# Board influence from and beyond the boardroom, a provisional explanation


## Abstract

Over recent decades researchers with an interest in company performance have increasingly shifted their attention from the study of the chief executive to the board of directors. A considerable body of knowledge has now been published, including correlations between variables of interest, theories, conceptual models and rich descriptions of normative practice. However, evidence to explain how boards *actually* exert influence over firm performance from the boardroom is yet to appear. That the board's ability to exert such influence has not been adequately described—let alone explained—is a significant knowledge gap in the literature, one to which this paper seeks to contribute.

The specific aim of this paper is to explore corporate governance and board practices through the lens of strategic management. A longitudinal multiple-case study approach was used. Primary data was collected from the direct observation of the boards of two large high-growth companies in New Zealand. Secondary data sources included interviews with the chairmen and chief executives, and board and company documents. An iterative approach to analysis was utilised to gain a deep understanding of board activity, especially the boards' involvement in strategic management. The analysis subsequently revealed insights leading to the development of two models—a collaborative form of board–management interaction; and, a mechanism-based model of the governance–performance relationship.

The research makes contributions to corporate governance research by extending specific early and largely normative contributions. The board's involvement in strategic management (especially strategy development, strategic decision-making and monitoring of strategy implementation) now appears to be significant. This involvement is achieved via the activation of five harmonious underlying attributes. While no explicit or predictable relationship between board interventions and subsequent firm performance was discovered, the findings provide insight to enhance knowledge of the contingent nature of the board's ability to exert influence from and beyond the boardroom.

## Introduction

Companies are legal constructions understood to play an important part in modern economies. Responsibility for the performance of companies lies with the board of directors (Cadbury, 1997), and 'corporate governance' describes the system "by which companies are directed and controlled" (Cadbury, 1992, p. 15). The board of directors (henceforth, the board) provides an important link between shareholders and managers (Berle & Means, 1932), the need for which emerges when 'ownership' and 'control' are separated (Fama & Jensen, 1983), placing the board at the "epicentre of strategic decision-making and accountability" (Hemphill & Laurence, 2014, p. 197). The central role of the board was summarised by Huse (2007) as "the interactions between various internal and external actors and board members in directing the firm for value creation" (p. 15). However, the board does not control the operation of the company directly, that role is delegated to the chief executive (Mintzberg, 1983).

Boards and directors have been subjects of much scholarly research and public interest over several decades, more so since the succession of high profile company failures of the early 2000s. An array of research outputs on boards, and to a lesser extent corporate governance have been reported. These include correlations, descriptions, models, hypotheses and theories. This research has largely focused on structural aspects of boards, and the activities and behaviours of directors. However, the nature and characteristics of the purported relationship between the board and firm performance remains, largely, undetermined (Bozec & Bozec, 2012).

Much of the evidence to link board attributes and company performance is "poor and most conclusions weak" (Tricker, 2012a, p. 63). If an answer to "this most difficult question" (Cadbury, 1997, p. 96) of how boards could influence firm performance can be achieved, it is likely to have significant implications for the understanding of corporate governance and, potentially, for the practice of corporate governance as well. Therefore, efforts "to describe and (so far as possible) explain reality" (Popper, 1972, p. 40)—the contribution of boards, especially in strategic management (Rumelt, Schendel, & Teece, 1994)—must continue.

Prior research has suggested that a link exists between the board's involvement in strategic activities and firm performance (Judge & Zeithaml, 1992). The aims of this paper are to contribute to the understanding of boards; corporate governance; the board's involvement in strategic management; and, to discuss the potential relationship between them and business performance. The research, a longitudinal multiple-case study informed by data collected from direct boardroom observations and other sources, responds to earlier calls to study what boards actually do (see Cornforth & Edwards, 1999; Leblanc & Gillies, 2005).

## Corporate governance: a dichotomous literature

A considerable body of governance literature has now been published (Tricker, 2012b), despite boards having been difficult to study (Adams, Hermalin, & Weisbach, 2010). The objective of much of the research published to date has been the discovery of the optimal configuration through which to minimise the perceived agency problem between the board and management (given the structural separation between the ownership and control)—in what is a re-emergence of Chandler's (1962) contingency approach.

Many correlations between observable attributes that have appeared to be significant (in a normative input–output sense) to a relationship with firm performance have been identified (A. L. Boone, Field, Karpoff, & Raheja, 2007). These include, but are not limited to, board structure (Gabrielsson & Huse, 2004); board size (Coles, Daniel, & Naveen, 2008); chief executive duality (Dalton & Kesner, 1987); board composition (Ahmed, Hossain, & Adams, 2006); various forms of board diversity (Rhode & Packel, 2014); non-executive directors (Cadbury, 1992); and, power (Peebles, 2010). Most of these studies have utilised conventional hypothetico-deductive science (Ketokivi & Mantere, 2010) to analyse large quantitative sets of publicly-listed company data (Daily & Dalton, 1993; Moore & Reberioux, 2011). Other interactions (e.g., between shareholders and boards, and shareholders and managers) have received, in relative terms, only cursory attention (J. A. Andersen, 2012).

Seven comprehensive reviews of the literature conducted over the last two decades (Dalton, Daily, Ellstrand, & Johnson, 1998; Finegold, Benson, & Hecht, 2007; Hermalin & Weisbach, 2003; Johnson, Ellstrand, & Daily, 1996; Lawal, 2012; Petrovic, 2008; Pugliese et al., 2009) provide the research community with further insight. No consistency between any particular board structure or composition variable and firm performance was identified. Any given board structure or composition may lead to different outcomes in different companies, or to different outcomes in the same company at different times or in different circumstances.

