Understanding corporate governance, strategic management and firm performance: As evidenced from the boardroom

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Peter Ross Crow (08109559)

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Abstract

Researchers with an interest in corporate performance have increasingly shifted their attention over recent decades from the study of the chief executive to the board of directors. A large body of knowledge has now been published, including correlations between variables of interest, theories, conceptual models and rich descriptions of normative practice. However, substantive 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 in any detail—is a significant knowledge gap in the literature, one to which this research seeks to contribute.

The aim of this research is to investigate corporate governance, strategic management and firm performance from the perspective of the boardroom. A longitudinal multiple-case study approach was used. Primary data was collected from direct observations 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 from which a deep understanding of board involvement in strategic management was developed. The analysis 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 governance research by extending specific early and largely normative contributions. The board's active engagement in strategic management (especially strategy development, strategic decision-making and monitoring of strategy implementation) appears to be significant. This is achieved via the harmonious activation of five underlying attributes. While no explicit or predictable relationship between board interventions and subsequent firm performance was discovered, the findings provide insight into the contingent nature of the board's ability to exert influence from and beyond the boardroom.

Table of contents

Tables

Figures

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reliably as ‘value creation vehicles’ was beyond measure. This research, and the findings that have emerged from it, is dedicated to his memory.

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I apologise to those who may have expected to read their name here. That I have not mentioned you by name does not obviate the value of your contribution. Thank you.

Copyright and disclaimer

No portion of the work referred to in this thesis has been submitted in support of an application for another degree or qualification of Massey University, or any other university or institute of learning.

Two members of the Massey University faculty supervised this thesis. However, it is essentially the work of the author. Views expressed herein are those of the author alone, and are not necessarily those of the supervisors, other members of the Massey University faculty or of Massey University itself.

Care has been taken to ensure this thesis is error free. Responsibility for any residual errors or omissions rest with the author, alone.

Chapter 1: Introduction

If the board is not taking the company purposefully into the future, who is?

Harvey-Jones, 1988, p. 162.

1.1 Background

Companies are legal constructions that play an important part in modern economies. They contribute to and are influenced by the economies and societies within which they exist and operate. Important economic (Bozec, Dia, & Bozec, 2010; Gamber & Scott, 2007) and societal benefits (Ahlstrom, 2010; Friedman, 2005; Schefold, 1979) are thought to flow from high performing companies. Consequently, knowledge of whether and how high performance can be achieved is likely to have value to the overall functioning of economies and, in turn, to the growth of strong and vibrant communities and societies.

Statutory responsibility for the performance of companies[1] lies with the board of directors (see Section 1.2.4), implying that an important role of the board is to influence business outcomes (Ingley & van der Walt, 2005). The board of directors (henceforth, the board) also provides an important link between shareholders and managers (Berle & Means, 1932) when 'ownership' and 'control' are separated (Fama & Jensen, 1983), the point at which corporate governance[2] emerges (see Figure 1-1 below, a model that is developed further in Section 2.2).

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[1] Several terms including 'firm performance', 'company performance' and 'are used in the in reference to the performance of limited liability companies. The term 'firm performance' has been adopted throughout this thesis. The primary motive of firms in this discussion is regarded as profit (see Section 1.2.2).

[2] Corporate governance: The term is defined in Section 2.2.

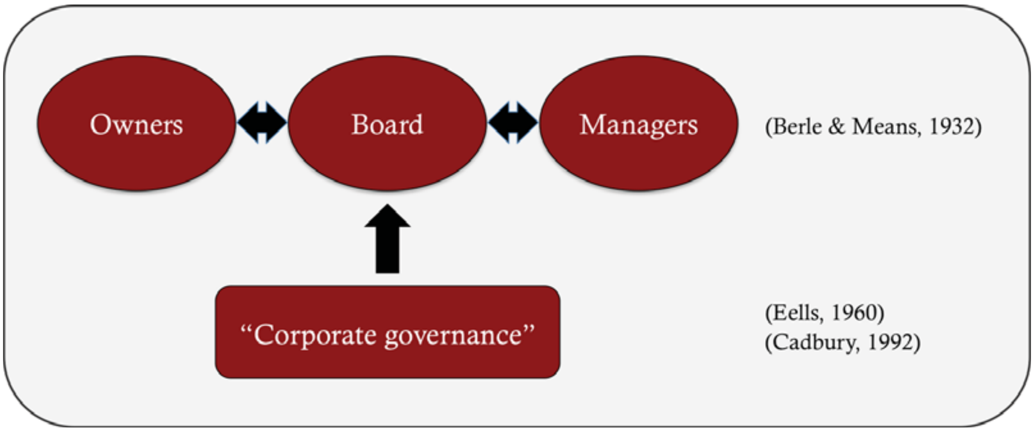

Figure 1-1: The emergence of corporate governance in companies

Boards and directors have been subjects of much scholarly research and public interest over several decades, especially since the succession of the high profile company failures of the early 2000s. Examples of failures include Enron (Palepu & Healy, 2003), WorldCom (Pandey & Verma, 2006), Air New Zealand and Ansett (Lockhart & Taitoko, 2005), One.Tel (Monem, 2011) and Satyam (Shirur, 2011). Regardless of whether 'bad governance' has become chronic (Larcker & Tayan, 2016) or not, reports of moral failures, hubris, incompetence, judicial investigations and sanctions published in the popular press and practitioner literature have heightened awareness amongst a broad constituency, well beyond the company's shareholders, employees, and immediate customers and suppliers.

An array of research outputs on boards, and to a lesser extent corporate governance has been reported. These include but are not limited to correlations, descriptions, models, meta-theories and hypotheses. This body of research has largely focussed on structural and composition attributes of boards (see Section 2.4), and the activity of boards and behaviours of directors (see Section 2.5). While several polarising theories have been proposed (see Section 2.3), much of the evidence to link board attributes and firm performance variables is "poor and most conclusions [are] weak" (Tricker, 2012a, p. 63). Consequently, the nature and characteristics of the purported relationship between boards and firm performance has remained, largely, undetermined (Bozec & Bozec, 2012)—although the board's involvement in strategic management may be significant (Stiles, 2001; Zattoni & Pugliese, 2012).

If an answer to the "most difficult question" (Cadbury, 1997, p. 96) of whether and if so how boards could influence firm performance can be achieved, it is likely to have significant implications for the understanding of corporate governance and, potentially, board practices as well. Therefore, efforts "to describe and (so far as possible) explain reality" (Popper, 1972, p. 40)—the contribution of boards and the subsequent impact of contributions—must continue.

The purpose of this research is to add to the understanding of boards, corporate governance and the board's involvement in strategic management; and, to discuss the purported relationship with firm performance. This 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 (e.g., Cornforth & Edwards, 1999; Leblanc & Gillies, 2005) by getting as close as possible (Gummesson, 2007) to boards by observing them in session, especially board involvement in strategic management. The findings and conclusions that emerge from this study build on existing theoretical perspectives, frameworks and models—those by Tricker (1984), Nadler (2004b), Wheelen and Hunger (2006) and Wirtz (2011) in particular.

1.2 Research context

1.2.1 Companies, boards and corporate governance

Responsibility for the performance of one type of firm, the limited liability company, lies with the board of directors (Cadbury, 1997) in accordance with duties specified in law (see Section 1.2.4) and also the wishes of shareholders. Scholarly interest in the relationship between ownership, control and managerial activity in companies, and the ability of boards to influence firm performance has been apparent since the early decades of the twentieth century (Daily, Dalton, & Rajagopalan, 2003). (Prior to that, distinctions between different organisational and legal constructs including partnerships, limited liability companies and co-operatives were not typically discussed (Lamoreaux, 1998) even though these different forms existed in practice.)

A catalyst for the emergence (in the Anglosphere at least) of the modern conception of a board of directors and, therefore, the necessity of interactions between shareholders, the board and managers, was the emergence of the joint-stock corporation (Pitelis & Sugden, 1986). Business owners began to realise that competitive advantage and consequential financial benefits might be possible if the size and scale of their businesses were increased (Coase, 1937). However, additional investment was often required to fund larger production facilities and distribution channels needed to realise those anticipated competitive advantage and financial benefits. Ownership became shared and distributed over time—sometimes widely—as investors responded to both invitations to contribute capital and the promise of returns. A legal structure was required to recognise each shareholding, and to limit liability and protect the interests of typically absentee shareholders who provided both the original and any additional investment. The company became a legally recognised entity in its own right[3].

A large body of board and governance literature has now been published (see Chapter 2). The objective of much of the body of research published to date has been the discovery of the optimal board configuration through which to minimise a perceived agency problem thought to exist 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. Most of these positivist-inspired studies (see Section 2.4) have utilised conventional hypothetico-deductive science (Ketokivi & Mantere, 2010) to analyse large sets of quantitative data about publicly-listed companies (Daily & Dalton, 1993; Moore & Reberioux, 2011; Uhlaner, Wright, & Huse, 2007). Many correlations between observable attributes of boards thought to be significant (in a normative input–output sense) to a relationship with firm performance have been identified in this literature (A. L. Boone, Field, Karpoff, & Raheja, 2007).

A small but burgeoning body of board and governance research (see Section 2.5) has been published alongside the positivist-inspired literature introduced above. This important and eclectic body of research (McNulty, Zattoni, & Douglas, 2013) has produced rich descriptions of board activity and director behaviours. Much of this literature has been informed by qualitative data (typically collected from in-depth interviews and surveys of directors and other governance actors) and case-based interpretative designs, with the intention of producing more complete

[3] See Micklethwait and Wooldridge (2003) for a more complete summary of the history and evolution of the company as a legal and operating entity.

understandings of what boards do and how directors behave. Curiously, few if any of these studies explicitly sought to explore the board's influence over firm performance—despite Garratt's (2003) appeal that good corporate governance necessarily includes conformance and "the board's *performance* contributing to the direction, health, and wealth of the organization" (p. 6, emphasis original). Notwithstanding this, research based on the interpretative enquiry of qualitative data has provided an alternative and potentially more productive route to knowledge of how boards work and the governance–performance relationship.

Despite the progress made in recent years, especially in the qualitative literature, an important question about boards remains—whether firm performance is predicated on any given set of board attributes, configurations, indicators or actions. Holmstrom (1982) and more recently Adams *et al.* (2010) have observed that the development of the much-needed general theory may not be appropriate or even possible. Consequently, alternative understandings of whether (and, if so, how) influence can be exerted from and beyond the boardroom may be necessary including, perhaps, theories (multiple) of the middle range (Merton, 1957).

1.2.2 Strategy, strategic management and firm performance

The company is a separate legal personality ("Companies Act," 1993, Section 15) that is "organised and carried on primarily for the profit of stockholders" (Dodge vs. Ford Motor Co. case, cited in G. D. Smith, 1998, p. 278). Penrose (2009) defined firms being as "bundles of resources, under internal direction, for production of goods and services, sold in markets for a profit" (p. xix), suggesting that decision-making in firms is appropriately guided and controlled by "a desire to increase long-run profits" (p. 25). These descriptions summarise the foundational motivation for the operation of firms, and companies in particular[4]. As a result, economic and financial metrics are appropriate measures of firm performance. It follows that a good understanding of what 'firm performance' is; how it might be measured; and, how goals might be achieved (A. Campbell & Yeung, 1991b) is likely to be crucial for directors seeking to discharge

[4] While the achievement of profits and increasing share value may be considered the primary motives of most firms, other motives including, for example, family-oriented (Mahto, Davis, Pearce Ii, & Robinson Jr, 2010), social or environment priorities may result in other measures also being selected.

their responsibilities, and for this research. The board and firm performance literature is discussed in Section 2.4, and the measurement of firm performance in Section 2.6.

Firm performance is thought 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 externally-oriented concept of determining how an organisation intends to achieve its goals (D. C. Hambrick & Fredrickson, 2005).

