained the better understanding of the need for change, thus empowering its seizing capacity. In case of new opportunities nomination by management, accompanied by complementary investment, sensing board would timely take needed decisions and engage its provisioning potential, in order to seize the nominated opportunity.

In order not to become excellent at making the wrong things, board activity and the manner of board’s governing the corporation emerge as the highly significant factors. They seem to enable corporate opportunities, offset threats, shape the change magnitude and balance the overall corporate performance. Complexity of contemporary business reality requires, likewise the management, competent and participative board, oriented towards continuous improvement of its own, managerial and overall corporate output. In order to fit the requirements, boards should build, improve or elevate its dynamic capacity. As a supporting efficiency tool, we have conceptualized board dynamic capacity index.

* 1. **Board dynamic capacity index**

According to its definition, dynamic capability is viewed as a multidimensional construct treated as a single theoretical concept. Dynamic capability is a composite formed by its three dimensions that were gradually illuminated by conceptualization above, based on past relevant research. Ours previously suggested concept definition and further interpretationclearly specifies the relations between the overall construct and the three dimensions, showing that this is an *aggregate* multidimensional construct. Instead of being treated as general concept that is manifested by these dimensions, as in the case of a *latent* or *superordinate* construct), this construct is formed by its three dimensions (Barreto, 2010). As a consequence, no dimension alone can represent the construct; instead, as suggested by past research on dynamic capabilities, all dimensions should be taken into consideration: for instance, the propensity to change the resource base is relevant only if there is also a propensity to make the decisions conducive to exploiting the former ability (Pablo *et al*., 2007), ie. the seizing propensity is relevant only if the organization also has the propensity to sense opportunities and threats. Furthermore, although the three dimensions represent the specific components of the construct that they collectively form (Edwards, 2001), it is important to note that under this conceptualization, in contrast to the latent constructs, there is no requirement about the level of correlation among different dimensions, and some dimensions might even be poorly correlated. Moreover, as noted by Law *et al*. (1998), the presence of high correlations among the dimensions is not reason enough to consider dynamic capability as a latent rather than an aggregate construct. The dimensions of an aggregate multidimensional construct are themselves constructs (Edwards, 2001). The operationalization and measurement of the aggregate construct like dynamic capability may be considered as a simple sum of its three dimensions-related constructs, assigning equal weights to each dimension, or as a multiplicative nonlinear function of these dimensions. Otherwise, more complex measurement methods could be used to estimate varying weights (Edwards, 2001).

As dynamic capabilities are not easily observable and a quite difficult to measure, researches often use case studies (eg. Pablo *et al.*, 2007), or a wide variety of proxies related to specific industry or outcome in order to gain plausible results. Since the board dynamic capability is a newly introduced construct, and given that there is no readily applicable measure for it, we have constructed and index as a composite measure of the board dynamic capacity. The Index is composed of the three dimension-related constructs, namely: (1) sensing propensity; (2) seizing propensity; and (3) transforming propensity. For examining the attitudes of board members, a separate measure in form of related set of questions was constructed and measured by the 5 degrees Likert scale, so they provide a direct assessment of the propensities involved (eg. Danneels, 2008). The manifest variables were shaped with respect to previously explained board roles linked to the board dynamic capability scope, based on the theoretical and empirical suggested scales for dynamic capability.

The three dimensions are calculated as the average of comprising variables. For this study, we find the most appropriate to assign equal weights to each dimension D, for we consider that the board dynamic capability relies on the interplay of three proposed capacities for sensing, seizing and transforming. The BDC Index is finally calculated as the average of three dimension-related constructs previously explained, and is expressed by the following formula:

**BOARD**

**DYNAMIC**

**CAPACITY**

**INDEX**

**(BDC Index)**

=

[(∑ D1*i*)/7 + (∑ D2*i*)/7 + (∑ D3j*j*)/8]