In contrast, a small but burgeoning body of board research has been published alongside the positivist-inspired literature. It provides an alternative and potentially more productive route to knowledge of the governance–performance relationship. Much of this literature has utilised qualitative data and case-based interpretive designs, with the intention of producing more complete understandings of what boards do and how directors behave. Data sources for these studies have included interviews and surveys with serving directors and executives, board meeting minutes and, in a few instances, observations of boards in session. Examples of study topics within this body of research include board activity (Schwartz-Ziv & Weisbach, 2013); board tasks and task performance (Machold & Farquhar, 2013); behavioural dynamics (Samra-Fredericks, 2000a); board–shareholder tensions (Lockhart & Taitoko, 2005); and, board effectiveness (Babic, Nikolic, & Eric, 2011), amongst others. This important and eclectic body of research (McNulty, Zattoni, & Douglas, 2013) has now produced rich descriptions and several conceptual models of how boards actually work.

But despite the progress made in recent years, especially in the qualitative literature, an important question about boards remains—whether firm performance can be predicted from a given set of indicators, conjunctions or descriptions. Holmstrom (1982) and more recently Adams *et al.* (2010) have observed that the development of a much needed (Hilmer, 1993) general theory may not be appropriate, or even possible. Consequently, alternative understandings of how influence is exerted from and beyond the boardroom may be necessary including, perhaps, theories (multiple) of the middle range (Merton, 1957).

**Strategy and strategic management**

Firm performance appears to be heavily but not exclusively dependent on the selection and implementation of an appropriate strategy or strategies (Ahenkora & Peasah, 2011) that enable a company to exploit its resources, maximise returns, and thereby increase its value (Simons, Davila, & Kaplan, 2000) over time, within a broader and dynamic environment. Strategy itself refers to the "art of command" (Heuser, 2010, p. 5), an integrated externally-oriented concept of determining how an organisation intends to achieve its objectives (Hambrick & Fredrickson, 2005). More specifically, Chandler (1962) defines strategy as "the determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resource necessary for the carrying out of these goals" (p. 13).

Strategic decisions are those that shape the future course of a company (Hickson, Butler, Cray, Mallory, & Wilson, 1989). When developed and actioned, the selected strategy and strategic decisions that follow should then have a significant impact on longer-term direction and performance of the company (Clegg, Hardy, Lawrence, & Nord, 2006).

Research on strategy and strategic decision-making has been reported in the management (Shepherd & Rudd, 2014), psychology (Steptoe-Warren, Howat, & Hume, 2011), and board and corporate governance (Pugliese et al., 2009) literatures. The research outputs suggest that the active engagement of the board in strategic management (Hilmer, 1994)—in the form of contributions to the development of strategy[1] (Huse, 2007); the making of strategic decisions (Zahra, 1990); and, the effective monitoring of strategy implementation and subsequent performance outcomes (Johanson, 2008)—may be significant (Zattoni & Pugliese, 2012).

[1] Tricker (2012a) uses the term 'strategy formulation'—the "process of generating and reviewing alternative longer-term directions for the firm that lead towards the achievement of purpose" (p. 176).

However, the appropriate role of the board in strategic management is unclear (Lockhart, 2012), even though several models have been suggested in both the academic and practice literature (Garratt, 1996; Hendry, Kiel, & Nicholson, 2010; Nadler, 2004a; Wheelen & Hunger, 2006). Improved firm performance *may* be possible when the board and management are actively engaged in strategic management together—as Tricker (1984) adumbrated over three decades ago—in the pursuit of agreed performance goals. Therefore, given the paucity of understanding calls by Drew and Kaye (2007), Pugliese *et al.* (2009) and others for further research on the board's role in strategic management remain appropriate.

**Approach to research and collection of data**

This paper responds to the call for more knowledge on boards, corporate governance and strategic management by testing the efficacy of the suggestion that the board's involvement strategy management (Nadler, 2004b; Tricker, 1984) in some form is significant to the achievement of the performance goals of high-growth companies. Specifically, the question of whether a relationship between the board's involvement in strategic management and subsequent firm performance is apparent in high-growth companies will be investigated. If evidence of a relationship is found, the characteristics and activities that appear to affect the board's ability to exert influence from the boardroom will be described. The findings are expected to build on both the qualitative literature and conceptual models (e.g., Tricker (1984), Leblanc and Gillies (2005), Nadler (2004b), Nicholson and Kiel (2007), Wheelen and Hunger (2006), Wirtz (2011), Tricker (2012a)).

However, the question of whether boards play a role "cannot be answered econometrically as there is no variation in the explanatory variable" (Adams et al., 2010, p. 59) suggests that an alternative approach to research is necessary. If further insights are to be gained including additional knowledge about board–management interactions and the purported governance–performance relationship, then attention needs to shift toward the holistic consideration of board activities (including, for example, what boards actually do when they meet; board involvement in strategic management; how directors interact including with management; and, how performance goals are pursued) and the wider context within which boards operate—the company and the commercial marketplace.

Critical realism (Bhaskar, 1975) may offer an alternative pathway towards new knowledge about how boards work including mechanism-based understandings. Research based on a critical realist perspective affords the opportunity to move between observed events and underlying social structures and mechanisms that may have generated or led to the observed events. However, a deep understanding of the phenomenon is necessary if underlying mechanisms (Blundel, 2007) that cannot be observed directly (Dobson, Myles, & Jackson, 2007) are to identified.

The opening of the black box of boards, to collect primary data from the firsthand observation of board meetings and inspect source documents, seems to be crucial to obtaining the deep understanding necessary to explicate the processes and tasks through which boards exert influence. Stiles' (2001) suggestion that several perspectives are required to understand the nature of social phenomena reinforces the value of collecting data from multiple sources. Further, a complete observer topology (Junker, 1960) and semi-structured interview format (Galletta & Cross, 2013) is recommended to elicit as authentic and complete data as possible. The knowledge and insight gained from the analysis of multi-sourced data (including the primary source, firsthand observations) should transcend those available from secondary sources (interview, survey or questionnaire data) (Bales & Flanders, 1954).

Consistent with prior studies seeking to gain a deep understanding of the work of boards (e.g., Machold & Farquhar, 2013), an iterative approach to discovery is suggested as the appropriate research technique to understand how boards exert influence, and from which conceptions of corporate governance can be developed, tested and refined. Specifically, a longitudinal multiple-case study design (Rashid, 2011), founded on a mixed-method approach (Onwuegbuzie, Johnson, & Collins, 2009) to field-based (Alam, 2005) data collection (Eisenhardt & Bourgeois, 1988) and iterative analysis was employed.

