Journal of Business Governance

Article Open Access

Board Independence and Its Influence on Strategic Decision-Making

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Abstract: This research investigates the impact of board independence on strategic decision making of Malaysian companies. The study is to explore the impact of board independence, participation of independent directors, independence of board committees and nonexistence of dual positions of CEO on effective strategic decision-making. Further, this study tests the mediation effect of governance quality and moderation effect of firm size in the relationship between board independence and strategic decision-making. A quantitative research approach with a cross sectional survey design was used. The respondents were 270 respondents comprising of board members, senior managers, corporate executives and governance professionals from different industries in Malaysia. The collected data were analysed by Statistical Package for Social Sciences (SPSS) and Partial Least Squares Structural Equation Modeling (PLS-SEM). Results indicate that there is a strong positive effect on strategic decision-making as a result of board independence. Independent directors' participation, board committee independence and no duality of CEO roles also were discovered to positively influence the effectiveness of strategic decision-making. Moreover, the results of governance quality substantially mediate between the relationship of board independence and strategic decision-making, suggesting that board independence contributes to better governance mechanisms that, in turn, lead to better strategic decision-making. The results also show that firm size is a significant moderator in the relationship implying that larger firm sizes reap greater benefits from independent governance structure because of the greater number of stakeholders and complexity of the firms. The study makes a significant contribution to the corporate governance literature because it examines the issue of board independence from an empirical perspective using the Malaysian context and extends the knowledge of the effect of board independence on strategic governance processes in the emerging market context. The results have implications for policy makers, regulators and corporate leaders on the need to enhance independent board mechanisms to enhance the quality of corporate governance, effectiveness in the strategic management of companies and sustainability of business models.

Keywords: Board Independence; Strategic Decision-Making; Corporate Governance; Governance Quality; Firm Size; Independent Directors

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Citation: Safiyuddin, F. S. (2026). Board Independence and Its Influence on Strategic Decision-Making. *Journal of Business Governance*, 1(1), 17-31. https://doi.org/10.66348/jbg.26.a67

Received: 2026-05-06
Revised: 2026-08-21
Accepted: 2026-10-16
Online Available: 2026-10-16
Published: 2026-12-31

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1. Introduction

Corporate governance is a larger concern for organizations globally as concerns in this area of accountability, transparency, ethical management and organizational sustainability continue to increase. There are different governance mechanisms, the board of directors is at the heart of them all to oversee the work of management, safeguard the interests of shareholders and steer the strategic path of the organization. The independence of the Board has recently been highlighted and the role of the independent directors is expected to be objective, to reduce agency conflicts and to make the process of strategic decision making effective (Judge & Talaulicar, 2017). In the present competitive and dynamic

world, the ability of the board to make effective strategic decisions can be the difference between success and failure and sustainability of an organization.

Strategic decision making is how decisions are made and implemented that determine the direction, competitiveness and performance of the organization. These decisions often involve investment decisions, innovations, mergers and acquisitions, internationalisation, decisions on corporate social responsibility, and risk management. The boards of directors should be part of the discussion and long-term planning as well as watching the managerial activities (Judge & Zeithaml, 1992). However, the control and influence a board has in the strategic decision making process heavily relies on the independence, expertise and diversity of the board. Independence of the board typically translates to a director's independence from management and capacity to make fair decisions and judgments. Independent directors have been speculated to enhance the quality of governance in terms of better monitoring and good corporate decision making and governance for the benefit of shareholders/stakeholders. According to the Agency Theory the existence of independent boards reduces agency problems arising from separation of ownership and management, as it makes the management more accountable and less opportunistic. Research has suggested that an independent board positively affects board performance and effectiveness at strategic governance (Wagner, 2011).

There are several empirical studies that have investigated the link between board independence and strategic decision making. Ruigrok, Peck and Keller (2006) found a strong correlation between the involvement of a board in strategic decision making processes and the structure of their governance. They found that the higher the level of interlocking, and the more the CEO was the chair, the less the boards were active in their strategic oversight. Similarly, balance in the power dynamics of the board, shared mental models and competent leadership in the boardroom results in more rational and effective decisions in the boardroom (Bailey and Peck, 2013). Bezemer, Nicholson and Pugliese (2018) reiterated this study and concluded that strategic leadership of the chair has a significant effect on the director's engagement in strategic discussions, which in turn would affect the quality of the decision made.