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 governance (Pugliese et al., 2009) literatures. Research outputs in the board and governance literature suggest that the active engagement of the board (Hilmer, 1994) in strategic management (Nag, Hambrick, & Chen, 2007) in some form may be significant. Consequently, the effectiveness of board interventions and, therefore, any influence that board interventions may have beyond the boardroom including, potentially, on firm performance may be best understood through the board's involvement in the strategic management process (Kerr & Werther, 2008). Relevant strategy and strategic management literature is reviewed in Section 2.7.

While several models of board involvement in strategic management have been suggested in both the academic and practice literature (e.g., Garratt, 1996; Hendry, Kiel, & Nicholson, 2010; Nadler, 2004a, 2004b; Wheelen & Hunger, 2006), the appropriate role of the board in strategic management is unclear (Lockhart, 2012). 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. It is these calls that provide much of the motivation for this research.

1.2.3 Boards of high-growth companies

Boards of companies intent on building long-term value (Hess, 2010) and providing a satisfactory return to shareholders (Marens, 2012) have a performance orientation. The "prospect of sustainable business growth and value creation" (McCahery & Vermeulen, 2014, p. 148) is reportedly of particular interest to the boards of high-growth companies (see Section 2.9)—those companies that achieve and sustain growth rates greater than their corresponding industry averages. Several definitions of 'high-growth company' have been proposed in the literature. However, no single definition has been universally accepted (Moreno & Casillas, 2007).

Strong organisational and managerial levers are required if companies are to expedite ambitious growth strategies (Penrose, 1959). Penrose identified that cognition in particular was important, and Wirtz (2011) subsequently discussed the importance of cognition in a governance context, as a lever to influence managerial decision-making. Anderson and Reeb (2003) added that 'relationship' was an important factor in supporting and sustaining growth, especially in smaller high-growth companies. In contrast, disciplinary levers (i.e., monitoring and control) are more prominent in larger and more mature companies where the management task is complicated by the size and diversity of the company (Chandler, 1991). That the board's active engagement in strategic management may be more likely to occur in high-growth companies (Arthurs, Busenitz, Hoskisson, & Johnson, 2009) implies this category of company is an appropriate population to study for research that seeks to understand board involvement in strategic management.

1.2.4 The New Zealand context

The legislative environment provides an important context for board and governance research. The New Zealand legislative context is introduced in this section, because the subject population selected for this research is high-growth companies registered in New Zealand. The reasons for this selection include the likelihood of the boards being involved in strategic management; of being able to secure access to observe boards in session and collect relevant data from several sources; and, pragmatically, proximity.

The board (i.e., the directors of a company, as a collective who act together) is its highest authority in New Zealand. The primary legislation is the New Zealand Companies Act ("Companies Act," 1993) (henceforth, the Act), and subsequent amendments. Amongst other provisions, the Act specifies statutory duties and obligations of directors (see Table 1-1 below for a summary of relevant sections[5]) to the company, shareholders and other parties.

Table 1-1: Companies Act 1993 (major responsibilities of New Zealand company directors)

Section	Responsibility
127	**Meaning of board:** The board is the quorum of directors required to act together.
128	**Management of the company:** Vests all the powers necessary for managing the business and affairs of the company directly with the board.
131	**Duty to act in good faith and in best interests of the company:** Specifies that directors must act in good faith, and in the best interests of the company. (Some other jurisdictions require directors to act in the best interests of shareholders or a wider group of stakeholders.)
133	**Proper purpose:** Requires directors to exercise their power for a proper purpose.
137	**Duty of care:** Requires directors, to exercise the care, diligence and skill that a reasonable director would exercise in the same circumstances.
169	**Duties owed:** Specifies the duties set out in Sections 131, 133 and 137 are owed to the company and not to the shareholders.

Source: (“Companies Act,” 1993).

[5] For a more complete summary of New Zealand directors’ core duties, see Martyn (2012, pp. 1–28).

One goal of enacting the 1993 Act was to remove many of the perceived (or real) ambiguities and shortcomings of the preceding statute. Its adoption, now nearly 25 years ago, has indirectly influenced the structure, composition and activities of boards in New Zealand (Cahan & Wilkinson, 1999). For example, the proportion of outside directors (see Section 2.4.4) on the boards of New Zealand companies increased after the Act came into effect—even though the Act was silent on matters, such as, quotas and outside directors.

While the responsibilities, duties and obligations of directors are explicitly stated in the Act, many directors of New Zealand companies do not seem to understand their responsibilities and duties in practice (Lockhart, 2010). Further, and somewhat alarmingly given the provisions and requirements specified in the Act, majority shareholders reportedly still exert undue influence over minority shareholders (Wellalage & Locke, 2011); the chief executive controls the board's agenda in many instances (Peebles, 2010); and, "accountability for business performance in New Zealand remains diffuse and confused" (Lockhart & Cousins, 2015, p. 223).

Codes of practice and professional development programmes have been introduced to assist directors understand their statutory obligations and fulfil them in practice, and to promote a high standard of director and board performance. One local example is the *Corporate Governance in New Zealand Principles and Guidelines* document (Securities Commission, 2004) (now renamed the Financial Markets Authority—www.fma.govt.nz), which promotes nine corporate governance principles and guidelines. Another example is the *Four pillars of corporate governance best practice in New Zealand*, published by the Institute of Directors in New Zealand (2012) (henceforth, the Institute). It also contains statements and guidelines to assist directors understand and fulfil their obligations, although much of the content is focussed on conformance and compliance aspects of board activity and director obligations. Strategy, strategic management and firm performance, for example, receive only cursory attention. Less than five per cent of the pages are dedicated explicitly to these topics in the current edition, despite *Pillars* being loosely based on Tricker's (2012a) framework (see Figure 2-1)—although this may change in future editions as new understandings emerge.

Despite the stated purpose of the codes (to promote high standards of director and board performance), the results of research published in both scholarly (Capasso & Dagnino, 2014) and practitioner (Barton & Wiseman, 2015) literature support the observation that gaps exist between guidance provided by respected agencies including directors' institutes, what directors may say they do and what directors actually do. A further complication for directors seeking guidance is the lack of consistency between the codes published in New Zealand (Caird & Eathorne, 2016).

1.3 The research question

The objective of this research is to examine whether a relationship between the board's involvement in strategic management (Nadler, 2004b; Tricker, 1984) and subsequent firm performance is apparent in high-growth companies, and in so doing respond to calls for more research of boards, corporate governance and strategic management. If examples of board engagement in strategic management—especially strategy development and strategic decision-making—can be observed directly and relevant data can be collected for analysis, it may be possible to describe the relationship between the activities of boards (i.e., corporate governance) and strategic management, and surmise how boards seek to exert influence from the boardroom including, potentially, firm performance.

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 term 'relationship' refers to way two things are connected (Oxford English Dictionary, 2010). The board–management and governance–performance relationships investigated in this research are understood to be both highly contextual and contingent on multiple endogenous and exogenous factors (see Chapter 2). That being so 'relationship' is used in this research to indicate a contingent association, not deterministic causality or a predictable linkage in any formulaic sense.

The term 'influence' is the capacity to have an effect on the character, development or behaviour of someone or something (Oxford English Dictionary, 2010). Whether the capacity (to influence) is exercised or not, and whether the desired effect is achieved or not, does not nullify the existence of the capacity or its potential to have effect.

The outputs of this research are anticipated to include one or more models that describe any relationship that is identified as a result of the analysis of longitudinal data. Any model(s) that are developed will incorporate characteristics and activities that appear to be significant. The findings are expected to build on the conceptual models described in the qualitative literature (e.g., A. Campbell & Yeung, 1991b; Leblanc & Gillies, 2005; Nadler, 2004b; Nicholson & Kiel, 2007; Tricker, 1984, 2012a; Wheelen & Hunger, 2006; Wirtz, 2011). However, different philosophical foundations and methodological pathways (Kuhn, 1977) from those that have been favoured to date by the majority of board researchers are expected to be necessary if answers to this question are to be identified. Ontological and epistemological considerations are explored further in Chapter 3.

1.4 The apparent importance of access and role of the researcher

The literature suggests that knowledge of actual boardroom activities, interactions between directors and decisions made by boards is likely to be necessary if reliable answers to the research question are to emerge. However, a critical limitation that has beset much social science research (Johl & Renganathan, 2010), and board research in particular (Leblanc & Gillies, 2005) needs to be resolved first: access to both observe the board in session and collect relevant data. If access can be achieved (and the analysis that follows is informed by the synthesis of direct observation data *and* data collected from secondary sources) then any conclusions, recommendations, models and theories that emerge should be of a correspondingly higher quality than what might otherwise be possible if research was limited to the analysis of data collected from sources outside the boardroom.

However, and regardless of whether access is achieved to create an additional source of data or not, multiple answers to the research question are likely, given the complex socially dynamic nature of the phenomenon being studied and the wider operating context, being the company and market. Therefore, the research outputs produced must remain both provisional and contingent. This is an unavoidable consequence of both the variety of structures of boards, the complex socially dynamic nature of corporate governance and of the indirect relationship (Leblanc & Gillies, 2005) between board activity and subsequent firm performance.

Access was secured for this research, enabling data to be collected from multiple sources including longitudinal observations of the boards of two high-growth companies. Resolution of the challenge of gaining access to collect data from within boardrooms, and of relevant methodological considerations including participant and non-participant observation and observer bias, are discussed in detail in Section 3.3.

1.5 Thesis outline

This thesis presents the findings of research that attempted to understand the relationship between corporate governance, strategic management and firm performance. It responds to calls to investigate what boards actually do by analysing data collected from both direct boardroom observations and other sources outside the boardroom. The thesis is arranged in eight chapters, as follows.

The literature relating to boards, board–management interaction and strategic management is reviewed in Chapter 2, to learn of current knowledge about these topics. Following an introduction, the term ‘corporate governance’ is reviewed and a working definition is provided. Several pages are then dedicated to the main theories of board–management interaction, meta-theories and associated models that have been derived from the main theories, and emerging perspectives after which a synthesis is presented. These theories have also been called theories of corporate governance (Tricker, 2000) in both the literature and within the practitioner community. A summary of the board structure and composition literature is then presented because this body of literature is widely discussed by both academics and practitioners, in search of firm performance. The impact of most commonly studied attributes including board size, chief executive duality, various forms of diversity and outside directors are discussed.

While quantitative studies have dominated board research, a small body of literature informed by qualitative data has also been produced. The dominant themes explored within these studies include board tasks and activities, director behaviours, boards and strategy, and board effectiveness. Rich descriptions have been provided and several models of board engagement suggested. However, rather less attention has been paid in this literature to the relationship that has been a priority for many researchers: the relationship between boards and firm performance. This body of knowledge is reviewed and a synthesis is provided—the identified themes providing an important foundation for this research.

The strategy, strategic decision-making and board effectiveness literature is then examined. Historically, strategy has been considered to be an important task of management, by proponents of agency theory in particular. However, strategic management (especially strategy development and strategic decision-making) is now recommended as an important task of boards. Finally, an overall summary is provided and the gap in the literature is identified for research.

The research methodology is described in Chapter 3. Following a brief introduction, relevant ontological and epistemological challenges are identified. Most of the board and governance research reported to date focussed on structural and composition aspects of boards, founded on positivist approaches to research and the orderly and incremental pursuit of knowledge. The appropriateness of several of the assumptions that underpin these approaches (whether implicitly or explicitly) is challenged and resolutions are suggested. An intensive case study design (specifically, a longitudinal multiple–case study) is proposed to pursue answers to the identified research question. The passage of time is an important consideration to understand any associations that may exist between strategic decisions and the consequential impact of decisions. Relevant ethical matters are discussed including a summary of the ethics approval process to conduct the research. The research involved the study of human subjects requiring approval from the Massey University Human Ethics Committee. Finally, the method used to conduct this research is described. The primary elements include the recruitment of participant companies;

the collection of data from multiple sources including from within boardrooms and other (extra-boardroom) sources; data collation; and, data analysis.