Two large, New Zealand-based professional-service firms agreed to participate in this research on the condition of complete confidentiality. Consequently, the two companies are identified solely as Alpha and Bravo. Notwithstanding this, some contextual data can be disclosed. Both companies employ between 250 and 500 staff; sell products and services to business customers; and, operate from multiple locations both in New Zealand and abroad. While both boards had the same number of directors during the research period (six), one (Alpha) was comprised exclusively of non-executive directors (NEDs) and the other (Bravo) had a majority of executive directors.

Consistent with other recent case-based board studies (e.g., Machold & Farquhar, 2013; Parker, 2007; Samra-Fredericks, 2000b), several different techniques were used to collect data from and about the two companies. Sources included firsthand observations of board meetings over a twelve-month period (henceforth, the observation period); semi-structured interviews with the chairman and chief executive of each company; three years (observation period plus two previous years) of confidential source documents used by boards (board report packs and minutes of meetings); and, over twelve years (observation period and previous years) of published documents and public records. In total, six years of board data and 25 years of company data were collected from primary and secondary sources. The data set amounted to approximately six gigabytes of sound recording files; over 250 pages of handwritten observation, interview and discussion notes; and, approximately 650 megabytes of board pack and other documentary data (nearly two thousand printed pages).

The primary and secondary data collected for this research was inspected, coded, collated, and then analysed. Data collected during interviews with each chairman and chief executive provided contextual information about the operation of the respective companies and their boards; claimed approaches used to develop strategy and make strategic decisions; the process of monitoring both strategy implementation and firm performance; and, other matters. The collation goal was to assemble a holistic overview of each company—especially of the current and historical operating context; board; board membership; board activity; decision-making practices; and, financial performance. The objective was to identify strategic decisions, pre-decision sequences[2] and post-decision monitoring, relevant contextual information and consequent performance inflections.

Decisions made by the two boards during the research period were identified in the primary data—primarily the minutes of meetings and observation data (the review of audio recordings and notes taken while the board was in session revealed that some minor decisions were not minuted). Different decision types were anticipated and observed, ranging from operationally trivial decisions (e.g., start time of an upcoming meeting), through to the strategically important decisions (e.g., formal approval of company strategy). In total, 358 decisions were identified from the data on both companies. Each decision was then checked and classified against pre-determined decision category criteria. Four different decision categories were expected including formal compliance and operational decisions; informal operational decisions; lead-up decisions (to an expected future strategic decision); and, strategic decisions. Fourteen significant decisions were identified, nine of which were found to satisfy the strategic decision criteria. The 349 remaining decisions were then reassessed and classified against the remaining criteria.

Having been categorised, decision data were recorded onto a decision table. Relevant data was also collated onto a synthetic timeline framework to provide a visual representation and an analytical chronology (Pettigrew, 1990) of the data collected for research. The framework developed by Taitoko (2002), and subsequently used by Lockhart and Taitoko (2005) (henceforth, the LT framework) in their detailed longitudinal board and governance failure study was used for this research. Once loaded with data from primary and secondary sources, the LT framework is expected to provide a holistic overview of board and management activity; director interaction; and, board involvement in strategic management especially strategy development, strategic and other decisions, decision sequences and monitoring activities. Also, associations between seemingly disparate attribute, relationship, action and decision data (especially data indicating a possible relationship between board activity and

[2] Some of the decisions made in the boardroom were 'lead-up' decisions—precursors to a later strategic decision. Strings of such decisions are described here as decision sequences.

consequential outcomes including performance inflections) should also become apparent for more detailed analysis.

**Analysis and findings**

A first-order analysis was undertaken to identify and describe the strategy development process used by the participant companies, both from an historical and a current perspective; and, to identify strategic decisions and describe the sequences of activities and decisions both leading up to and following each strategic decision. The initial analysis involved the review of primary data to identify and associate sequences of board activity, discussion and lead-up decisions to subsequent strategic decisions. The post-decision data was then reviewed to identify and associate monitoring activities (if any) that occurred after a strategic decision was made. These strategic decision sequences were marked to the LT framework. Nine decision sequences were identified in total.

The analysis of the nine strategic decision sequences revealed that the boards of both companies were committed to acting in the best interests of the company (the legal responsibility of directors) and to achieving the best results for shareholders (the moral and ethical responsibility of the board). Both chairmen confirmed this, emphatically, when they were interviewed. They said that their boards sought to influence the achievement of company performance objectives through their decisions and actions, and to create value as a consequence of these decisions and actions. However, both chairmen also recognised that the effects and outcomes of the board's actions and decisions were contingent on many factors.

Notwithstanding this, the two boards employed quite different approaches as they engaged in board practices and sought to exert influence on performance. Variations in the level of engagement in strategic management were evident both in the data and the analysis. For example, the observed willingness of the Alpha directors to actively contribute to discussions by asking questions, debating points and seeking clarifications during board meetings enhanced the quality of the interaction in the boardroom. Consistent with Kerr and Werther (2008), vigorous debate to test points of view and explore the subject of discussion from several different perspectives, occurred frequently in the Alpha boardroom. It was normal practice. The self-confidence and forthrightness displayed by most Alpha directors; their willingness to engage in discussion and debate (often spontaneously); and, their commitment to pursue performance appeared to be contributing factors to their engagement. By comparison, the same type and style of interaction was rarely evident in the Bravo boardroom—perhaps a consequence of the board being dominated by executive directors.

Notwithstanding the widespread engagement by directors, and the seemingly constructive debate that was a characteristic of Alpha board meetings, an observed tension between the NEDs and the independent directors seemed to affect the quality of some of the interactions at Alpha. Two Alpha NEDs, both of whom were significant shareholders, were motivated by a different purpose (maximising short-term shareholder wealth) from that of the independent directors. These motivations influenced the objectivity of these NEDs during discussion, a consequence of which was seemingly dysfunctional interaction amongst Alpha directors from time to time.