The research on the value of Board diversity and Board independence in improving strategic outcomes, has also been studied. The positive relationship between demographic diversity of the directors and the decisions of M&As is proved by Ben-Amar et al. (2013) through enhancing the quality of the strategic conversation. Bankewitz, Kanadlı, and Zhang (2018) also found that a diverse workforce positively impacts the processes of board decision making which are broad-based and timely. In addition, Phillips-Wren (2018) reported that diverse and independent boards make better decisions for an organization because they will think more critically and make decisions with less bias during strategic discussions. Other important strategic results that have been associated with board independence include corporate social responsibility (CSR) and organizational performance, as well as internationalization. Chen (2011) revealed that independent boards make a significant difference in terms of strategic decisions in international expansion and effectiveness of the top management team. Likewise, Godos-Díez et al. (2018) indicated that the decision-making processes of the board of directors have a positive effect on CSR engagement, while Islam, Ali and French (2023) highlighted that independent directors have a positive effect on CSR decisions, as they offer distinct external perspectives and improve managerial control. Further, Naseem, Ali and Ur Rehman (2024) revealed that board independence and board diversity positively and significantly influenced dividend payout by using board CSR practices as a mediator.

Although there is an ever increasing body of work on board independence and strategic governance, there is still limited empirical work on emerging economies like Malaysia. The Malaysian corporate governance is in an era of significant transformation over the past two decades since the Malaysian Code on Corporate Governance (MCCG) was launched and has been evolving ever since. The reforms highlight the need for independent directors, accountability of the boards, transparency and good governance

mechanisms. However, there are doubts regarding the independence of boards in Malaysian organizations' strategic decision making. Since the ownership, the institutional context and governance in developed and emerging economies differ, the findings of developed countries research may not be applicable in Malaysia.

Moreover, there are few studies that investigated the moderating effect of firm size on the relationship between board independence and strategic decision-making, and the mediating role between board independence and organizational outcomes. Governance quality could enhance the effect of board independence and make an organization more transparent, accountable and oversight mechanisms more effective. Similarly, the independence of governance in larger businesses could be stronger due to the size of the businesses and complexity of their operations. Hence, study of these relationships would lead to a better understanding of the effect of the board's independence on the effectiveness of strategic governance in Malaysian companies.

This study will examine the impact of board independence on the board's strategic decision making process in Malaysian companies. In other words, this study focuses on the board independence, the participation of independent directors, the board committee independence, and the absence of the CEO duality and their direct effects on strategic decision making. Also, the study explores the governance quality as a moderator of the relationships, and firm size as a moderator of the governance quality. The study also contributes to the literature on corporate governance as it brings empirical evidence from the Malaysian context and insights into the governance mechanisms that enable organizations to be strategic.

2. Literature review

The number of literature in corporate governance has increased which gives significance to the independence of the board in enhancing strategic decision making of an organization. Board independence is the independence of the Board members from the management and their ability to make independent decisions. Independent directors are expected to play a role of enhancing monitoring systems, minimizing agency conflicts and helping to make effective decisions on strategies. Initial research into board involvement in strategic decision making emphasized the changing nature of the board's role from a monitoring to a more strategic role. From the Judge and Zeithaml (1992) perspective, the role of the board is an important aspect of strategic decision processes and institutional/organizational factors are important influences on board participation in strategic decision processes. They discovered that boards can play a role in making strategies more effective when they are involved in strategy and direction of the organisation. Likewise, Judge and Talaulicar (2017) reviewed the entire landscape of board involvement in strategic decision-making, and stressed the legal and strategic role of the board in setting an organization's direction and assuring long-term performance.

Studies have also investigated the role of board attributes on the effectiveness of strategic decision making. Ruigrok, Peck and Keller (2006) studied Swiss companies and found that certain of the governance variables are significant in determining the role of boards in strategic decision making. They discovered that there is a negative correlation between highly interlocked boards and strategic involvement, but also between the CEOs personal involvement in the Board chairmanship and strategic involvement. However, the study provides limited evidence that limited board size or increased outside directors does not necessarily lead to a direct impact on strategic involvement.

It has been the subject of research by several scholars to understand the dynamics that occur in the boardroom, and how independent boards are contributing to strategic decisions. Bailey & Peck (2013) studied the boardroom strategic decision making styles and concluded that shared mental models, balance of power and effective leadership of the board chair are key factors in determining procedural rationality and political behavior on boards. The study revealed that the strategic decisions made by the higher quality and more rational independent boards were more balanced in their relation with the

directors and CEO. Likewise, Bezemer, Nicholson, and Pugliese (2018) examined the level of board chair involvement and its effect on director involvement in board meetings and found that excessive involvement by the board chair can lead to a decrease in director attendance at board meetings.

Another important factor of good strategic decision quality has been identified to be board leadership. Nahum and Carmeli (2020) suggest that the leadership styles that boards adopt can be important in influencing their role in the strategic decision-making process. They found that participative and collaborative models of leadership boost the engagement of the directors and, therefore, the strategic outcomes. Likewise, Levrau and Van Den Berghe (2013) argued that the chair's decision-making style of the board is vital to the board's effectiveness and that it impacts on the kind of discussions and oversight the board members have with one another. Also, the board's diversity is an issue that can influence strategic decisions. Ben-Amar et al. (2013) looked at the interaction between board diversity and ownership structure and the decision to engage in a merger and acquisition (M&A) in Canadian firms. They found that their results indicated a positive association between demographic diversity and strategic decision performance and that there was a nonlinear relationship. The research also claimed that diversity can help to provide a wider perspective and better inform decision-making processes. In addition, independent, diverse boards can help to enhance the quality of team decision making by more effectively challenging decisions or analyses, as well as avoiding potential biased decisions, as reported by Phillips-Wren (2018). Likewise, Kanadlı, Bankewitz and Zhang (2018) showed that diversity in the workplace also leads to better strategies and decision-making processes of the boards, as per the upper echelons theory, diversity enriches strategic deliberations.