*i=1*

*i=1*

*j=1*

*n*

*n*

*n*

3

*i=1,…,7*

*j=1,…,8*

*i≠j*

The value of the BDC Index ranges from 1,00 (minimum vale) to 5,00 (maximum value). In order to empirically test the BDC Index, the research is conducted on a sample of Croatian companies, based on the turnover ranked 1-700 out of top 1000. The research resulted in 103 completed and returned valid questionnaires from different companies. The response rate is 14,71% which could be taken as satisfactory return, having in mind that the topic of dynamic capabilities requires high strategic competence and knowledge that is still not widely speeded in Croatia yet. Each dimension based on the survey data is described in table 2.

Table 2: An overview of the key variables that comprise the BDC Index

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable** | **Description of the variable** | **Cronbach's alpha** | |
| **1st dimension –** D1  *Sensing*  *propensity* | The respondents were asked to estimate the importance of the following claims:  - environment change scanning ability  - competition benchmarking  - new needs and habits creation  - identification and recognition of good ideas and emerging opportunities  - understanding and recognition stakeholders’ needs  - access to relevant information sources  - sustaining innovativeness | | 0,758 |
| **2nd dimension** – D2  *Seizing*  *propensity* | The respondents were asked to estimate the importance of the following claims:  - timely reaction to competition’s strategic moves  - systemic approach to long term strategy implementation  - objective and unbiased assessment of the decision-making context  - sustaining leadership in technological and product or service functionality  - the speed of the decision-making  - business model calibration  - compliance with non-economic environment factors, values and corporate culture | | 0,788 |
| **3rd dimension** – D3  *Transforming propensity* | The respondents were asked to estimate the importance of the following claims:  - sustaining the corporate processes calibration and reconfiguration  - corporate collective absorptive capacity  - sustaining the corporate processes integration and updating  - sustaining the implementation of up-to date management tools and techniques  - team work problem solving  - evaluating managerial competences and performance  - evaluating the internal learning, knowledge sharing capacity and protection  - management training and rotation | | 0,852 |
| **BDC Index** | **(1st dimension + 2nd dimension + 3rd dimension)/3** | | **0,887** |

Table 2. brings variables comprising the BDC Index and the reliability of the measurement scales, analyzed by using Cronbach alpha coefficient, which reflects the degree of internal consistency and validity of composite variables of interest. The values of the Cronbach alpha coefficient are above 0.7 and confer the robustness of the construct. We have further tested the relationship between each of the segments comprising the BDC Index. The correlation analyses, presented in Table 3, show a positive correlation between all of the dimensions comprising the Index, statistically significant at 1% level.

Table 3. Correlation matrix (*Spearman’s rho*)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Correlations** | | | | | |
|  | | | D1 | D2 | D3 |
|  | Sensing propensity D1 | Correlation Coefficient | 1,000 | ,764\*\* | ,682\*\* |
| Sig. (2-tailed) | . | ,000 | ,000 |
| N | 103 | 103 | 103 |
| Seizing propensity D2 | Correlation Coefficient | ,764\*\* | 1,000 | ,747\*\* |
| Sig. (2-tailed) | ,000 | . | ,000 |
| N | 103 | 103 | 103 |
| Transforming propensity D3 | Correlation Coefficient | ,682\*\* | ,747\*\* | 1,000 |
| Sig. (2-tailed) | ,000 | ,000 | . |
| N | 103 | 103 | 103 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | | | |

1. **Concluding remarks**

This study have extended the dynamic capabilities perspective to the board governance level, signifying that the board dynamic capability should be regarded as the new and powerful mechanism of use in achieving congruence of the firm’s competencies and positions and changing environmental conditions. BDC does not imply that the board engages in the managerial duties. Instead, by taking the attitude that the board selects and authorizes corporate courses of action, it could be asserted as the empowering or weakening corporate resource. Therefore, we suggest that the board dynamic capacity may be taken as the vital driver of corporate success, and consequently as a determinant of corporate performance and competitive potential.