The shareholding Alpha NEDs were 'conflicted' between acting in the best interests of the company (as required by the Act), and in their own interests as shareholders. This tension impeded decision-making at times. The NEDs were reluctant to support decisions relating to the reinvestment of profits into growth activities on several occasions: they said such decisions might limit dividend payments. Speed in decision-making was stated to be crucial to the realisation of several significant time-limited growth opportunities that could have led to significant revenue growth and new market penetration, yet some of the directors were reluctant to make decisions. One time critical strategic decision was delayed by four months while opposing views and motivations were overcome (no indication appeared in the minutes or the board reports).

In contrast, the Bravo board did not always display a level of critical thinking and enquiry that is thought to be conducive (Yaniv, 2011) to robust, wide-ranging debate. The Bravo board engaged in generally accepted board practices but there was often little active engagement (through probing questions and enquiry, for example) to explore strategy or future business options. Strong superior–subordinate relations between the chief executive director and the other executive directors appeared to moderate such behaviours and interactions in the Bravo boardroom.

Consistent with the agency-inspired literature, the Bravo board spent most of its time in board meetings reviewing historical performance and discussing operational matters—a more strategically focussed or performance-oriented board could have simply delegated these tasks to the chief executive. That the directors arrived at the board meeting directly from other managerial tasks or meetings also had an effect on the value of their contributions in the boardroom. The topic of conversation when directors arrived at the beginning of board meetings was almost always some operational or customer matter of immediate relevance to their executive roles. Rarely if ever were matters relating directly to the board meeting agenda a topic of conversation before the meeting. Consequently, the director's view was 'shortened', from longer-term strategically important considerations to historical performance monitoring and short-term operational matters.

Another contributing factor may have included the Bravo directors' limited experience as directors of other substantive companies. A degree of consensus thinking was also often evident, as directors deferred to the views and opinions of the chief executive. While the chief executive was not physically or verbally imposing, and he stated in the interview that he did not wish to impose, the other directors ascribed a sense of 'power' to the chief executive. Probing questions were rarely asked. As such, the board meeting was not a meeting of peers working together as envisaged by the Companies Act, but suffered from the hierarchy between the chief executive director and the other executive directors—direct reports.

The power relationship (Forsyth, 2014) between the Bravo chief executive director and the other executive directors had an effect on teamwork and engagement. The preservation of executive and personal relationships (the chief executive said during the interview that some directors were friends), which can become strained following a vigorous debate (Eisenhardt, Kahwajy, & Bourgeois, 1997), was probably an important moderator of behaviour (than a close focus on company performance or the creation of value for shareholders). Other contributing factors may have included ambiguous spans of control or divisions of labour (Lockhart, 2012) between board tasks and executive duties, or a desire to protect reputation or avoid risks—both of which were observed through verbal statements and the decision preferences of the directors. The chairman made unsolicited comments during the interview that corroborated this analysis. The board's expectation was that management would prepare strategy proposals and that the chief executive would present them, or elements thereof, to the board. Consequently, the actual contribution of the Bravo board to strategy development was limited, in effect, to critiquing proposals presented by management, and to approving or rejecting them. Notwithstanding this, some of the executive directors appeared to have been involved in the development of strategy, albeit in their executive capacities.

While the board of directors is conceptualised in law and practice as a group of peers, of which one, the elected or appointed chairman, has a coordinating role, power relationships were apparent in both the Alpha and Bravo boardrooms at times. The designation of Bravo directors (as executive directors) influenced their behaviours and interactions in the boardroom as noted above. Managerial reporting relationships were respected, to the extent that they took precedence over the peer relationship between directors envisaged in the Act.

However, when one of the Bravo executive directors became a NED during the observation period, their behaviour and interaction in board meetings changed noticeably. The director was observed to be more engaged and animated in the discussions; appearing to be more thoughtful; asking more probing and, on several occasions, increasingly demanding questions. The NED interjected with opposing comments on several occasions, a behaviour that was not displayed at any earlier board meeting in the capacity of an executive director. The NED's previous passive behaviour appears to be an example of the Abilene paradox (Harvey, 1974). The Abilene paradox refers to the situation whereby organisations and people "take actions in contradiction to what they really want to do and therefore defeat the very purposes they are trying to achieve" (p. 66). Harvey suggested that a major corollary also holds: the inability to manage disagreement is a major source of dysfunction in organisations. An informal private conversation with the NED at the end of the last observed board meeting revealed that they "felt much more comfortable asking the hard questions now that I'm no longer working full-time in the business, or reporting to <name omitted>".

Notwithstanding the different board practices in use, and different levels of engagement by individual directors and the boards as a whole, both of the boards utilised an incremental approach to decision-making, an observation that supports Bourgeois and Eisenhardt's thesis (1988). Sequences of decisions were observed and the culmination of each decision-making sequence was expected to be the strategic decision itself. Discussions with the chairman of each company confirmed that the incremental approach utilised by each board was intentional, to which the chief executives agreed. Both chairmen volunteered that the management of risk was the main reason for the incremental approach to decision-making, especially the making of strategic decisions that were expected to have a major effect on the company balance sheet, trading position, public reputation or future valuation. They also said that while outcomes cannot be guaranteed, the incremental approach to decision-making provided the board with the requisite confidence that the strategic decision had been properly considered and that relevant risks had been identified and mitigated appropriately.

The Alpha board was actively engaged in the development of strategy during the research period, consistent with the 'Total' mode described by Zahra and Schulte (1992). The board led the process of determining how best to fund future growth and, through it, the creation of additional shareholder value—even though the chief executive was preparing many of the reports and information papers used by the board. That the board had initiated the process of discussing capital requirements, and had made a series of lead-up decisions is a clear indication that the board was 'in control' of the process; focussed on the expected outcome; and, therefore, sought to influence future firm performance—even though the chief executive later claimed a modicum of leadership, and the executives were leading many of the tasks. While the board may not have caused the increase in performance *per se*, the influence of the board, through its active involvement in strategy development, strategic decision-making and the monitoring and verification of firm performance was readily apparent.