A second line of literature has to do with board independence and international strategic decisions. The authors of InChen (2011) examined the question of whether or not board independence is a significant determinant in the top management teams' decision to internationalize, and the authors identified that the independent boards do have a significant impact on the top management teams strategic decisions on internationalization. Independent directors offer firms a wider range of skills and outside viewpoints that can help to spur them on to international opportunities and effectively deal with risks. A connection between board independence and the decision-making process concerning corporate social responsibility (CSR) has also been observed. Godos-Díez et al. (2018) found that the decision making processes in the board have a significant impact on CSR engagement; the independent boards have a positive effect on socially responsible strategic decisions. Similarly, Islam, Ali and French (2023) discovered that the independent directors are added to the team to improve the CSR performance and to monitor the activities of the managers to ensure that their activities are taken into account for wider stakeholders. They have discovered that the independent directors play a vital role in enhancing the accountability and strategic response to social & ethical issues. Further, Naseem et al. (2024) find that CSR acts as a moderating factor between board independence and board diversity and dividend payout. In a similar manner, Rao and Tilt (2016) have found that the composition of the board and the diversity and strategic orientation of the board has significant impact on the CSR decision making process.

In times of financial uncertainty and crisis, the effectiveness of board independence has also been studied. Muller-Kahle and Lewellyn (2011) focused on the composition of the board of US subprime lenders and found that it mattered a lot in determining strategic outcomes in the financial crisis. The study had concluded a combination of poor strategic decisions and ineffective governance arrangements and weak independent oversight. Likewise, Wagner (2011) recommended that in addition to the board independence, the director's competency is also required to make effective governance performance. Informal relationships and networks in boards have also been the focus of research. Stevenson and Radin (2015) explored the formal-informal roles and networks of board members and their power to influence and decide. They discovered that it is the informal side of their

relationship that is a critical aspect of board influence and strategic discussions. Gold (2011) further discovered that employee representation on boards also impacts on a more inclusive and balanced strategic decision-making process, by introducing labour interests into corporate agenda. The findings confirm the hypothesis that structural independence is not sufficient, but collaboration in the boardroom is also crucial, when it comes to making good decisions. Last but not least, Zhu, Wang, and Bart (2016) studied board processes, strategic involvement, and organizational performance of for-profit and non-profit organizations. They discovered that the board processes and strategic involvement positively influence the performance of the organization. The results support the notion that independent and strategic boards are important contributors to the organisation's success, both in terms of the quality of its governance and in terms of its strategic decision making.

H1: Board independence positively influences strategic decision-making
H1a: Independent directors' participation positively influences strategic decision-making
H1b: Board committee independence positively influences strategic decision-making
H1c: Absence of CEO duality positively influences strategic decision-making
H2: Governance quality mediates the relationship between board independence and strategic decision-making
H3: Firm size moderates the relationship between board independence and strategic decision-making
H4: Board independence positively influences governance quality
H5: Governance quality positively influences strategic decision-making

3. Methodology

The research method used in this research is quantitative, which aims to examine the effect of board independence on strategic decision making in Malaysian company. The quantitative method is appropriate because it will be able to objectively measure the relationship between the two variables of board independence and strategic decision making and also test the hypotheses to be tested through the statistical analysis. This study is an explanatory study since it tries to explain the role of board independence in effectiveness of the strategic decision making in Malaysian corporate environment.

A cross sectional research design is used in this investigation. A one-shot design will be used to collect data from respondents to gain insight into the governance practice and strategic decision making of Malaysian organizations. A cross sectional design is considered to be appropriate as this allows the data to be collected from a relatively large number of data subjects at a limited time, to examine the relationship of variables.

The respondents of this study are the companies listed in Bursa Malaysia that consist of board members, senior managers, corporate executives, company secretaries and governance professionals. They are selected due to their knowledge and experience of board structures, governance and organizational decisions. This study is conducted in a relevant background as the Malaysian Code on Corporate Governance (MCCG) now emphasizes the importance of corporate governance reforms as well as the independence of the board in Malaysia.

To select respondents, purposive sampling technique is used which involves the selection of respondents that are directly involved in governance and strategic decision making. The study involved 270 respondents in various industries including manufacturing, financial services, telecommunication, construction and consumer services industries in Malaysia. The number of respondents in this study is 270 and is considered to be good for statistical analysis, and can be compared with the recommended number of samples for regression model of social science research.