The data collected as a result of the fieldwork is described in Chapter 4. Data was collected from several primary, secondary and tertiary sources including boardroom observations; source documents used by boards (board packs and minutes of meetings); interviews with chairmen and chief executives; published (but not public) company documentation; public records; and, informal conversations with directors and third parties. The two companies that participated in the research are introduced, albeit within the bounds of the confidentiality limitations. Data relating to observed board practices is presented, and a tabulated summary of the decisions made by the two boards—including nine strategic decisions—is provided.

A summary of the first-order data analysis is presented in Chapter 5. The chapter commences with a description of each company's current and historical approaches to strategy development, noting especially the board's involvement therein. This is followed by a narrative analysis of each of the strategic decisions identified in the data including relevant activity prior to the strategic decision and any post-decision monitoring and involvement (i.e., decision sequences). A selection of raw data is included to provide context and aid with the reader's understanding.

The second-order analysis is presented in Chapter 6. The board's engagement in strategic management is analysed—the analysis revealing "rich patterns, archetypes and relationships" (Leblanc, 2003, p. 42) including different levels and types of board involvement in strategic management tasks. However, the revealed patterns were found to be inconsistent and irregular, as they were in Leblanc's research. Inflections in financial performance data were noted, and attempts made to associate observed performance inflections (or the achievement of performance objectives) with prior strategic decisions.

A collaborative model of board–management interaction based on an observed division of labour (of strategic management tasks) is presented and briefly discussed. Observed director interactions and behaviours are then analysed, using guidance from the literature presented in Chapter 2. Several underlying attributes (in the form of director qualities and social mechanisms) that appear to be germane to effective board contributions are identified. While no consistent or predictable relationship between board interventions and firm performance was discovered, a conceptual model, which attempts to describe the governance–performance relationship is developed. The model, which is contingent, is founded on a mechanism-based understanding of corporate governance, as evidenced from the boardrooms studied.

The primary purpose of Chapter 7 is to continue to discuss the findings that emerged from the analysis (especially the collaborative model of board–management interaction and the mechanism-based conceptualisation of corporate governance) and to position them amongst the extant literature. The findings support Tricker's (1984) proposition that strategic management is appropriately placed at the nexus of board–management interaction, if the purpose of corporate governance is the pursuit of agreed performance goals especially profit and shareholder value. The findings also provide an integrative perspective of the relationship between corporate governance and firm performance, and in so doing extend some of the conceptual models proposed in the literature, notably those suggested by Nadler (2004b); Wheelen and Hunger (2006); and, Wirtz (2011).

No explicit or predictable relationship between board involvement in strategic management and subsequent firm performance outcomes was discovered in this research. However, the findings revealed new knowledge about the board's involvement in strategic management; board–management interaction; the governance–performance relationship; and, they confirmed the contingent nature of the board's ability to exert influence from and beyond the boardroom through corporate governance. That the findings from this research are provisional and contextual, and the effect of board involvement in strategic management is contingent on multiple endogenous and exogenous factors is discussed.

Conclusions are presented in Chapter 8. The basis for the research is restated and the research question is answered. This thesis attempted to add to the understanding of how boards work by describing a longitudinal multiple–case study of two high-growth New Zealand companies. Contributions to the theoretical understanding of boards and corporate governance (both refining and extending existing perspectives), and to corporate governance research methodology (demonstrating the viability of a longitudinal multiple-case study design as a pathway to knowledge) are described. Several limitations—of both this research and the methodological approach used—are identified. Finally, implications for practice and opportunities for future research are presented.

Several appendices are included at the end of the thesis. Appendix A contains a copy of the Massey University Ethics Approval to conduct this research; Appendix B contains the Research Information Sheet used to describe the research to prospective participants; Appendix C contains the consent form used to record the consent of the board and chief executive of the participant companies; Appendix D contains the list of questions used to guide the semi-structured interviews with the chief executives and chairmen; and, Appendix E[6] contains anonymised copies of the Lockhart–Taitoko frameworks that were used to synthesise the data and to provide a holistic multi-year view of board activity and decision-making sequences.

[6] The two Lockhart–Taitoko frameworks were included for thesis examination purposes, but removed from the published copy of this thesis, to preserve the confidentiality of the two participant companies.

Chapter 2: Literature review

The real challenge for directors isn't regulatory compliance—it's high performance.

Nadler, 2004, p. 102

2.1 Introduction

Researchers have studied many aspects of boards. A considerable body of literature about boards, directors, corporate governance and related topics has now been published (Tricker, 2012b), despite boards being difficult to study (Adams et al., 2010). Most of the research has been informed by the statistical analysis of quantitative data from publicly-listed companies, collected from outside the boardroom. The dominant themes within this literature have centred on the board itself, especially its structure and composition, in search of linkages with firm performance. Contributions include, but are not limited to, board structure (Cowling, 2003; Gabrielsson & Huse, 2004); board size (Coles, Daniel, & Naveen, 2008); chief executive duality (Dalton & Kesner, 1987); board composition (Ahmed, Hossain, & Adams, 2006; Nicholson & Kiel, 2007); various forms of board diversity (Adams & Ferreira, 2009; Simpson, Carter, & D'Souza, 2010; Van der Walt, Ingley, Shergill, & Townsend, 2006); non-executive directors (Cadbury, 1992); behaviour (Larcker & Tayan, 2011); and, power (Peebles, 2010).

A body of literature primarily informed by qualitative data and interpretative approaches to analysis has also been published. Examples of study topics within this literature include descriptions of 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; Leblanc & Gillies, 2005), amongst others in search of understanding of what boards do. These studies are expected to provide helpful guidance for this research because they recognise the socially dynamic nature of the phenomenon more so than what is apparent in the positivist-inspired literature.

The aim of this chapter is to review and comment on the literature pertaining to this research especially both strands of the board and corporate governance literature, and the firm performance, strategy and strategic management literature. The chapter is organised as follows. First, 'corporate governance' is explored and an attempt is made to provide an appropriate definition as a contextual foundation for this research. The three main theories of board–management interaction that have been proposed in the literature, and several integrative and conceptual models derived from the leading theories are discussed; and, an integrated critique is provided.

The board structure and composition literature is then reviewed. The best board configuration through which to protect shareholder interests and pursue firm performance is far from clear—to the extent that firm performance is unlikely to be directly dependent on board structure or composition at all (Larcker & Tayan, 2011). The body of literature informed by qualitative data and interpretative analysis is then examined. Qualitative studies that provide a more holistic perspective are likely to be material to understanding what boards do and, therefore, provide insight into how influence might be exerted, if at all, from and beyond the boardroom.

Literature relating to board involvement in strategic management (D. C. Hambrick & Fredrickson, 2005; Parnell, 2014) is reviewed because an involvement in strategy development (in some form) has been identified as a major task of the board (Huse, 2007; Zattoni & Pugliese, 2012). The making of strategic decisions in the context of agreed corporate strategy, and the effective monitoring of strategy implementation also appear to be significant (Bonn & Pettigrew, 2009). While several models of board involvement in strategic management have been proposed (e.g., Garratt, 1996; Hendry et al., 2010; Nadler, 2004a; Nadler, 2004b; Wheelen & Hunger, 2006), acceptance that the board should be involved in strategic management and agreement of the appropriate level of involvement in practice is far from universal. These models are reviewed and a synthesis is provided.

Three of the major theories of firm growth that have been postulated in the literature are subsequently discussed. They provide a theoretical description of how companies can grow and, presumably, become more valuable—an important objective of many company shareholders. Finally, conclusions are drawn, several limitations[7] are identified and the knowledge gap is identified for this research.

2.2 Corporate governance

Corporate governance is a term that is "widely used but rarely defined" (Larcker & Tayan, 2013, p. 9). Many different definitions have been reported in the academic literature (Aguilera & Jackson, 2010), more so as knowledge about companies, boards, management and board–management interactions has expanded over time (Epstein & Roy, 2004). No single definition appears to have been universally accepted in the academic literature or in practice—acknowledgment perhaps of the socially dynamic nature of what boards do and the complexity of the wider contexts within which boards operate, the company and the business ecosystem. The aim of this section is to review the development and usage of the term 'corporate governance' and the major definitions and descriptions proposed to date, and to suggest one as a suitable definition to underpin this research.

The Oxford English Dictionary (2010) states that the English word 'governance' is derived from the Greek word *kybernetes* (to steer or pilot—typically, a ship), via a Latin derivation *gubernare* (to direct or rule) and the Old French word *gouvernance*. Thus, governance is an activity associated with movement, with setting direction and with guiding or directing something, presumably towards a longer-term or major goal, with some purpose in mind. Another English word 'cybernetics' is also derived from *kybernetes*. It is used to describe feedback loops and control systems (Wiener, 1961). In the context of management, Beer (1967) defined cybernetics as being "the science of communication and control" (p. 7), implying a short-term control or efficiency mindset based on various feedbacks between what has occurred and what was planned.

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[7] Philosophical and methodological challenges identified during the literature review are examined in the next chapter, Chapter 3.

A synthesis of these two derivations suggests that corporate governance is a system of some sort, comprised of both longer-term (direction) and shorter-term (feedback) parts, specifically within a company context. Longer-term direction and goal setting incorporates overall business goals, strategy and strategic decision-making, whereas the shorter-term feedback cycle relates to the monitoring activities and control adjustments required to maintain progress towards agreed business goals, via approved strategy.

The first explicit usage of the term 'corporate governance' in the academic literature appears to have been by Eells (1960). His reference to the "structure and functioning of the corporate polity" (p. 108)—the corporate polity being the board of directors, the group within the company ultimately responsible for firm performance (Cadbury, 1992)—was used to describe the role and activity of boards of directors.

Berle and Means (1932) described the need for a structure to define or control interactions and to protect the interests of shareholders when the ownership (of company shares) and control (of decision-making) in companies are separated. However, they did not use either of the terms 'governance' or 'corporate governance'. Notwithstanding this, the need to protect the interests of shareholders when ownership (of company shares) and control (of decision-making) are separated was recognised much earlier (over 300 years prior to Berle and Means' contribution) with the formation of royal chartered companies in Britain and Adam Smith's (1776) commentary:

> The directors of companies, being the managers of other people's money rather than their own, cannot well be expected to watch over it with the same anxious vigilance with which (they) watch over their own (cited in Tricker, 2012a, p. 6).

The term 'corporate governance' does not seem to have been explicitly used in either the practitioner or the academic literature for nearly two decades after Eells (1960) first used it. Estes (1977) and Jones (1977) both used the term when they separately explored structural aspects of boards. Not long thereafter, Williamson (1979) used the term again—albeit in the transaction-cost economics literature—to describe "a framework within which the integrity of a transaction is decided" (p. 235). These descriptions emphasised board structure and process, as a means of representing or protecting interests.

Curiously, neither of the terms 'governance' and 'corporate governance' were used in the two other peer-reviewed articles (Fama, 1980; Jensen & Meckling, 1976) that are most frequently cited in the board and corporate governance literature. Ironically, these articles are now considered to be seminal contributions by many board and management scholars even though the phenomenon of interest to them (i.e., corporate governance) is not explicitly named. In contrast, Eells (1960) is only rarely mentioned. Despite this, Jensen and Meckling's and Fama's articles were demonstrably significant: they heralded the emergence of a new discourse. Not long after they were published, other scholars—perhaps most notably Tricker (1984)—began to write about the board–management interaction in earnest, and to use the term 'corporate governance'.