When the Alpha board was actively engaged in the strategic management practices of strategy development and strategic decision-making in the manner conceived by Wheelen and Hunger (2006), improved firm performance often followed, but not universally nor predictably so. Performance inflections were readily apparent in the Alpha LT framework. The association first became apparent soon after an historical event—the near failure of the company and subsequent recovery. The board responded by adopting a 'hands-on' approach to decision-making and strategy development, almost to the point of operating the business.

The current Alpha chairman, the previous chairman and the chief executive all stated, strongly, that the current approach of the board and management working closely together on strategy development and the consideration of strategic options, was not only conducive to improved performance outcomes, but it was actually crucial. This verbal claim is consistent with the observation data and the insight gained from the analysis of the Alpha LT framework. It suggests that proximity between board and management, and alignment of both purpose and priorities may be more important and more conducive to influence and performance than separation, as predicted by agency theory.

In the case of Bravo, and through the lack of independence, the board and management had enjoyed a highly collegial relationship for many years. The lack of separation of the board from management appeared to have served the company well in the past, particularly in the formative years of the business. However, the relationship between the board and management had become very close (bordering on cosy). Probing questions were rarely asked during observed board meetings, and management did not heed calls to action on several occasions. The board was aware of financial performance shortfalls through the board reports but it did not act. It was also aware of the risks associated with the weakening company performance and threats to the company's strategy some months before serious financial difficulties were encountered: the emerging situation was discussed on several occasions. Curiously, the board did not act on the written and verbal information provided, despite multiple conversations about risks, scenarios and mitigations taking place on several occasions during the research period, including in one observed board meeting. This event raised the observation of who was *actually* in control of the company at the time. The inaction of the board when the possibility of emergent difficulties was first reported appears to have contributed, in part at least, to the erosion of cash reserves and working capital. Ultimately, urgent remedial actions became necessary to protect the viability of the company.

The Bravo board's contribution to strategic management beyond monitoring performance during the research period was perfunctory. Strategy development was the domain of management, and executive directors made some strategic decisions as well in their capacity as managers. The observed interaction in board meetings was subdued, and the apparent subordination of directors by the Bravo chief executive seemed to stifle vigorous discussion and debate to a large extent. Weak decisions followed, primarily because alternatives were not explored thoroughly. Further, management had already 'acted' on several occasions. Any pending decision by the board that was likely to oppose actions already taken was perceived to be contentious and potentially damaging to extant relationships amongst directors and with the chief executive. Consequently, the board acquiesced on each occasion.

Regardless of the actual cause of the difficult cash flow situation that Bravo faced, the board did not instruct the chief executive to provide a remedial action plan, nor did it take any mitigating or corrective actions itself. That management did not take any direct action itself either (for many months, at least) exacerbated the situation. The reports provided to the board by the chief executive and the chief financial officer during the latter half of the research period repeatedly highlighted the discrepancy between actual firm performance and expected firm performance, yet no action was taken. Consequently, the board exerted little if any influence over the chief executive, or firm performance generally, through this period.

**Towards a conceptual model**

The first-order analysis was followed by more in-depth analysis, which sought to understand the nature of the board's engagement in strategic management; search for associations between board engagement, strategic decisions and performance inflections; and, investigate underlying director interactions, behaviours and competencies. The goal of the second-order analysis was to gain a sufficiently deep understanding to assess the validity of the postulated mechanism (that the board is able to exert influence from the boardroom via its active involvement in strategic management).

The thematic analysis (Vaismoradi, Turunen, & Bondas, 2013) of data collated onto the LT framework revealed the "rich patterns, archetypes and relationships" (Leblanc, 2003, p. 42) including different levels of board involvement in strategic management and decision sequences. Seemingly relevant data was crosschecked (Kisely & Kendall, 2011) against at least one other source (Huettman, 1993) before associations were noted. The process of crosschecking and triangulating qualitative data from multiple sources (Denzin, 2012) helped confirm the validity of observations and patterns, and mitigate extant biases of the researcher and interviewees (Diefenbach, 2009). Consequent inflections in the financial data (revenue and EBIT) were also noted. Activity that preceded each inflection was analysed in search of associations between decisions made by the board and subsequent performance inflections that may have occurred. Where the possibility of an association was identified—even tenuously or contingently so—additional analysis was undertaken. An iterative cycle of conjecture and testing (informed by both guidance in the literature and *a priori* knowledge) was completed. Associations between strategic decision sequences and performance inflections (or the achievement of strategic objectives at least) were noted in four (of the nine strategic decision) instances.

An iterative (Griggs, 1987) process (P. H. Andersen & Kragh, 2010) utilising abduction and retroduction (Williams & Karahanna, 2013) was applied to the analysis of the strategic decision sequences, boardroom interactions and information flows in pursuit of a deeper understanding of the relationships among data. While each strategic decision, decision sequence and tentative association with performance identified in the data was unique, patterns emerged as the analysis proceeded through subsequent cycles of conjecture, testing and reflection.

The analysis revealed that effective contributions by boards intent on exerting influence from the boardroom were dependent on the active engagement of the board in several strategic management tasks, but not exclusively so. The data relating to each of the strategic decision sequences was reinspected thematically. The possible antecedent factors identified in the literature were used to guide this analysis, in search of evidence to indicate whether the emergent themes of interest conjectured from the literature were present and had been activated, or not. Evidence, in the form of displayed behaviours or interactions indicating the presence (or activation) of each theme of interest was identified, checked and recorded.

The analysis suggested that when the purpose of each business was clearly defined and communicated; when the boards were committed to its achievement; and, when the boards were engaged in the development of strategy together with management, strategic decisions were made in an appropriate context of core purpose and agreed strategy. This sequential process was observed in the Alpha data but not in the Bravo data. If the board continued to be engaged after a strategic decision was made, by closely monitoring the implementation of its decisions; ensuring the company complied with necessary statutory requirements; and, holding management accountable for strategy implementation and firm performance, then the likelihood of the board's decisions being implemented as expected, and of the expected impact of decisions being achieved was greater than if monitoring did not occur, performance was not verified, or if either were ineffective.