The study is by using primary and secondary sources of data. Primary data is collected through systematic questionnaire, which is shared with respondents through online as well as offline methods. The questionnaire is comprised of closed-ended items that are scored on a five-point Likert scale (1 = "Strongly Disagree" to 5 = "Strongly Agree"). In order to get the items on the questionnaire to be accurate and consistent in

measurement the items are taken from the works of previous studies. Theoretical and empirical background on secondary data were obtained from publications, books, corporate governance report, annual report of the Malaysian listed companies, academic journal and other relevant publications.

In this study the independent variable is the independence of the board. There are a number of measurements for it which include the ratio of independent directors on the board, an independent director, whether there is an independent director, whether the CEO position is combined with the chair of the board and whether the board committees are independent. Strategic decision making is considered as dependent variable that is measured using dimensions of strategic decision quality, effectiveness of strategic planning, innovation orientation, risk management capability and long term organizational focus.

4. Results

The demographic characteristics of the 270 respondents of this study are presented in Table 1. The results indicate that majority of the respondents were male (60.0%) while the females respondents were 40.0%. The age distribution of the respondents was mostly young adults aged 35-44 years (38.5%) followed by the 45-54 year age group (28.1%). This indicates that the respondents had generally a good level of relevant professional and managerial experience in corporate governance and strategic decision making. As far as job position, senior managers made up the highest number of respondents (35.6%) followed by corporate executives (30.4%), suggesting that data were obtained from those who actively participated in the strategic processes of their organizations. Respondents were from a variety of industrial sectors, with the leading two being consumer services (24.8%) and manufacturing (23.0%). Furthermore, the respondents' educational experiences were at an appropriate level, most of whom had worked for 5–10 years (36.3%), before the studies began, so they could give reliable answers for the study.

Table 1: Demographic Profile of Respondents (N = 270)

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	162	60.0
	Female	108	40.0
Age Group	25–34 years	58	21.5
	35–44 years	104	38.5
	45–54 years	76	28.1
	55 years and above	32	11.9
Position	Board Member	48	17.8
	Senior Manager	96	35.6
	Corporate Executive	82	30.4
	Governance/Compliance Officer	44	16.3
Industry Sector	Manufacturing	62	23.0
	Financial Services	58	21.5
	Telecommunications	44	16.3
	Construction	39	14.4
	Consumer Services	67	24.8
Working Experience	Less than 5 years	42	15.6
	5–10 years	98	36.3
	11–15 years	76	28.1
	More than 15 years	54	20.0

The descriptive statistics for the main variables analysed in this study (board independence and strategic decision-making dimensions) are presented in Table 2. Results show that the mean score of board independence was 4.126 with a standard deviation of

0.614, which suggest that the general perception of the respondents was high level of independence of the board in Malaysian companies. The mean scores for the dimensions of board independence were 4.083 and 4.021 for independent directors and board committee independence, respectively, indicating positive perceptions of the role of independent directors and committees in board governance practices. Overall, the mean score of strategic decision-making was 4.187, indicating high levels of agreement by respondents that strategic decisions that are made in their organizations are generally effective and well-managed. The highest mean score (4.281) was achieved for risk management effectiveness, which means that organisations are very concerned with strategic risk assessment and control. Overall, the standard deviation values were relatively low, indicating a consistency in the opinions of the respondents, regarding the study variables.

Table 2: Descriptive Statistics of Study Variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Board Independence	270	1.80	5.00	4.126	0.614
Independent Directors Participation	270	2.00	5.00	4.083	0.658
Board Committee Independence	270	1.75	5.00	4.021	0.702
CEO Duality Absence	270	1.00	5.00	3.944	0.773
Strategic Decision-Making	270	2.10	5.00	4.187	0.587
Strategic Decision Quality	270	2.00	5.00	4.214	0.603
Innovation Orientation	270	1.80	5.00	4.053	0.681
Risk Management Effectiveness	270	2.00	5.00	4.281	0.564

The reliability analysis results for the study variables were analyzed using Cronbach's Alpha coefficient, and the results are shown in Table 3. Results showed that Cronbach's alpha values for all the variables were higher than the required value of 0.70, thus reflecting good internal consistency and reliability of the measurement scales. The Cronbach's Alpha for the board independence construct was found to be 0.892, which represents a high level of reliability among the items on the questionnaire that measured board independence. Likewise, the reliability value obtained for strategic decision-making was 0.917, indicating good level of consistency across items of the instrument assessing strategic decision making processes and products. The dimensions of independent directors' participation, board committee independence, innovation orientation, and risk management effectiveness achieved results that were also in the good range of reliability scores (from 0.824 to 0.883). The findings indicate that the questionnaire items of this study have reliability and are suitable for further statistical analysis.