Most of the descriptions of 'corporate governance' provided in the academic literature up until the late 1990s emphasised the importance of the monitoring and control aspects of the exchange between the boards and managers of large publicly-listed companies. Dayton (1984) for example, described corporate governance as being "the processes, structures, and relationships through which the board oversees what its executives do" (p. 34). Similarly, Baysinger and Butler (1985), asserted that boards "serve to resolve conflicts of interest among decision-makers and residual risk bearers" (p. 101), indicating some sort of mediation responsibility with shareholders. Cadbury (1992) proposed that corporate governance is a system "by which companies are directed and controlled (p. 15). Consistent with Eells' (1960) original proposal, the scope of the definitions in this period was, by and large, centred on the functional activities of the board, albeit with an emphasis on monitoring and control.

Later, more expansive descriptions were proposed including Shleifer and Vishny (1997), who suggested that corporate governance extended beyond the functioning of the board:

> Corporate governance is a means by which various stakeholders exert control over a corporation by exercising certain rights as established in the existing legal and regulatory frameworks as well as corporate bylaws. (p. 374)

The usage of “means by which” implies that Shleifer and Vishny (1997) conceived corporate governance as being a broader system or process, the purpose of which was to allow or enable “various stakeholders” to exert control within a legal and regulatory framework. The focus is on the alignment of interests and financial discipline although no reference is made to the purpose of the corporation or the notion of a business goal or to firm performance. Even the board is not explicitly mentioned. Shleifer and Vishny may have considered the board to be one of the “various stakeholders”, or that all of the various stakeholders possess rights and attempt to exert control through the pursuit of these rights.

John and Senbet’s (1998) statement, that “corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected” (p. 372), offered support for Shleifer and Vishny’s (1997) proposal. Subsequently, Charreaux’s (2008) search for a ‘lost link’ between the characteristics of leaders and firm performance extended the understanding yet further. His use of the term ‘system of governance’ encapsulated statutes, regulations, codes of practice, ethics, shareholders and markets, companies, and the board of directors—associating, in effect, governance with the entire business ‘ecosystem’.

These latter references positioned corporate governance as being some sort of control-based structure, process or system (or a combination thereof), through which problems associated with the separation of ownership and control in large (typically publicly-listed) companies are mediated and resolved (Baysinger & Butler, 1985). In most instances, the board’s involvement in activities that might lead to improved firm performance or value creation was tacit (Golden & Zajac, 2001), at best. The primary emphasis, on monitoring and control tasks should not be surprising given the dominance of agency theory (Aherns & Khalifa, 2013) as a theoretical representation of board–management interaction in publicly-listed companies in the Anglosphere, from where most of the early board and governance research subsequently emerged.

After the turn of the twenty-first century, scholars began to explore the board’s involvement in value creation in companies (Huse, 2007, 2009b; Pitelis, 2004), seemingly on the assumption that involvement might be expeditious to the achievement of firm performance goals and shareholder wishes (Daily, Dalton, & Cannella, 2003). While an expanded role in value creation was suggested, the primary emphases of earlier descriptions, namely, of monitoring and control, were not ceded (G. Davis, 2005). The dominant understanding remained one of structure, process and rule, although other external stakeholders of various types in addition to the board were now routinely included within definitions. The oft-cited and widely accepted (Ahmad & Gonnard, 2007) Organisation for Economic Co-operation and Development (OECD) definition (2004) is typical of those that have been published since 2000:

> Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. (p. 11)

The OECD definition conceptualises corporate governance as being set of relationships between several parties, providing a 'structure' through which various activities occur. The pursuit of objectives is mentioned, and a mechanism through which the objectives of the company are agreed and the means by which they are attained and monitored is implied. While this definition is more detailed than earlier descriptions (notably, it adds relationships and a sense of purpose), the primary actor remains the board, and the dual foci of performance and conformance are explicit.

A framework initially proposed by Hilmer (1993) and subsequently refined by Garratt (1996) and Tricker (2012a) added insight. Tricker's refinement of Hilmer's two-by-two matrix structure (see Figure 2-1 below) demonstrated that board activities have both internal and external, and conformance and performance dimensions. The inclusion of a fifth cell recognises that boards do not control the operation of the company directly— that role is normally delegated to the chief executive (Mintzberg, 1983).

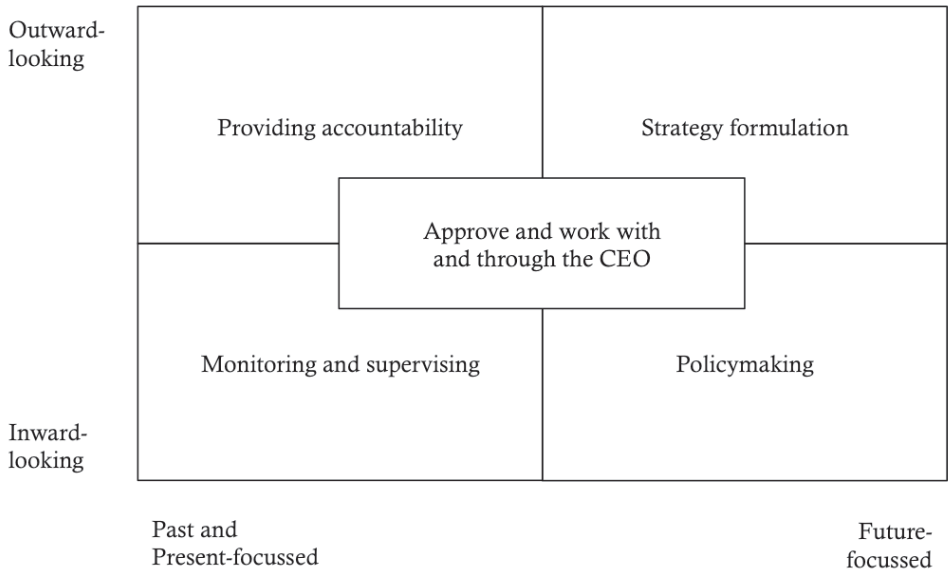

Figure 2-1: Tricker's framework of board activities

Source: (Tricker, 2012a, p. 45)

Other forms of organisational governance have been proposed alongside 'corporate governance', primarily for non-company institutions. Examples include universities (Yoder, 1962), local government (Kirlin & Eric, 1972) and not-for-profit and non-governmental agencies (Aldashev, Marini, & Verdier, 2015). While some board practices are similar, the underlying motivations of these organisations are quite different from those of profit-seeking companies, as are the legal constructs. The goals of maximising returns and increasing company value (Simons et al., 2000) that are prevalent in profit-seeking companies are typically subordinate to social impact, policy, educational and other community goals in social enterprises, government, universities and other non-company corporate institutions. The concept of ownership is also obtuse, and the interests of a wide group of stakeholders are typically more prominent than in companies. Notwithstanding this, Carver (2010a) proposed a rules-based concept of governance (he used the term 'policy governance'). Carver's proposal, first developed for the not-for-profit sector, emerged from a belief that an holistic and all-encompassing framework could be developed to encompass the activities and decision-making practices of boards in all types of entities and situations, including companies.

The preceding discussion demonstrates that several conceptual understandings of corporate governance have been proposed over time. Corporate governance has been conceptualised variously in structural, process and policy framework terms (see Figure 2-2) and, more generally, it has also been used to describe an all-encompassing ecosystem that extends well beyond the company. Regardless of these variations, the board provides an important link between shareholders and managers (Berle & Means, 1932), placing the board at the "epicentre of strategic decision-making and accountability" (Hemphill & Laurence, 2014, p. 197). Huse (2007) subsequently summarised the central role and motivation of the board as being "the interactions between various internal and external actors and the board members in directing the firm *for value creation*" (p. 15, italics added).

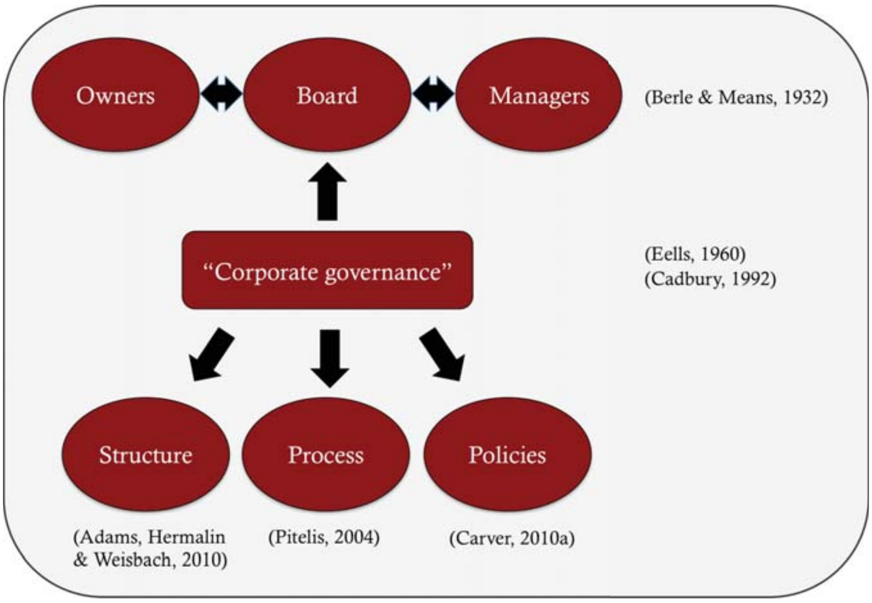

Figure 2-2: Illustrating the multiple conceptual understandings of corporate governance

To date, no single definition or stable understanding of corporate governance has prevailed, despite the seemingly adequate definition first proposed by Eells (1960) and, subsequently, the widespread citation (Durisin & Puzone, 2009) of the definition provided by Cadbury (1992). Hence the difficulties researchers and practicing company directors have faced ever since. Similarly, multiple theories of board–management interaction and corporate governance have been advanced (Letza, Sun, & Kirkbride, 2004). None of these has gained universal acceptance either (see Section 2.3).

For the purposes of this research, the structure and functioning of the corporate polity (i.e., the board) is assumed to be distinct but not independent from the wider business ecosystem, which provides the context within which companies and boards operate. The widespread acceptance of the OECD definition within both the research and practice communities suggests that it provides a useful working definition of 'corporate governance' (i.e., the system by which companies are directed and controlled (Cadbury, 1992)).

2.3 Theories of board–management interactions

The relationship between the board and executive management is central to understanding corporate governance. Scholars have recognised this and several theories of board–management interaction have been proposed in the literature. The three main theories (Nicholson & Kiel, 2007) are agency, stewardship and resource dependency theory. However, other conceptual and meta-theoretical models have also been proposed. The main theories, also called theories of corporate governance (Tricker, 2012b) are reviewed in the following sub-sections after which emerging perspectives and conceptual models are considered and a synthesis is provided.

2.3.1 Agency theory

Agency theory (Jensen & Meckling, 1976) is widely recognised as being the dominant guiding framework (Daily, Dalton, & Rajagopalan, 2003; Durisin & Puzone, 2009; Krause & Bruton, 2014) for most of the board research conducted in the last four decades. The theory describes an interaction between an agent and a principal (Learmount, 2002), implying that the agent's (manager's) actions depart (through information asymmetries, self-interest and other extrinsic motivations (Simon, 1997)) from those required to maximise the principal's (shareholder's) shareholder returns (Fama & Jensen, 1983).

The separation of ownership and control that occurs when company shareholders no longer possess decision control can lead to conflict (Holmstrom, 1982; Lubatkin, Lane, Collin, & Very, 2005), because the actions of managers are assumed to depart from those required to maximise returns to shareholders. The establishment of an appropriate mediating structure (the board) and the implementation of controls (to align the behaviours and actions of management with the expectations of the board and, presumably, the shareholders) can supposedly mitigate the agency problem (Grossman & Hart, 1983).