Individual Alpha directors were observed to be skilful, drawing on prior experience to provide relevant insight including making references to historical and tacit knowledge they possessed. They also participated actively in boardroom discussions, drawing on examples to support their assertions or suggestions having prepared themselves before the meeting by reading and becoming familiar with the contents of board packs. Evidence to support this observation included Alpha directors quickly thumbing to different sections of the board pack to reference material previously read. Handwritten notes were observed on directors' board packs—the annotations a further indication they had been reviewed before the meeting. The entire Alpha board attended 'strategy day' meetings as well, expecting to contribute present ideas, and debate strategic options and identify preferences, and they were observed to do so.

During discussions, directors made frequent references to the company's overall purpose, vision, strategy and performance goals, as if to remind themselves (and signal to others) of agreed performance imperatives and priorities. They were observed to work collaboratively in an environment of collegiality and trust, under the guidance of a consensus-seeking chairman who encouraged all directors to share their thoughts. Directors also displayed a commitment to make decisions together, exert control as they saw fit and make adjustments as needed.

The high degree of collaboration that was apparent in the Alpha boardroom throughout discussions relating to strategic decision sequences also extended to the interaction between directors and the chief executive. Directors offered to assist the chief executive from time to time. Observed examples included offering to attend meetings, oversee or comment on work streams and to make introductions. However, the decision to take up these offers remained, appropriately, with the chief executive.

Formal voting on strategic decisions was rare in either boardroom—it was only observed once. Sensing the time had arrived to make a decision and proceed to the next item, the chairman summarised the discussion and what he assessed to be the preference of the board. In lieu of any dissenting comment, the decision was stated by the chairman and recorded in the minutes. However, directors were not always in agreement. Vigorous debates occurred on occasions, usually when the board was discussing a point that was perceived to be of strategic importance and several seemingly viable options were available. Voices were raised only once, and even then only briefly and the chairman chose not to intervene. On these occasions, the chairman was observed to consult each director individually for their opinion or comment prior to the decision before the board being made.

While directors were observed to work collaboratively with each other and with the chief executive, the board was able to preserve the ability to hold the chief executive to account for his actions (or, on occasions, inaction). Through the use of both probing open questions and, at times, direct questions, directors challenged the chief executive—especially if previously agreed actions had not been completed as expected. On these occasions, directors expected an explanation, together with a summary of the actions the chief executive either planned to (or was already taking) take to remedy the situation.

The second-order analysis of the decision sequences for which associations with subsequent performance inflections were identified (four of them) revealed common patterns of activity and relationships. Throughout these four decision sequences, individual directors were observed to be 1) skilful, knowledgeable and capable, 2) they participated actively in boardroom discussions, having prepared adequately, 3) maintained a focus on the company's purpose, strategy and performance goals, 4) worked collaboratively and, 5) displayed a commitment to make decisions together, exert control and make adjustments as needed.

An implication of this observation is that the collective exercise of these five observed themes appears to have been material to effective contributions and the board exerting influence from the boardroom. These five observed themes—skill, involvement, future focus, collaboration and adjustments—are conjectured[3] to be the empirical expression (i.e., proxies, or effects) of underlying mechanisms that were imperceptible directly (Bunge, 2004). The underlying mechanisms that are suggested to coincide with the empirical expressions are strategic competence, active engagement, sense of purpose, collective efficacy and constructive control.

'Strategic competence' refers to the specific application and expression of competence—an "holistic concept" (Garavan & McGuire, 2001, p. 9)—displayed by directors as they performed agreed strategic management tasks in the boardroom. Its usage here encapsulates the capability, proficiency, intelligence and cognition possessed by directors; and, their ability to apply relevant skills, expertise and knowledge to perform tasks effectively (Hogan & Warrenfeltz, 2003). Although competence is typically displayed in a social setting (the boardroom in this context), the analysis suggests it is a quality inherently possessed by individuals (directors).

The psychological state from which individuals exhibited a demonstrable commitment to the board, the company and the performance goals of the company; and, high in-role performance (Dawsey & Taylor, 2011) has been termed 'active engagement' here. The empirical expression includes the intentional participation of directors (individually and collectively as the board) to perform agreed strategic management tasks, through adequate preparation before meetings and discussion and debate and, when appropriate, strategic decision-making during meetings.

The term 'sense of purpose' (Waddington, 2010) has been selected to describe the commitment to action (T. Boone, 2002)—the motivation and resolve of individual directors to contribute the work of the board (selection of goals, formulation of strategy, making of strategic and other decisions; monitoring of performance; and, application of controls) with the agreed vision and long-term purpose of the company as the guiding principle.

Collective efficacy (Chou, Lin, & Chou, 2012) refers to the characteristics of cooperation, situational awareness, social exchange, and commitment displayed by the directors as they worked together to make strategic decisions and other decisions and secure the commitment of management to implement the board's decisions. While empathy (de Waal, 2008) encompasses many these characteristics (and it can inspire decision-making (Muller, Pfarrer, & Little, 2014)), the ability to understand and share feelings alone—even in a collective sense—was insufficient to produce actions (Akgün, Keskin, Cebecioglu, & Dogan, 2015).

Constructive control refers to the appropriate actions of the board as a collective of directors in response to the various inputs provided to them including written and verbal reports; tacit knowledge (Guzak & Rasheed, 2014); answers to questions asked during meetings; and, prevailing

[3] Informed leaps and conjectures are considered to be an acceptable bridge to new knowledge (Popper, 1972).

circumstances. Constructive controls are suggested to be analogous to those used by a coach providing guidance rather than punitive or destructive responses, the likes of which are more commonly associated with the actions of boards seeking to minimise agency costs or manage perceived agency problems.