We are aware that such an attitude requires the repositioning of board governance current routines and practices to the new, more strategy and change oriented trajectory, with the respect to mentioned essential board’s roles. Nevertheless, since the dominant governance paradigm is fading away, we have dared to offer a frame for a new one to emerge. We have done it not through the “development by accumulation” that Carver (2010), building on Kuhn’s (1962) well-known treatise on how science progress, finds impeding for the field, but by merging the cross-disciplinary researches and related insights. Furthermore, we have moved beyond the board composition, characteristics and efficiency issues, of which field researches have already offered a range of prescriptions and tools, and have highlighted the board effectiveness. Even though dynamic capabilities are capabilities in essence, we indicate that they could represent the distinguishing mode of board functioning. Therefore we are opening up a wider conceptual space of board governing. While being a meta-capability, BDC serves as the denominating element of organizational capabilities, sustaining both managerial and organizational performance.

Within the spirit of dynamic capability perspective actually is a firm’s behavioral orientation constantly to integrate, reconfigure, renew and recreate its resources and capabilities and, most importantly, to upgrade and reconstruct its core capabilities in response to the changing environment. BDC, as the new breed of the DC, is conceptualized and proposed in this spirit, suggesting that the board capable of mastering organizational and individual level dynamic capabilities essentially demonstrates self-regulating capacity as the distinguishing, corporate governance specific facet, thus influencing and improving corporate overall performance. In line with Teece (2007), it might potentially be considered as the newer sources of competitive advantage. The difference in board governing is sustained not only by the *what*, but moreover by the *why and when* mode of board’s and consequently, managerial and corporate actions. Thus, BDC theoretically and pragmatically operates as the meta-managerial dynamic capability, aimed at empowering and regulating corporate as well as managerial performance.

We consider that DCV could be used as a fresh, pragmatic, convenient, as well as prescriptive mode of board governance, which could assist in further developing of governance excellence policy, based on evolutionary process oriented to continuous assessment of the current corporate performance and its position in the ecosystem, and in parallel, taking the actions of improvement in order to lead and position the corporation where it ought to be, all with the respect to corporate vision, shareholders interest and stakeholder principals’ expectations alignment. We believe that here proposed board dynamic capacity could become the new measure of board contribution to corporate performance and fitness. The insights and propositions offered here need some more empirical testing, so to gain more solid inference and explanatory power, which is considered to be the major limitation of the study.

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1. The notion ecosystem implies the complexity of the business, social and institutional environment the corporation operates in. Following Teece, the business “ecosystem” stands for the community of organizations, institutions, and individuals that impact the enterprise and the enterprise’s customers and supplies. The relevant community therefore includes complementors, suppliers, regulatory authorities, standard-setting bodies, the judiciary, and educational and research institutions (Teece, 2007, p.1325). [↑](#footnote-ref-1)
2. The notion fitness is borrowed from population ecology literature and is brought to strategic management as a conceptual yardstick for measuring the performance of dynamic capabilities (Helfat *et al*., 2007, p.7). [↑](#footnote-ref-2)
3. Dynamic capabilities rest on assumptions and intellectual foundations that can be traced to the behavioral theory of the firm (Cyert and March, 1963), to evolutionary theory (Nelson and Winter, 1982), as well as to Penrosian views on the nature of the firm (Penrose, 1957) (Augier and Teece, 2009 for review). [↑](#footnote-ref-3)
4. The strategy management field literature is already familiar with the different forms of performance fitness. Helfat *et al.* (2007) contrasted evolutionary (dynamic, external) fitness with technical fitness. Technical fitness looks upon how effectively a capability is performed, while dynamic fitness, by which external fitness is meant regards whether the right activity is being performed. The latter is about making the right investments at the right time, and lining up the necessary complements (Augier and Teece, 2009, p. 412), but both are adaptive in nature. [↑](#footnote-ref-4)