The supposedly straightforward theory (Aherns & Khalifa, 2013) seems to provide an adequate description of the interaction between the parties. However, this may be a somewhat naïve view (Swamy, 2011) of the relationship. Despite it being widely accepted as being the foremost theory of board–management interaction—although whether it is currently has been challenged (Lockhart, 2015) especially as the context for the original proposition was large publicly-listed companies in developed markets (Gomez-Mejia & Wiseman, 2007)—agency theory has been criticised as being both "simplistic" (Judge, 2011, p. 293) and based on a "dubious conjectural morality" (Tricker, 2012a, p. 62). Potentially significant factors including group dynamics (Roberts, McNulty, & Stiles, 2005); the motivations of managers (J. Davis, Schoorman, & Donaldson, 1997) including self-interest (Learmount, 2002); the social context (Knapp & Dalziel, 2007); the social reality of boards and boardroom interactions (Knapp, Dalziel, & Lewis, 2011); and, the interaction between shareholders and the board (J. A. Andersen, 2012) are all largely ignored. These shortcomings should not be unexpected given the economic and financial foundations of agency theory, and the largely positivist approaches that have been favoured by most board researchers to date.

Independence in decision-making is an important implication of agency theory. Proponents claim that a clear separation between the activities of the board and management is associated with improved firm performance—if only by minimising agency costs. However, this claim is not well supported in the academic literature (Daily, Dalton, & Cannella, 2003), despite separation being widely promoted in the practitioner literature (Parsons & Feigen, 2014) and it being generally accepted as being good practice amongst both practitioners (Capezio, Shields, & O'Donnell, 2011) and directors' institutes (Arcus, 2012). Further, agency related mechanisms including structural separation, incentives and control provisions have not resulted in any consistent improvement in, nor prediction of, firm performance (Dalton, Daily, Certo, & Roengpitya, 2003; Demsetz & Lehn, 1985) or value creation (Kraus & Britzelmaier, 2011).

Structures, controls, statutory reforms, codes of practice and other compliance measures introduced in response to corporate failures and the behaviours of recalcitrant directors (and boards) appear to have done little to improve the quality of board effectiveness (Pozen, 2010) or firm performance (Gupta, Krishnamurti, & Tourani-Rad, 2013; Leblanc, 2010). They have not assured company continuance either: agency-based responses may have played a significant role in some corporate failures (Conyon, Judge, & Useem, 2011). They were insufficient in averting the collapses of some companies in the early 2000s (Soltani, 2014), and may have contributed materially (Walker, 2009) to both the global financial crisis of 2008–2009 and some of the more recent corporate failures in New Zealand[8] and elsewhere. Contributing factors include moral failures of directors and executives; ineptitude in the boardroom; incompetence; fraudulent behaviour and activities; excessive risk taking; hubris; an ambiguous understanding of corporate governance; and, the focussing of boards on compliance and monitoring activities.

Analyses of companies that have collapsed in New Zealand (Lockhart, 2014a; Lockhart & Cousins, 2015) and elsewhere suggest that a sharp focus on discipline and control tasks, as espoused by agency theory, is of limited use in assuring that sustainable firm performance is achieved over time. This is particularly so in those companies where share ownership (Wellalage & Locke, 2011) or expertise (Almandoz & Tilcsik, 2016) is concentrated; the purpose or strategic direction of the company is unclear or unsuitable; the primary focus of the company is on short-term financial performance (Kang, Cheng, & Gray, 2007); or, the governance practices (Bednar, Love, & Kraatz, 2015) within the boardroom are inappropriate or, worse still, fraudulent (Kulik, 2005).

Proponents of agency theory also argue that strategy development and implementation is the exclusive responsibility of management: the board's role is to remain independent from management, to review and ratify strategies that are proposed to them by management

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[8] Examples include the collapse of Dominion Finance and numerous other finance companies; Christchurch City Council losing the power to issue building consents; Solid Energy becoming insolvent; the statutory management of Rodney District Council; and, the Fonterra botulism scare amongst many others.

(Andrews, 1980; Larcker & Tayan, 2011). The same proponents also suggest that contributions should be provided in response to invitations from management (Hendry & Kiel, 2004) because the board's primary role is one of oversight—to monitor past performance and control the activities of management; minimise agency costs; and, mediate between shareholders and decision makers.

An agency theory mindset (of monitoring and control) may also precipitate a rather defensive and sometimes adversarial relationship between the board and management (Knapp et al., 2011), and perhaps also between the board and shareholders (Cohn & Rajan, 2013). This is because boards that harbour a "presumption of mistrust and incompetence" (Hilmer & Donaldson, 1996, p. 200) of management are likely to experience what they expect. It may be similar with shareholders. The resulting conception of corporate governance is one of rules and regulations, codes of practice, policies, compliance and conformance. This conception is in direct contrast to any focus on the overall performance of the company—for which the board is legally responsible.

While the assumptions of the agency problem were challenged over three decades ago (Stigler & Friedland, 1983) and agency theory was identified as a limitation to the advancement of board and governance research over a decade ago (Daily, Dalton, & Cannella, 2003), many scholars have continued to pursue agency theory as *the* theoretical basis for research into boards and board–management interaction—in many types of companies but of large publicly-listed companies in particular. A persistent focus on the monitoring and control of historical activity leaves little opportunity for firm performance priorities including the purpose of the company, corporate strategy, future performance goals and value creation priorities to emerge, let alone be discussed by boards.

A few scholars have begun to explore enhancements and extensions to agency theory, in response to identified weaknesses of agency theory. These are mainly pluralistic and multi-theoretical approaches that combine different theoretical perspectives with agency theory, in pursuit of a more encompassing description. Contributors include Christopher (2010) and Lan (2010) (see Section 2.3.4); Wirtz (2011), who proposed a refinement to Charreaux's (2008) earlier meta-model (see Section 2.5.1); and, most recently, Merendino and Gerrit (2015) who presented a multi-theoretical approach (incorporating seven different theories) which attempted to demonstrate how a comprehensive approach might lead to a better and, perhaps, more holistic understanding. (Merendino and Gerrit's expansive proposal is yet to be advanced beyond initial conceptualisation.) These authors have appropriately recognised both the contingent and behavioural elements of board practice and the wider context within which boards operate, the firm and the market. Several have also called for black box research, recognising that first-hand observations of board meetings will be required to validate or refute their theoretical constructs.

These recent developments provide interesting avenues for further investigation. They may lead to new understandings of board–management interaction and corporate governance. However, these proposals also move agency theory well beyond the shareholder–board–manager interaction described by Berle and Means (1932) and subsequently espoused by Jensen and Meckling (1976)—in effect applying systems thinking (Checkland, 1994, 2012) and embracing the entire business ecosystem. As a result, it may be more appropriate to consider these developments as emergent models with the potential to provide a new theoretical understanding of companies, markets and economies, rather than a refinement of agency theory as their authors seem to have intended.

2.3.2 Stewardship theory

A second major theory of board–management interaction, stewardship theory (Donaldson, 1990; Muth & Donaldson, 1998), provides an alternative perspective to that provided by agency theory. Whereas agency theory assumes the existence of a divergent relationship between the priorities of shareholders and the actions of managers, stewardship theory presents a more collaborative perspective. Emerging from the psychology and sociology literatures (Donaldson & Davis, 1991), stewardship theory describes a convergent relationship between company shareholders (or, more correctly, the board as the shareholders' proxy) and management.

Stewardship theory researchers suggest that managers are intrinsically motivated to adopt an altruistic attitude towards the company and its objectives. Psycho-social factors including empowerment, collaboration and positive reinforcement are thought to encourage managers to act positively and to align their efforts with those of the board (Gabrielsson, 2007; Hernandez,

2012) and, by implication, of the shareholders (assuming the board's actions and decisions are aligned with the interests of the shareholders). Consequently, when viewed through the stewardship theory lens, management is regarded by the board as being trustworthy; concerned about the welfare of both the company and its stakeholders; and, committed to the optimisation of firm performance (J. Davis et al., 1997).

Stewardship theory implies that improved firm performance may be possible if the board and management are actively engaged, together, in the pursuit of firm performance because interests are aligned. However, this is far from categorical in practice, especially as the board does not directly control the operation of the company, management does (Mintzberg, 1983). Also, if the board and management become too close, objectivity may be compromised and the parties may take each other for granted. Consequently, the commitment to maintaining a collegial relationship may become a greater moderator of the board's behaviour than the board's legal duty to act in the best interests of the company or to hold management to account, as agreed performance goals are pursued. Proximity to management may also have the unintended consequence of the board becoming somewhat distant from shareholders, a risk that is also apparent in the director primacy model suggested by Lan and Heracleous (2010). This may lead to renewed agency concerns, acknowledgement perhaps that a balance between stewardship on the one hand and agency on the other may be a more appropriate representation, or that another theoretical understanding entirely may be needed.

2.3.3 Resource dependency theory

The third major theory of board–management interaction is resource dependency theory (Pfeffer & Salancik, 1978). Founded upon the organisational theory literature (Presthus, 1958), this theory suggests that the board has an important role beyond monitoring and controlling the performance of management (the agency view) or empowering their success (the stewardship view). It postulates that the long-term commercial success of a company is dependent on the ability of the directors to organise resources, by facilitating connections with external parties (Zahra & Pearce, 1989). The purpose of such external connections is to secure important resources (Pfeffer & Salancik, 1978) that may not be otherwise accessible by management alone.

One implication of this resourcing perspective (Daily, McDougall, Covin, & Dalton, 2002) relates to the size of the board. The board's ability and desire to provide access to and through directors' personal networks is considered to be crucial to the effective application of resource dependency theory in practice. As a consequence, a larger number of directors may be beneficial in companies with a large number, broad range or complex set of resourcing needs—an appropriate connection to an external resource is more likely to be found amongst a larger board than a smaller board.

If directors do not have personal networks (G. George, Wood Jr, & Khan, 2001) through which to access resources, or directors choose not to provide access through their networks, then the plausibility of resource dependency theory as a reasonable representation of the board–management interaction becomes questionable, especially for those companies with a high dependency on directors to provide resourcing connections (Guzak & Rasheed, 2014). Conversely, companies and boards may experience diminishing returns if directors 'open the resourcing door' too widely, or if other complexities and challenges that are inherent in large groups as a result of more complex dynamics (Forsyth, 2014) start to become apparent. The company may also become vulnerable to the negative influence of exogenous factors (e.g., competitor activity) if information outflows become too great; and, decision-making effectiveness may be impaired or even compromised if trust is eroded and the quality of the interaction between directors starts to break down.

2.3.4 Emerging perspectives

Several conceptual models and meta-theoretical approaches have been suggested in an attempt to resolve perceived weaknesses in the dominant theories. These integrative and multi-theoretic models are not new theories *per se* but rather proposals that utilise or build upon existing theories. However, they may become recognised as new theories in future.

Team production—a model first proposed by Blair and Stout (1999) and subsequently applied to the governance of corporations by Kaufman and Englander (2005)—provides an inclusive stakeholder perspective of board–manager interactions. Managers, employees and other stakeholders are invited to participate in governance activities, as directors, on the basis of their ability to add value and assume risk, and because they possess strategically important information. The board is conceived as a mediating hierarch—a modified agency view (Lan & Heracleous, 2010) in effect—that makes decisions, allocates operating surpluses and balances interests. An underlying assumption of the team production model is that a team-based approach should result in or may lead to higher levels of board performance and, ultimately, firm performance. Machold *et al.'s* (2011) study indicates that the team production model may be an antecedent to board involvement in strategy development, especially in smaller companies. However, this implies that structure appropriately precedes strategy, the antithesis of management and leadership thought (Drucker, 1974) that structure should follow strategy (because it is dependent on it (Chandler, 1962, 1991)).

Notwithstanding the apparent benefits of the team production approach to board effectiveness, and to strategy development in particular, the presence of managers, employees and other stakeholders as directors may actually stifle firm performance. Conflicts of interest; differing priorities; confusion between representation and performance; and, varying levels of competence to perform board tasks and fulfil legal duties adequately are possible contributing factors to these restrictions. The act of elevating directors and various stakeholders also has the effect—perhaps unintended—of subordinating shareholders to the status of an interested party alongside others, a designation that means they (the shareholders) are no longer the sole residual claimants of the company's financial success. However, studies that explore these factors are yet to be published.