Three of the underlying mechanisms (active engagement, collective efficacy and constructive control) are suggested to be characteristic of interactions between contributing directors (i.e., social mechanisms (Little, 2011)) as the board performs strategic management tasks and directors work together in a corporate governance context (i.e., in the board meeting). The other two (strategic competence and sense of purpose) are suggested to be underlying qualities inherently possessed by capable individual directors seeking to make effective contributions.

Despite the irregular interactions and the lack of structural or process consistency apparent in the data, the board's active and sustained involvement in strategic management tasks appears to have been an important antecedent to seemingly effective contributions. If the work of the board is conceptualised as a stratified mechanism (incorporating both selected strategic management tasks and the underlying mechanisms) an understanding of corporate governance can be described as shown in Figure 1 below.

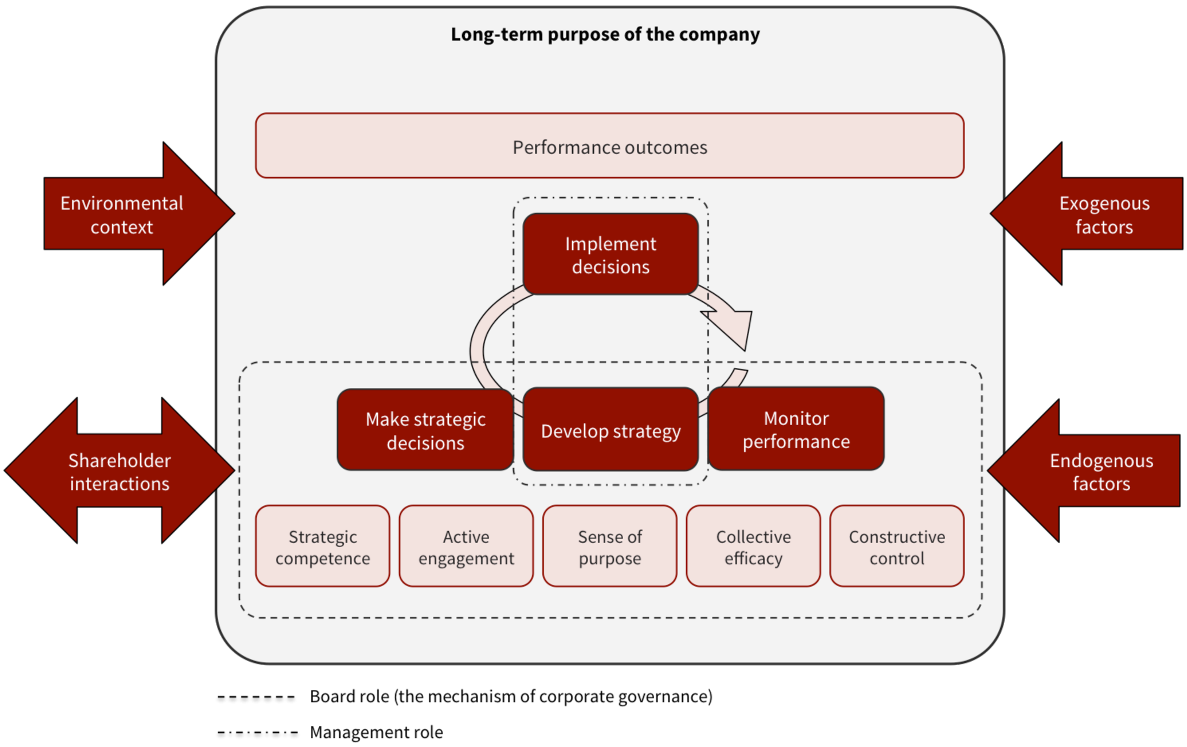


Figure 1: A suggested mechanism-based model of governance–performance relationship

## Discussion

The mechanism-based model of the governance–performance relationship suggested here is both informed by and extends several models proposed in the literature—notably those by Tricker (1984), Charreaux (2008) and Wirtz (2011). Tricker's proposal located strategic management at the nexus of board–management interaction, and Charreaux and Wirtz associated the concepts of 'mechanism', 'board' and 'corporate governance'[4]. Charreaux and Wirtz described the board of directors as a mechanism within a broader 'system of governance'. In contrast, the interpretation presented here positions corporate governance as the mechanism itself, and that it is activated by the board.

[4] Charreaux (2008) and Wirtz (2011) (in particular) both used the terms 'corporate governance' and 'governance' interchangeably.

The long-term purpose of the company[5] provides the contextual frame within which both the board and management operate; strategic management tasks (including strategy development, strategic decision-making and performance monitoring) are allocated and performed; agreed performance goals of the firm are pursued (via management's actions including implementation of decisions, operating the company and exerting executive control); and, performance is monitored, verified and reported (both internally and externally to shareholders and other reporting authorities), in accordance with both agreed priorities and statutory requirements.

The 'dash' and 'dash-dot' lines encapsulate appropriate roles of the board and management respectively, in the case of a collaborative model of board involvement in strategic management. That the individual elements are not directly adjoined indicates that associations between board contributions, management's implementation of board decisions and any performance outcomes that may follow are, at this point of development, contingent. Further, the board's actual degree of involvement in strategic management, and the explicit allocation of tasks (i.e., division of labour) within the strategy development task were found to be contextual, as they were in the models proposed by Nadler (2004a), Wheelen and Hunger (2006) and Hendry et al. (2010).

Consistent with normative models of board–management interaction, the task of reporting performance lies with management. The 'monitor performance' task identified here includes the reception of reports from management; monitoring and supervising the actions of management; verifying the implementation of strategic decisions and achievement of desired performance goals; remedial decision-making; and, ensuring that both statutory and regulatory compliance requirements and shareholder reporting requirements are fully satisfied.

Notwithstanding the board's intent to exert influence from and beyond the boardroom through the mechanism of corporate governance, the effective execution of strategic management tasks by the board did not necessarily lead to the achievement of the long-term purpose of either business, or the desired performance goals or even performance inflections occurring in any predictable or repeatable manner. The literature indicates that the effectiveness of board contributions is contingent on management's implementation of decisions made by the board (Tricker, 2012a), and several (probably many) other factors that can be usefully grouped as the environmental context; shareholder requirements; and, other endogenous and exogenous factors. The preceding analysis provides support for these earlier conclusions.