Table 3: Reliability Analysis of Study Variables

Variables	Number of Items	Cronbach's Alpha
Board Independence	6	0.892
Independent Directors Participation	4	0.861
Board Committee Independence	4	0.844
Strategic Decision-Making	7	0.917
Strategic Decision Quality	4	0.883
Innovation Orientation	3	0.824
Risk Management Effectiveness	3	0.851

Table 4 is Pearson correlation analysis of the relationships between board independence, independent directors' engagement, board committee independence and strategic decision-making. The results show that board independence is statistically significant and positively correlated with strategic decision making ($r = 0.611$, $p < 0.01$) which means that board independence helps Malaysian companies to make effective strategic decision. The results further showed that the independent directors' participation had a positive

correlation with strategic decision making (r = 0.574, P < 0.01), which means that the participation of independent directors is positively affecting the strategic decision making processes of an organization. Likewise, there was a significant positive relationship between board committee independence and strategic decision making (r = 0.536, p < 0.01). In addition, the positive correlation between the independent variables indicate that the different aspects of board independence are highly related to each other. The results of the study suggest preliminary evidence in the direction proposed in the hypothesis, which is that the higher the degree of board independence, the more positive its impact on strategic decision making.

Table 4: Pearson Correlation Matrix

Variables	1	2	3	4
1. Board Independence	1			
2. Independent Directors Participation	0.742**	1		
3. Board Committee Independence	0.688**	0.654**	1	
4. Strategic Decision-Making	0.611**	0.574**	0.536**	1

Note: Correlation is significant at the 0.01 level (2-tailed).

The findings of the multiple regression analysis to test the effect of the board independent dimensions on the strategic decision making of Malaysian companies are presented in Table 5. The model demonstrates a very good overall relationship with an R value of 0.741 and R^2 value of 0.549, suggesting that about 54.9% of the strategic decision making variance is explained by the independent variables that are part of the model. The adjusted R^2 value is 0.541, which also indicates that the regression model has a significant explanatory power. F-statistic 80.632 at significance level $p < 0.001$ shows that the overall model is suitable, and statistically significant to explain strategic decision-making outcomes. In particular, the strategic decision related to board independence, with the board independence being the strongest positive predictor of them ($\beta = 0.428$, $p < 0.001$), suggesting that the higher the level of board independence, the better the quality and effectiveness of the strategic decision. The participation of independent directors also had a significant positive effect ($\beta = 0.291$, $p < 0.001$), suggesting a positive impact of active participation of independent directors in strategic governance processes. In the same way, board committee independence and non-duality of CEOs showed strong positive correlations with strategic decision making, suggesting that independent oversight structures have a positive effect on organizational strategic outcomes.

Table 5: Multiple Regression Analysis Results

Independent Variables				Standardized Beta (β)	t-value	Sig. (p-value)
Board Independence				0.428	7.842	0.000
Independent Directors Participation				0.291	5.436	0.000
Board Committee Independence				0.214	4.117	0.001
CEO Duality Absence				0.169	3.284	0.002
R	R^2	Adjusted R^2	F-value	Sig.		
0.741	0.549	0.541	80.632	0.000		

The Analysis of Variance (ANOVA) results for the regression model in this study are shown in Table 6. The results show that the regression model is significant (F = 80.632, Sig. = < 0.001). The regression sum of squares (84.372) is the sum of the variation in strategic decision-making due to independent variables, and the residual sum of squares (69.371) is the sum of the variation explained by the independent variables. The sum of squares (153.743) is the overall variability of the dependent variable. The significance value obtained is less than the accepted value of 0.05, therefore the results indicate that the overall board independence and its dimensions have a statistically significant impact on strategic

decision making of Malaysian companies. Thus, the regression model is a good model for the data and the proposed hypotheses.

Table 6: ANOVA Results

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.
Regression	84.372	4	21.093	80.632	0.000
Residual	69.371	265	0.262		
Total	153.743	269			

Table 7 shows the mediation analysis results for the mediation of governance quality between board independence and strategic decision making. The findings suggest that board independence has statistically significant positive impact on governance quality with a coefficient of 0.587 ($p<0.001$), such that as the board becomes more independent, governance in the organizations will be stronger. Another governance characteristic that has a significant effect on strategic decision making is governance quality ($\beta = 0.462$, $p < 0.001$), which indicates that good governance mechanisms increase the quality and effectiveness of strategic decisions. In addition, even with governance quality as a mediator, the direct effect of board independence on strategic decision-making was statistically significant ($\beta = 0.311$, $p < 0.001$). Also, there is a partial mediation between board independence and strategic decision-making through governance quality ($\beta = 0.271$, $p = 0.001$). This discovery indicates that part of the mechanism for the positive relationship between board independence and strategic decision-making is the quality of governance. Furthermore, based on the Sobel test result ($z = 4.916$, $p < 0.001$), it is proven that the mediating effect is statistically significant. In this regard, the quality of governance has a significant influence on improving the relationship between the independence of the board and strategic decision making of Malaysian organizations.