An underlying—though unstated—motivation of applying the team production model to companies may be political. In discussing board composition and stating that the board should include representatives of stakeholders (employees, managers and others), Kaufman and Englander (2005) seem to have confused the performance imperative of boards with representation. In New Zealand for example, the Act states that directors must serve the company, not shareholders and any other constituency. Hence, the suitability of the team production proposal as a viable theory may be misleading or possibly even inappropriate, in the New Zealand context at least. Consequently, team production should be treated with some caution; at least until further empirical research is completed and legal implications in various jurisdictions are considered.

An integrative framework that attempts to address the limitations of the main theories is the conceptual multi-theoretical model proposed by Christopher (2010). Christopher used a two-by-two matrix (see Figure 2-3 below) to identify linkages, relationships, and interdependencies between the discrete theories, actors and components. The model suggests that if two dimensions are known, then other dimensions (and consequences for practice) can be inferred. For example, a management team with a high level of trust between the board and management and straightforward resourcing needs would be located in the lower right cell (B) of the model. As such, the likely number of stakeholder interactions would be singular or low, and the agency costs would be expected to be low. While Christopher's integrative model provides new insight (especially in terms of identifying complementary aspects of existing theory and how they might be most applicable in a given situation), further empirical testing is required to test the efficacy of the conceptual proposal in different contexts, and especially to establish whether the identified weaknesses and assumptions of the existing theories (which have been challenged elsewhere (Dulewicz & Herbert, 2004)) are adequately addressed.

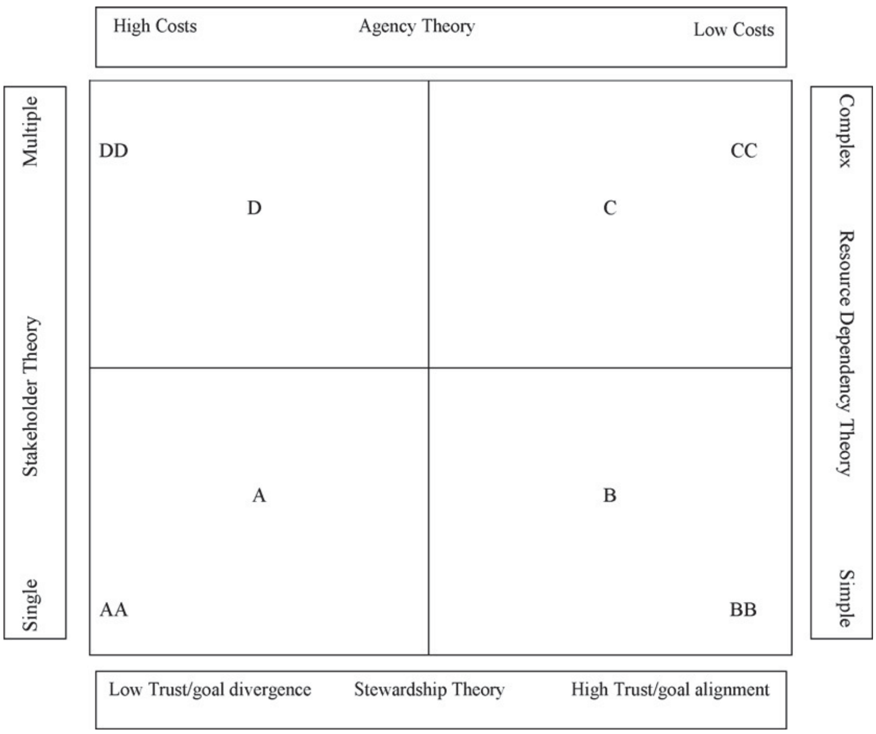

Figure 2-3: Christopher's multi-theoretical framework

Source: (Christopher, 2010, p. 690)

An emerging perspective that seeks to address the inherent dichotomy between the conformance and performance roles of boards (Garratt, 1996) is contingency theory (Elgharbawy & Abdel-Kader, 2013). Responding to earlier calls (Muth & Donaldson, 1998), the contingency-based perspective extends agency theory (which itself lacks a contingency perspective (Aguilera & Jackson, 2003)), by incorporating environmental and organisational factors as determinants of corporate governance. In doing so, contingency-based perspectives both recognise and attempt to account for multiple intervening and moderating factors that may influence firm performance. Ghofar and Islam (2015), for example, acknowledge that strategy is an important contextual factor, even though their observation does not extend to suggesting that any involvement in strategic management by the board might be important or necessary.

Superficially, this emerging perspective has parallels to the now historical contingency approach in management. Chandler (1962, 1991), for example, suggested that structure is contingent on strategy—recognition that management effectiveness is contingent on behaviours and situations. However, the appropriateness of external factors being determinants of the structure of the board may be at odds with research that suggests that board structure is fundamentally endogenous (Hermalin & Weisbach, 2003).

The argument that board structure follows strategy is not necessarily upheld at the population level because boards and their measurable attributes are yet to be demonstrated to have an impact on firm performance. At an individual firm level, this may differ because an individual firm may modify its board structure to assist in the achievement of strategy (which is addressed by the resource view of corporate governance), in which case the distinctive 'value' of contingency theory within the governance research field remains unclear. However, it may be, hence the value of identifying contingency and contingent relationships as an emerging possibility. What remains intriguing though is that contributors to the contingency approach in management (e.g., Blau (1970); Chandler (1962); Emery and Trist (1965); Miles and Snow (2003); Pugh, Hickson, Hinings, and Turner (1968); Woodward (1965)) were sufficiently cautious as to not attribute direction (dependency) between variables. Researchers in the board and corporate governance fields could be expected to uphold similar caution.

2.3.5 The theoretical landscape

Corporate governance is widely recognised as being a complex, socially dynamic phenomenon with performance and conformance dimensions. Consistent with this understanding, Nicholson and Kiel's (2007) case-based examination of the three leading theories of corporate governance concluded that no single theory (nor, presumably, any of the models or meta-theories that have been derived from them) adequately account for all types of companies (Starbuck, 2014) or all forms of board–management interaction (Bonini, Alkan, & Salvi, 2012). More recently, Bordean, Crisan and Pop (2012) reached a similar conclusion.

The enduring challenge of the three main theories is that they have been developed, in the main, in the context of and through the lens of large publicly-listed corporations and mature markets. However, these theories are less well suited to smaller and high-growth companies, where formal hierarchy and clear divisions of labour between board and management roles are often less apparent. That Fama and Jensen (1983) admitted as much (they explicitly excluded smaller entrepreneurial companies from their thesis) seems to have escaped the attention of many researchers since—although Lynall, Golden and Hillman (2003) did argue that different theories may be applicable at different stages of a company's development.

Dulewicz and Herbert (2004) added to the critique by concluding that structural and composition factors provide "scant support" (p. 263) for the main theories of board–management interaction that have been proposed. Agency theory, in particular, is problematic primarily because it reinforces a dichotomous and potentially adversarial relationship between the board and management. Further, the assumptions that underpin Berle and Means' (1932) treatise—and upon which agency theory was subsequently based—may be flawed (see Hilmer & Donaldson, 1996, p. 151). This situation is exacerbated when social factors including firm complexity (Markarian & Parbonetti, 2007), heterogeneity (Vandewaerde, Voordeckers, Lambrechts, & Bammens, 2011), chief executive succession (Quigley & Hambrick, 2012) and national culture (Li & Harrison, 2008) amongst others are considered.

2.4 Board structure and composition studies

Many structural and composition attributes of boards have been isolated and studied by researchers. The aim of most of these studies has been to identify the best board configuration through which to minimise the agency costs *thought* to exist between the board and managers and, as a result, supposedly improve firm performance. Of the structure and composition attributes studied, board size, chief executive duality, various forms of diversity and the relationship of directors with the company have received the most attention. Relevant literature is reviewed below, after which a synthesis is provided.

2.4.1 Board size

The term 'board size' refers to the total number of directors of a company. Scholars have investigated whether a correlation exists between the size of the board, board effectiveness and firm performance measures. The results from several single country studies including Finland (Eisenberg, Sundgren, & Wells, 1998); the United Kingdom (Guest, 2009); Singapore and Malaysia (Mak & Kusnadi, 2005); and, the United States of America (Yermack, 1996) indicate that an inverse relationship may exist.

Board effectiveness reportedly declines as board size increases, and markedly so once a threshold of 11 directors is reached (Zahra, Neubaum, & Huse, 2000). While the results of these quantitative studies are not conclusive (Coles et al., 2008), they are generally consistent with Jensen's (1993) earlier observation that boards with more than seven or eight directors are less likely to be effective than boards with fewer directors—contributing factors being that effective coordination, communication and decision-making is often more difficult in larger groups of more than eight members (Lipton & Lorsch, 1992).

That no consistent relationship between board size and firm performance is evident in the board literature suggests that the number of directors on a board is unlikely to be reliable as a direct indicator, moderator or cause of firm performance (Dalton, Daily, Ellstrand, & Johnson, 1998). The psychology literature provides helpful insight: the increasing number and complexity of interactions, and process losses between team members (and with external parties) as group size increases has an effect on productivity (Steiner, 1972), with strong evidence to suggest that small team size of five or fewer members is better (Hackman & Vidmar, 1970).

Despite the literature indicating that smaller boards can be more effective, a larger board may be beneficial in some circumstances (Swamy, 2011). An example relevant to this research relates to the development of strategy. A larger board may result in a greater number of strategic options being considered, as a consequence of a more diverse range of questions and possibilities being mentioned during discussions. Relevant strategy literature, especially the board's involvement in strategic management and strategy development, is discussed in detail in Section 2.7.

2.4.2 Chief executive duality

Chief executive duality[9] (Finkelstein & D'Aveni, 1994) refers to the situation in which the chief executive and the chairman[10] roles are both held by one person at the same time (Dalton & Kesner, 1987). Chief executive duality has been associated with increased return on equity (Donaldson, 1990), while the separation of roles has been associated with increased effectiveness (Shleifer & Vishny, 1997), financial performance (Grove, Patelli, Victoravich, & Xu, 2011) and market valuation (Saibaba & Ansari, 2011).

The Higgs Report (2003), which was commissioned by the British government following several high profile corporate failures in the early 2000s, recommended against chief executive duality. The primary justification was to ensure that the potential for any abuse of power that might arise from the concentration of decision-making and power with one person was minimised. Even then, separation has been shown to negatively impact future firm performance if current firm performance is high (Krause, Semadeni, & Cannella, 2014).

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[9] The terms 'chief executive duality', 'CEO duality' and 'CEO–Chair duality' are used interchangeably in the literature. Chief executive duality is used exclusively in this thesis.

[10] The term 'chairman' is used as a gender-neutral term referring to the person who chairs board meetings and coordinates the activities of the board. It does not imply and should not be read as meaning the occupant is necessarily a male.

Most of the chief executive duality research published to date has been limited to the statistical analysis of quantitative data collected from publicly-listed companies in larger Anglo–American economies. Few if any qualitative studies of chief executive duality have been completed. However, some research based on data from emerging economies has been published. Positive (A. Lincoln, Fields, & Adedoyin, 2013, Guyana), negative (Chang-Jui, 2011, Taiwan) and neutral (Elsayed, 2007, Egypt) correlations have been reported. The mix of positive, neutral and negative correlations in the literature—in both developed and developing economies—highlights both company-to-company and country-to-country variability. It follows that chief executive duality is unlikely to be singularly or directly material to firm performance.