Effective board contributions (through the board's active involvement in the strategic management process) are suggested to be dependent on the harmonious activation of the five underlying mechanisms identified. If any one or more of these underlying mechanisms is *not* activated, the effectiveness of board contributions and, therefore, any influence beyond the boardroom is likely to be compromised. High firm performance may still occur (and did, as the analysis showed), but not as a consequence of any contribution by the board or any influence exerted from the boardroom.

The reference to 'harmonious interaction' of the underlying mechanisms should not be interpreted as implying any particular interaction between them in a formulaic sense, nor formal association in a hierarchical sense. The directors' actions and behaviours were expressions of social agency, choice and bias as they attempted to make sense (Mattsson, Corsaro, & Ramos, 2015) of a complex array of information. Consistent with this, the actions and behaviours of individual directors were both idiosyncratic and inconsistent, depending on the specific circumstances and preferences (perceived to be) to the fore at that time.

However, decisions made in the boardroom (of all types, but especially strategic decisions) were observed to be made more quickly when goals were both clearly defined and 'aligned' (the board and management shared a common understanding of the purpose of the company, the strategy and the

[5] Long-term purpose: meaning the enduring purpose of the company; incorporating the core purpose and organisational values as per Collins and Porras (2002). Though not explicitly shown on the diagram, the company operates within a wider context of the market and business ecosystem.

strategic priorities); the board and management worked together closely; directors trusted each other and worked co-operatively; each group was empowered to perform its role as defined and agreed; and, the board was actively engaged in the practices of strategic management.

The iterative analysis expedited a deep understanding of how the boards of Alpha and Bravo worked over an extended period—especially the three-year period for which a more comprehensive set of board data including boardroom observation data was collected for analysis. A variety of board–management interactions, board contributions and divisions of labour were apparent through the analysis, as was described in the preceding sections.

Consistent with the understanding that emerged during the review of the literature, the analysis showed that the board–management interaction and the governance–performance relationship were both too complex to be described in straightforward structural, process or policy terms—or even as some combination of these options. That no single board structure, process or policy framework (or even the level of involvement in strategic management) was apparent in the data provides empirical support to the conclusions of other contributors—Kiel and Nicholson (2003); Leblanc and Gillies (2005); Huse, Hoskisson, Zattoni, and Vigano (2011); Larcker and Tayan (2011); and, Lockhart (2015), in particular.

However, the findings demonstrated that boards intent of exerting influence from and beyond the boardroom including influence on firm performance were actively engaged in the strategic management process. The analysis indicated that the board's work can be reconceptualised as a set of activities related to three strategic management tasks in particular—the development of strategy; the making of strategic decisions in the context of approved strategy; and, the monitoring of strategy implementation and verification of performance in accordance with approved strategy and statutory compliance requirements. This finding supports the conceptual models proposed by Tricker (1984) and Garratt (1996). While proponents of agency theory assert that independence between the board and management is necessary for objectivity and improved decision-making, the preceding analysis suggests that proximity and engagement may be more helpful to the timely and effective completion of strategic management tasks.

This learning, that the board should be actively engaged in strategic management (including monitoring and control tasks that form the basis of much agency-inspired board activity (Agrawal & Knoeber, 1996))—does not necessarily mean that execution of these tasks will result in outcomes in any repeatable manner, or is causal to firm performance at all. Different levels of involvement were observed to be appropriate at different times and in different contexts. Indeed, no explicit or predictable relationship between board activity and firm performance was found. This result is consistent with conclusions elsewhere in the literature: that any influence that the board, as a socially dynamic decision-making body, may exert is unlikely to be due explicitly and exclusively to any observable task that the board performs; or, the structure or composition of the board; or, any set of policies and regulations; or, any specific behaviour of directors. However, that a relationship between board activity and the achievement of performance objectives *may* exist via strategic management is a significant (but provisional) finding, even though the relationship is contingent and contextual.

**Concluding remarks**

This research sought to advance beyond the current impasse that has troubled much governance research seeking to understand or explain the contributions of boards. Responding to calls in the literature, and building on several earlier conceptual models, the research sought to understand how boards exert influence over desired performance objectives. The board's involvement in strategic management including the consideration of strategic options, development of strategy, making of strategic decisions in the context of approved strategy, and the monitoring of strategy implementation and verification of subsequent firm performance appears to be significant—possibly central, in high-growth companies at least.

The value that boards can contribute appears to be dependent on what directors contribute (competencies and behaviours) and what they do. However, desired performance objectives may still occur in the absence of such board contributions. Further, board effectiveness remains contingent on the actions of management, and a plethora of other endogenous and exogenous factors as has been recognised elsewhere.

This research adopted a counter-factual approach to the study of boards, corporate governance and strategic management. Commonly separated elements of corporate governance and strategic management were consolidated, marking a return to the conception of owner–board–management interaction proposed by Berle and Means (1932) and the central role of strategic management in corporate governance described by Tricker (1984). This approach may be contentious to some. However, it is hoped that it might go some was to redressing the digression that occurred at some point between 1932 and 1976, when Jensen and Meckling introduced their agency-based proposal.

While the findings described in this paper encourage closer integration of the largely separate corporate governance and strategic management discourses, further research is required. In particular, an even deeper understanding of the circumstances within which influence is exerted; underlying attributes and mechanisms; and, the contingent effects of management and others are needed. The efficacy of the suggested mechanism also needs to be tested elsewhere, especially in different jurisdictions; different types and sizes of companies; and, in different types of organisations. Consequently, this paper does not signal, and should not be interpreted as signalling, the arrival at any particular destination. Rather, it provides a waypoint on a journey of discovery to enhance the understanding of what boards actually do and how influence can be exerted from within the boardroom, in the pursuit of knowledge of how high company performance can contribute to economic growth and, ultimately, improvements in societal well being.

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