Table 7: Mediation Analysis Results

Relationship Path	Coefficient (β)	t-value	Sig.
Board Independence → Governance Quality	0.587	10.421	0.000
Governance Quality → Strategic Decision-Making	0.462	8.133	0.000
Board Independence → Strategic Decision-Making (Direct Effect)	0.311	5.782	0.000
Board Independence → Strategic Decision-Making (Indirect Effect via Governance Quality)	0.271		0.001
Test Statistic (Sobel Test for Mediation)		Value	
Sobel z-value		4.916	
Sig. (p-value)		0.000	

The analysis results of Moderation, which can be seen whether the relationship between board Independence and the strategic decision-making is moderated by firm size can be seen in Table 8. The model summary reveals the R value is 0.768 and the R^2 is 0.590, which means that the model explains about 59.0% of the variation of the strategic decision-making. The F value of 63.824 with $p<0.001$ is statistically significant, which shows that the moderation model is statistically significant. The findings show that board independence is positively and significantly related to strategic decision making ($\beta = 0.401$, $p<0.001$) and also firm size is positively and significantly related to strategic decision making ($\beta = 0.183$, $p = 0.001$). The interaction between the board independence and firm size is statistically significant ($\beta = 0.157$, $p = 0.004$), which shows that firm size has a moderating effect on the relationship between board independence and strategic decision making. The results imply that the benefits of board independence for strategic decision making are greater in larger firms. Independent boards are more suitable for larger organizations that may have more duties and expectations to manage, as well as more strategic complexity.

Thus, the effect of board independence on improving strategic decision making processes in Malaysian companies is strengthened with the growth in firm size.

Table 8: Moderation Analysis Results

Variables	**Standardized Beta (β)**	**t-value**		**Sig.**
Board Independence	0.401	7.216		0.000
Firm Size	0.183	3.508		0.001
Board Independence × Firm Size	0.157	2.894		0.004
R	R^2	Adjusted R^2	F-value	Sig.
0.768	0.590	0.583	63.824	0.000

The Heterotrait–Monotrait Ratio (HTMT) analysis was used to examine the discriminant validity of the study constructs in the PLS-SEM model as shown in Table 9. Discriminant validity is used to assess the empirical independence of the constructs of the study. As seen from the results, all the HTMT results are below the recommended value of 0.90, which shows good discriminant validity among the constructs. In particular, the HTMT value of the board independence and independent directors' participation is 0.781 and the value of the governance quality and the strategic decision-making is 0.754, respectively. The findings indicate that there is a positive relationship among the constructs, but they are also distinct enough and measure different conceptual aspects of the model. Thus, the results show that the measurement model has satisfactory discriminant validity, and that the constructs in this study have good reliability and are suitable for the analysis of the structural model.

Table 9: Heterotrait–Monotrait Ratio (HTMT) Analysis

Constructs	**1**	**2**	**3**	**4**	**5**
1. Board Independence	—				
2. Independent Directors Participation	0.781	—			
3. Board Committee Independence	0.746	0.712	—		
4. Governance Quality	0.698	0.664	0.647	—	
5. Strategic Decision-Making	0.735	0.691	0.673	0.754	—

The result of partial least square structural equation modeling (PLS-SEM) is presented in table 10, which consists of direct effects, mediating effects, moderating effects and assessment of the structural model. The direct effect results show that the board's independence has a significant positive effect on strategic decision-making ($\beta = 0.401$, $p < 0.001$) which supports the first hypothesis that independent boards improve the quality of strategic organizational decisions and their effectiveness. In addition, the participation of the independent directors, as well as the independence of the board committees, have significant positive impacts on strategic decision making, meaning that the independent director's participation and independent oversight mechanisms positively influence strategic governance processes. Moreover, board independence has significant impacts on the governance quality ($\beta = 0.592$, $p < 0.001$); and the governance quality has significant influence on strategic decision-making ($\beta = 0.447$, $p < 0.001$). The results here suggest that the more independent a board of directors is, the more likely the organization will have good governance, which in turn leads to better results in the strategic decision making process.

Table 10: PLS-SEM Path Analysis Results

Hypothesized Relationship	Path Coefficient (β)	Standard Deviation	t-value	p-value	Decision
Board Independence → Strategic Decision-Making	0.401	0.056	7.161	0.000	Supported
Independent Directors Participation → Strategic Decision-Making	0.276	0.051	5.412	0.000	Supported
Board Committee Independence → Strategic Decision-Making	0.198	0.048	4.125	0.000	Supported
Board Independence → Governance Quality	0.592	0.049	12.082	0.000	Supported
Governance Quality → Strategic Decision-Making	0.447	0.055	8.127	0.000	Supported

The mediation analysis also shows that there is a mediation of governance quality between the direct effect of board independence and strategic decision-making (see Table 11). The indirect effect is statistically significant ($\beta = 0.265$, $p < 0.001$), and this indicates that better governance quality is one way strategic decision making ability of the board is improved. This finding suggests that the independent boards increase transparency, accountability and monitoring mechanisms and in turn, facilitate improved strategic decision-making within Malaysian companies. Firm size also shows to be a significant moderator of the relationship between board independence and strategic decision-making ($\beta = 0.154$, $p = 0.004$) as shown by the moderation analysis. This implies that the positive association between board independence and strategic decision-making becomes stronger as the size of the firms increases, which may be attributed to the higher level of governance and strategic complexities and the need for independent monitoring and oversight in the larger firms.