The variability in the results demonstrates that the impact of chief executive duality on firm performance is not consistent, to the extent that Finkelstein and D'Aveni (1994) described it as a double-edged sword. Firm performance is more likely to be contingent on and, therefore, affected by multiple endogenous and exogenous factors including the actions of directors, managers and staff and the operational context within which the company operates at any given time. This observation is consistent with Krause, Semadeni and Cannella's (2014) suggestion that the "devil is in the details" (p. 264)—an indication that the issues surrounding chief executive duality are both contextual and idiosyncratic.

2.4.3 Diversity

Researchers have investigated several board diversity variables, in search of a relationship with firm performance. Sex[11], ethnicity, religion and other measureable[12] forms of diversity have been investigated in an attempt to identify correlations with company financial performance. Positive (Srinidhi, Gul, & Tsui, 2011), negative (Adams & Ferreira, 2009; Bohren & Strom, 2010), mixed (Mahadeo, Soobaroyen, & Hanuman, 2012) and neutral (K. Campbell & Minguez-Vera, 2008;

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[11] The term 'gender' is widely used throughout board and corporate governance literature, even though the usage is to male and female.

[12] To date, all diversity studies that have sought to identify linkages with firm performance have utilised quantitative data.

D. A. Carter, D'Souza, Simkins, & Simpson, 2010) correlations have been reported, across a range of diversity variables.

Correlations between measurable diversity variables and other non-financial attributes are apparent in the literature. Female directors reportedly have a positive impact on social and behavioural interactions between directors and within boardrooms. They seem to display more civilised behaviours, less conflict and improved communications and disclosures (Gul, Srinidhi, & Ng, 2011); tend to attend more meetings than male counterparts (Adams & Ferreira, 2009); and, are thought to be better at processing information under conditions with uncertainty (Rost & Osterloh, 2010). The literature also suggests that female directors monitor the performance of the chief executive more closely and hold the chief executive to account more directly then their male counterparts (Nielsen & Huse, 2010; Terjesen, Sealy, & Singh, 2009).

Notwithstanding the correlations that have been reported and the growing pressure to increase gender diversity of corporate boards (Kumar & Zattoni, 2016), Rhode and Packel (2014) recently argued that "the relationship between diversity and financial performance has not been convincingly established" (p. 377). Chapple and Humphrey (2014) added that "it is difficult to find evidence of an economic argument for diversity using market data" (p. 721), implying that a more complex relationship than what can be discerned through statistical analysis. Ferreira (2015) went further, saying that "current research does not really support a business case for board gender quotas. But it does not provide a case against quotas either. There is little hope that any (credible) research will ever do so" (p. 110). Studies from jurisdictions that have implemented so-called quota reforms (Vinnicombe, Singh, Burke, Bilimoria, & Huse, 2008) to enforce diversity (Dale-Olsen, Schøne, & Verner, 2013) based on institutional factors (Terjesen, Aguilera, & Lorenz, 2015) have reached similar conclusions. However, calls to reframe the debate based on utility and justice logic (Seierstad, 2016) indicate that more research is needed to better understand the effect that board diversity may have on firm performance.

2.4.4 Outside directors

Another observable attribute that has been investigated in search of linkages between boards and firm performance is the status of the director (executive or non-executive; and, independent or non-independent). The term 'non-executive director' (henceforth, NED) refers to those directors who do not also hold an executive position within the management structure of the company. In contrast, directors who also fulfil an executive role within the same company are often identified by the qualified term 'executive director', even though this term has been suggested to be misnomer (Garratt, 1996). The terms 'executive' and 'director' refer to two distinct roles within a company, not one conflated role, both of which can and perhaps should be fulfilled distinctly. The term 'outside director' (Kor & Misangyi, 2008) is synonymous with NED. NEDs have been assumed to behave, contribute or make decisions differently (Cadbury, 1992) from executive directors—even though no distinction between non-executive and executive directors is made in the statutes.

The literature indicates that any relationship between NEDs and firm performance is mixed. Some single country studies including Turkey (Bozcuk, 2011), United Kingdom (Dahya & McConnell, 2007), Italy (Giovannini, 2010), Ireland (O'Connell & Cramer, 2010), New Zealand (Prevost, Rao, & Hossain, 2002), India (Raja & Kumar, 2007), Malaysia (Ameer Rashid, Fairuz, & Husein, 2010) and Bangladesh (Rouf, 2011) report a positive correlation between the proportion of NEDs and firm performance. However, others including Korea (Dong-Sung & Kim, 2007), Australia (Kiel & Nicholson, 2003), Indonesia (Prabowo & Simpson, 2011) and Bangladesh (Afzalur Rashid, De Zoysa, Lodh, & Rudkin, 2010) do not. Erkens, Hung and Matos' (2012) study of 296 financial institutions demonstrated that firms with a greater number of independent directors experienced lower stock returns during the global financial crisis of 2007–08. These results demonstrate that the engagement and effectiveness of independent directors is not universally consistent across board tasks, activities and situations—which suggests that the emphasis on independence *per se* may be misplaced (Iyengar, Land, & Zampelli, 2010) and that a more sophisticated assessment of independence may be appropriate (Kay & Goldspink, 2015).

Notwithstanding this, and consistent with stewardship theory, some shareholders reportedly prefer boards controlled by executive directors (Harris & Raviv, 2008) because executive directors are thought to possess information that NEDs do not possess or to which they may not have access (and, therefore, this should lead to better decisions). Despite this, boards that are controlled by NEDs have been reported to monitor performance more closely and make better decisions (Arthurs et al., 2009). Whether either this preference (towards executive directors) or this perception (that NEDs monitor more effectively) is significant in terms of decision-making or improved firm performance is unclear. Regardless, both ideas exacerbate the challenge alluded to above, namely, that directors are duty-bound to exercise independence of thought. Whether executive directors are able to fulfil this duty adequately has not been resolved in the academic literature or in practice either.

Despite the information asymmetry they experience, the presence of NEDs has been found to moderate the influence of both a strong founder–chief executive (Ranft & O'Neill, 2001) and influential shareholders (Setia-Atmaja, 2009). This may be because they are less emotionally engaged in any impact of decisions made by the board, or because they are not subordinate to the founder–chief executive in an employment sense. However, the high level of objectivity and critical thinking thought to be associated with NEDs does not seem to extend to a consistent impact on strategic decision-making (Dong-Sung & Kim, 2007), even though the process of considering options and making decisions is supposedly conducted more efficiently and objectively (Przybylowski, Aluchna, & Zamojska, 2011) when NEDs control the board (through a simple majority of numbers).

While the beneficial relationship between director status and firm performance is currently ill defined, director status *per se* is unlikely to be directly causative. However, as with chief executive duality and diversity variables, the director status (executive, non-executive, independent, non-independent) may be a proxy of some underlying mechanism that is material to understanding how boards work.

2.4.5 Beyond structure and composition

The board is a collective of directors who, in occupying the position of director, are required by law "to act in good faith and in the best interests of the company" (Companies Act, 1993, S. 131). The New Zealand Act is silent on board structure, except that there must be at least one director and one director shall be the chairman. Consequently, directors are free to select a board structure and recommend director appointments as they see fit (Hermalin & Weisbach, 1998), including in response to the prevailing company and environmental conditions that they face (or perceive they face) at any given time (Coles, Lemmon, & Felix Meschke, 2012).

The structure and composition of the board does not appear to be material to any relationship that may exist between the board and firm performance variables. Seven comprehensive reviews of the literature conducted over the last two decades (Dalton et al., 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(s) and firm performance was identified in these meta-analyses. Recently, Al-Zoubi's (2015) meta-analysis of the Australian literature added that "little, if any, evidence of an association between board demography and performance" (p. 26). Thus, 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.

If a relationship between the board and firm performance exists, it is more likely to be contingent on social and contextual factors—probably many—with contingent and variable effects. Larcker and Tayan (2011) concluded that the board's role in organisational value creation (Finkelstein & Mooney, 2003) may not be directly dependent on the board's structure or composition at all. Their high-level summary of the effect of selected structural attributes of boards on performance is presented in Table 2-1 below. Several other researchers have reached similar conclusions, in both the practice (Sonnenfeld, 2002) and academic literature (Abatecola & Poggesi, 2010; Afshan, Chhetri, & Pradhan, 2011; Huse, Hoskisson, Zattoni, & Vigano, 2011; Robeson & O'Connor, 2013).

Curiously, many researchers have continued to search for structural and composition dependencies, despite Levy's (1981) concession—published over three decades ago—that structural reforms provide "no guarantee of good governance" (p. 166). Other factors relating to what boards do and how boards work when in session including the level of engagement of individual directors; the interactions between directors; boardroom dynamics; the action or inaction of management; market forces; and, other circumstances within and external to the company seem to be more significant (Mateos de Cabo et al., 2012; Simpson et al., 2010).

Table 2-1: Summary of performance effect for selected board structural characteristics

Board structure attribute	**Findings from research**
Independent chairman	No evidence
Lead independent director	Modest evidence
Number of outside directors	Mixed evidence
Independent directors	No evidence
Independence of committees	Evidence for audit committee primarily
Representation of:	
Bankers	Negative evidence
Financial experts	Positive for accounting professionals only
Politically connected directors	No evidence
Employees	Modest evidence
Busy boards	Negative evidence
Interlocked boards	Evidence for performance, against monitoring
Board size	Evidence for small boards (in simple companies) and larger boards (in complex companies)
Diversity / female directors	Mixed evidence

Source: Larcker and Tayan (2011, pp. 160–161)

Consequently, it may be more productive for research that seeks to understand how boards exert influence from and beyond the boardroom to build on alternative guidance provided elsewhere in the academic (Lockhart, 2012) and practice (Andrews, 1981) literature. Studies of board activity, director behaviour and the board's role in strategic management in particular may reveal more relevant knowledge of how influence is exerted from the boardroom than the continued investigation of structure and composition attributes of boards. The likelihood of board involvement in strategic management being important is explored in the Section 2.7.

2.5 Qualitative board activity and director behaviour studies

A small number of studies of directors and other attributes of boards have utilised an alternative approach to research—qualitative data and interpretative analysis—to gain an understanding of normative practice: what directors do and how they work when those directors are in the boardroom. Much of this literature has been exploratory and descriptive in nature, often using case study designs (Yin, 2009).

Aspects of director behaviour and board activity that have been studied within this literature include director cognition, emotion and behavioural dynamics (Brundin & Nordqvist, 2008); board tasks (Machold & Farquhar, 2013) and task performance (Zhang, 2010); decision-making style (Bailey & Peck, 2013); governance processes (Parker, 2007); and, interactive routines (Samra-Fredericks, 2000b), amongst others. 'Thick' descriptions (Strauss, 1987) and conceptual models have been produced, an underlying motivation for which seems to have been the creation of "a holistic picture of what boards do" (Machold & Farquhar, 2013, p. 162).

To date, the board's contributions to firm performance and value creation have received rather less attention in this literature (Aguilera, Florackis, & Kim, 2016). Also, like the quantitative studies reviewed above, most of the studies within this literature have been informed by data collected from sources outside the boardroom (e.g., interviews, surveys, questionnaires, the inspection of board minutes and other documents). However, a handful of studies informed by the first-hand observation of corporate boards in session (in addition to data collected from sources outside the boardroom) have been reported. Examples include Currall (1999), Samra-Fredericks (2000b), Leblanc (2003), Martyn (2006), Parker (2007), Edlin (2007), Crow (2012) and Machold and Farquhar (2013).

Relevant literature is reviewed in the following sections, after which a synthesis is provided. A detailed discussion of the methodological approaches used in these studies follows in Chapter 3.

2.5.1 Director cognition, emotion and behavioural dynamics

Boards are social structures with unique psycho-social processes (Forbes & Milliken, 1999). Therefore, the cognitive ability and motivations of directors (Beshears & Gino, 2015)—both individually and as a group (Chou, Lin, & Chou, 2012)—may be important considerations for research that seeks to understand board activity; board–management interaction; corporate governance; and, any influence boards may or may not exert from the boardroom, via decisions and other interventions made in the boardroom. Support for this possibility is provided by Wirtz (2011) who extended Charreaux's (1997, 2008) earlier research and meta-model of governance (see Figure 2-4 below).