Table 11. Mediating and moderating analysis

Mediating Relationship	Indirect Effect (β)	t-value	p-value	Decision
Board Independence → Governance Quality → Strategic Decision-Making	0.265	4.884	0.000	Partial Mediation Supported
Moderating Relationship	Interaction Effect (β)	t-value	p-value	Decision
Board Independence × Firm Size → Strategic Decision-Making	0.154	2.917	0.004	Moderation Supported

The findings of the assessment of the structural model likewise confirm the robustness of the PLS-SEM model (as indicated in Table 12). A high R^2 of 0.603 for strategic decision making suggests that the model used has a high explanatory power as the predictor variables explain around 60.3% of the variance in strategic decision making. Likewise, the values of Q^2 are higher than zero, indicating the predictive value of the model. Moderate to large influences of predictor constructs on the dependent variables are also indicated by values of the effect size (f^2). The model displayed good overall fit with SRMR of 0.061 (which is lower than the recommended value of 0.08); and NFI of 0.913 (which is higher than the recommended value of 0.90). Moreover, the Root Mean Square (RMS) is at 0.084 which falls within the acceptable range, this further strengthens the reliability and validity of the structural model. In general, the results of the PLS-SEM confirm the study hypotheses and substantiate the influence of board independence in enhancing strategic decision making of Malaysian companies.

Table 12. model evaluation and fitness

Constructs	R^2	Q^2	Effect Size (f^2)
Governance Quality	0.351	0.227	0.284
Strategic Decision-Making	0.603	0.391	0.337
Model Fit Indicator	Value	Recommended Threshold	
SRMR	0.061	< 0.08	
NFI	0.913	> 0.90	
RMS Theta	0.084	< 0.12	

5. Discussions

This study will provide a good empirical evidence that the independence of board will significantly affect the strategic decision making of Malaysian companies. The results indicate that having an independent board is positively associated with effective strategies, risk management, in organization governance quality and organization decision processes. The results corroborate the Agency Theory which posits that independent directors would increase the level of monitoring, decrease managerial opportunism and increase the match between the organizational decision and the interests of the shareholders and stakeholders.

The regression results and PLS-SEM results showed that board independence has a positive impact on strategic decision making. This is similar to the findings of prior research by Judge and Zeithaml (1992) that boards more actively engaged in making decisions and providing directions to the organization lead to better quality decisions and directions. Likewise, Judge and Talaulicar (2017) identified the role of boards to map the organisation's trajectory and its long-term outcomes. The current study goes one step further in the Malaysian corporate context to conclude that independent boards play an important role in effective strategic governance. The findings also support those of Ruigrok, Peck and Keller (2006) who concluded that governance structures have an impact on the extent of participation of the board in strategic decision making.

The findings also show that independent directors' involvement has a significant positive impact on the strategic decision making process. The result is in line with that of Chen (2011), which indicated that the board independence positively affects strategic aspects of internationalisation and organisational expansion. Independent directors may also be able to provide more in-depth and impartial strategic analysis, due to their diverse experience and external perspectives and relationships. Likewise, Phillips-Wren (2018) proposed that independent and diverse boards are more effective for better team decision making, free of bias and leading to more critical thinking around strategic options. The independence of board committees was also identified as a factor that had an impact on strategic decision-making. Independent board committees improve transparency, accountability and effectiveness of monitoring, which results in improved strategic processes inside the organization. This discovery aligns with Wagner's (2011) suggestion that board independence needs to be complemented with competence and effective governance for better organizational outcomes. The findings also corroborate the findings of Muller-Kahle and Lewellyn (2011) that sub-optimal governance structures had a negative impact on strategic decisions during the financial crisis among the US subprime lenders.

The study also reveals that the condition of non-duality of the CEO has a positive effect on the effectiveness of strategic decision-making. This finding lends credence to the notion that the split of the roles of CEO and board chair helps minimize concentration of power and helps to make the boards objective. Ruigrok et al. (2006) further revealed that the CEO-chair duality was negatively related to board involvement, suggesting that the dual role of CEO and chair could curtail the independence of the board and the board's monitoring power. The focus on governance reform to separate roles in Malaysia may

thus be expected to improve the accountability of board of directors and good strategic governance.

Important mediating role of governance quality between board independence and the strategic decision-making is the other key finding of the study. The results indicate that independent boards correlate with governance quality and that the improved governance quality correlates with improved outcomes with respect to strategic decision making. This is in line with the study by Islam, Ali, and French (2023), which concluded that by providing external views and enhancing managerial monitoring, independent directors are able to improve the quality of corporate social responsibility decisions. Similarly, Godos-Díez et al. (2018) verified that board decision-making process is a relevant determinant of organizational governance and the incorporation of CSR.

The results of the moderation analysis also revealed that firm size does strengthen the relationship between board independence and strategic decision making. With larger companies, which are more likely to have more complex strategies, more regulatory requirements, and greater expectations of their boards, independent boards appear to be more effective. This finding corroborates the arguments put forward by Judge and Talaulicar (2017) who pointed out that governance structures are even more relevant as organizations become more complex. The results also highlight the style of leadership and the dynamics of the board as important aspects of the effectiveness of strategic governance. Balai and Peck (2013) suggest that balanced power relationships and good leadership are among the elements that contribute to the procedural rationality and better decision-making in the boardroom. Similarly, Bezemer, Nicholson and Pugliese (2018) found that the involvement of the board chair in strategic discussions is a significant factor in influencing the participation of the other board members. Nahum and Carmeli (2020) also indicated that boards are more involved in strategic decisions in participant style.

The strong positive links between board independence and strategic decision-making also highlight the value of board diversity and collaborative board work. There is a positive correlation between board diversity and strategic M&A decisions (Ben-Amar et al., 2013) and between board diversity and speed and comprehensiveness of board decisions (Kanadlı, Bankewitz and Zhang, 2018). Likewise, Rao and Tilt (2016) discovered that board composition and board diversity significantly affect the CSR and strategic governance. In the Malaysian corporate world where the pendulum is swinging towards the appreciation of the value of diversity and governance reforms, it will thus be beneficial to have a more diverse board of directors with independent hands and minds to make strategic decisions.

6. Conclusions

This study discussed the impact of board independence on strategic decision making from Malaysian perspective. The results suggest that there is ample evidence of the impact of board independence on improving the strategic decision-making process and results of an organization. In particular, the study found that the strategic decision making process of the Malaysian Companies is positively influenced by the board independence, independent directors' participation, independent of board committee and the absence of CEO duality. The findings from this survey will confirm the theory that independent governance systems contribute to the making of strategic decisions that are more objective, transparent and effective.

The findings also showed that there was a partial mediation of the relationship between board independence and strategic decision-making by the quality of governance. This means that independent boards can contribute to strengthening good governance practices, such as accountability and transparency, and the effectiveness of governance monitoring and, as a result, the effectiveness of strategic decision processes. Further, regression analyses revealed that the board size moderated the relationship between board independence and strategic decision making, suggesting that there are greater benefits of

board independence in larger companies because of their complexity in terms of governance and strategic decision making.

The study's unique contribution to the literature on corporate governance lies in its ability to extend the knowledge regarding the effect of board independence on strategic decision making in emerging economies, like Malaysia. The research has been largely undertaken in developed countries; thus, this study provides empirical evidence of the Malaysian corporate arena where the emphasis on board independence and accountability is gradually emerging in corporate governance and regulatory frameworks such as Malaysian Code on Corporate Governance (MCCG). The study also made contributions in the methodological aspect because it used PLS-SEM analysis which allowed for a comprehensive study of direct, mediating and moderating relationships between the study variables.

The study has practical policy and regulatory implications and is relevant to policy, regulatory and corporate leaders in Malaysia. Organizations should enhance board independence through more qualified independent board members and have board committees that are independent, and a chairman who is not the same person as the CEO. In addition, companies need to strengthen governance quality and the effectiveness of the boards to make better strategic decisions and sustain the company's future. Regulators may also make governance policies more stringent to encourage independent oversight and diversity of corporate boards.

This study has a number of limitations, but it has made some contributions. The study was cross sectional, so it cannot be said to be causal over time. Second, the data were gathered mainly on the basis of self-reported questionnaires and this could introduce a respondent bias. Thirdly, the study was not designed to provide a representative sample of all companies in Malaysia and this may therefore limit the applicability of the findings to other national and institutional settings. Future research may thus be conducted in a variety of different ways, such as longitudinal designs, comparative cross-country studies, and qualitative research approaches, in order to explore boardroom dynamics and strategic governance processes in greater depth.

Declarations

Ethics and Guidelines: The study was conducted in accordance with the Declaration of Helsinki. The ethical approval specifically covers the research procedures and data collection activities conducted for this study.

Consent to participate: Written informed consent was obtained from all participants prior to data collection. Consent was obtained using a standardized written form, signed by each participant before participation in the survey.

Consent to publish: The authors have provided consent to publish.

Competing interests: The authors declare no competing interests.

Data availability statement: Data will be made available on reasonable request from the corresponding author.

Funding: This research received no external funding.

Clinical Trial Number: Not Applicable.

Declaration of using generative AI: During the preparation of this work the author(s) used ChatGPT in order to correct the grammatical errors. After using this tool/service, the author(s) reviewed and edited the content as needed and take full responsibility for the content of the published article.

Author Contributions: F.S.S.: Conceptualization, methodology, writing—original draft preparation, writing—review and editing. All authors have read and agreed to the published version of the manuscript.

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