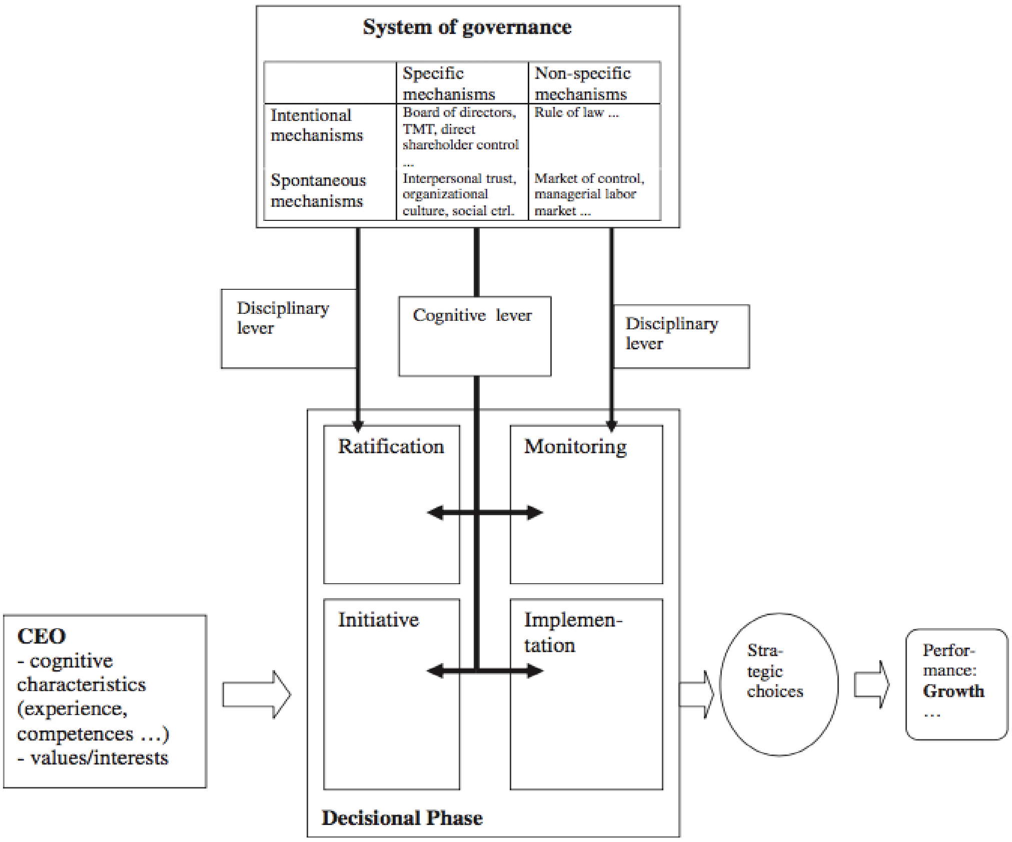

Figure 2-4: Charreaux' meta-model of governance, updated by Wirtz

Source: (Wirtz, 2011, p. 434)

Charreaux (2008) hypothesised that two 'levers' provide the means by which managerial decision-making is influenced—a disciplinary lever, which tends to epitomise decision-making control; and, a cognitive lever, which represents the cognition of the directors and managerial discretion (in decision-making). Either lever can be more prominent at any given time. Wirtz (2011) suggested that "sustained use of the cognitive lever" (p. 431) on managerial decision-making may play a central role in the sustained growth of entrepreneurial firms.

Regardless of whether the disciplinary or cognitive lever is more prominent at any time, a director's actual level of engagement and objectivity in decision-making (Masulis & Mobbs, 2014) has been shown to be influenced by their perception of their own reputation and prestige. Bailey and Peck's (2013) analysis of interviews with 29 directors of eight publicly-traded American companies surmised that the presence or absence of shared mental models, balanced power relationships and effective board leadership are important antecedents to determining whether the board's decision making style is dominated by procedural rationality (Yaniv, 2011) or political behaviours (Dian, 2014). While Bailey and Peck did not observe any board meetings directly, their analysis implies that productive decision-making processes and practices are more likely to be apparent in boards comprised of confident, capable and engaged directors; who share a commitment to an agreed vision or purpose; and, are committed to cultivating collegiality and trust in the boardroom.

The ability and desire of individual directors to work together as a team (Vandewaerde et al., 2011) and, ideally, a high-performing team (Gabris & Nelson, 2013) to make strategically important decisions (Vallaster & Koll, 2002) also seems to be important. Group diversity purportedly enhances the quality of decision-making, particularly when complex, non-routine problems (such as those typically considered by boards) are being considered (Rost & Osterloh, 2010). Cohen and Levinthal (1990) used the term 'absorptive capacity' to describe this ability to contribute. However, board effectiveness is not solely dependent on the knowledge and expertise of individual directors (Barroso, Villegas, & Perez-Calero, 2011) but primarily on capability of the board itself to make decisions in the boardroom as one ("Companies Act," 1993, see Section 128). The effectiveness of the board's decision-making also may be compromised if directors—especially NEDs—are manipulated through the information and recommendations provided by the chief executive (Al-Zoubi, 2015).

Consistent with the suggestion that boards can be thought of as a "strategic asset" (D. W. Anderson, Melanson, & Maly, 2007, p. 784), Ferkins and Shilbury (2012) proposed that a strategically capable board is one that is characterised by several "directional signposts" (p. 76) including capable people, facilitative relationships, facilitative board processes and an established frame of reference. This view, which necessarily assumes that the board is a social entity and that collaboration between directors is important, may have particular relevance to high-growth companies (Pearce & Zahra, 1992). Although Ferkins and Shilbury's research investigated the boards of not-for-profit sports bodies and not boards of companies, the cognitive map they produced (see Figure 2-5 below) adds meaning to the ambiguous term 'board strategic function'. It also reinforces the importance of cognition (Wirtz, 2011) and relationships (R. C. Anderson & Reeb, 2003) amongst directors and a defined division of labour between the board and management.

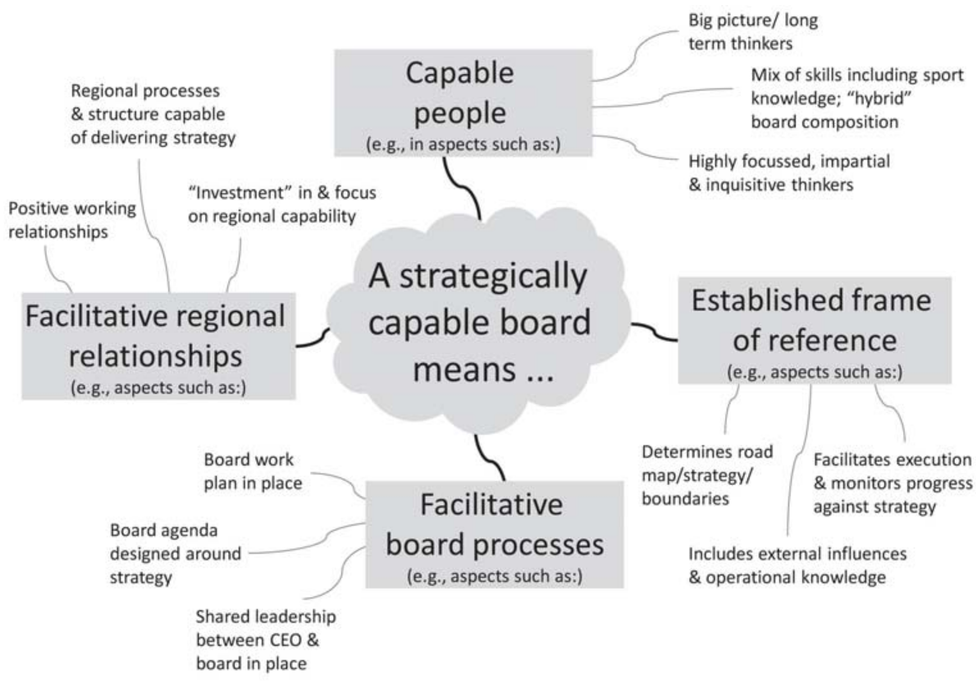

Figure 2-5: A cognitive map of board strategic capability

Source: (Ferkins & Shilbury, 2012, p. 76)

A board comprised of competent, experienced, cognitively heterogeneous directors (D. Z. Hambrick & Engle, 2002) who are committed to working together towards the achievement of an agreed purpose is more likely to generate a greater number and broader range of decision alternatives (Ruigrok, Peck, & Keller, 2006). In contrast, if directors are unwilling (consciously or otherwise) to work together, or if trust between directors is low (Sharif, Kalafatis, & Samouel, 2005), then the effectiveness of the board's decision-making processes is likely to be compromised (Huse & Zattoni, 2008). That the "effective oversight of an organization exceeds the capabilities of any individual and that collective knowledge and deliberation are better suited to this task" (Forbes & Milliken, 1999, p. 490) highlights the value boards can deliver if directors work together. This should, ultimately, lead to better decisions, although decisions may be made more slowly (Bongjin, Burns, & Prescott, 2009).

Another behavioural attribute that may affect the contributions of directors is the role of emotion. Brundin and Nordqvist's (2008) case study, for example, sought to understand the role of emotion as directors interact in board meetings. Their study involved the observation of five board meetings of one company over a 13-month period. Observation data was augmented by open-ended interviews both before and after each observed board meeting. Brundin and Nordqvist theorised that emotional energy has power and status dimensions, and that this may lead to dominant or passive behaviours, and inclusion or exclusion in board processes. Factors influencing the board's effectiveness may include behaviours and cognition of directors (Wirtz, 2011), and relationship dynamics between directors (B. J. Olson, Parayitam, & Bao, 2007) as an effective strategic decision-making group. These associations provide important guidance to research seeking to understand how influence is exerted from boardrooms.

2.5.2 Board tasks, performance and effectiveness

The qualitative literature also includes studies of board tasks, board performance and board effectiveness. While most have been informed by data collected outside the boardroom, some studies informed by board observation data have been completed. Schwartz-Ziv and Weisbach's (2013) study, a systematic analysis of the minutes of one year of board and committee meetings of 11 state-owned businesses provides insight to the activity of boards, particularly in relation to the amount of time boards reportedly spend performing various tasks. Schwartz-Ziv and Weisbach categorised boardroom and committee discussions reported in the minutes into one of

23 subject-topics. Consistent with control and service theoretical conceptions, supervisory (monitoring and controlling management) and managerial (active role in decision-making) approaches to board tasks were identified. The analysis revealed that most of the board's time was spent performing oversight tasks, aloof from management. This finding is consistent with the agency understanding of board–management interaction, in which the primary role of the board is to monitor and control the activities and actions of management.

Though quantitative in design, Zhang's (2010) investigation of how boards perform 'strategic' tasks (that set of tasks ranging from initiating strategies to implementing them) added to the understanding. Using survey data from 318 chief executives, four antecedents to board effectiveness were identified. These included information diversity, open discussion, effective chairmanship and 'active search'[13]. A strong association between information diversity and the board's involvement in strategic decision-making processes (Zhang used the term 'strategic tasks performance') was identified; whereas modest associations with open discussion, effective chairmanship and active search were indicated. These correlations highlight the importance of director engagement in board practices, and the use of probing questions to seek clarification, elicit missing information and to challenge claims and assumptions—in the minds of the interviewed chief executives at least.

While helpful inferences to guide future research have been drawn from these studies, knowledge of what really happens inside boardrooms remains limited. Strong norms of privacy and a widespread reluctance to allow researchers to directly observe board meetings preclude such knowledge from being exposed. Despite such norms, a few researchers including Leblanc and Gillies (2005), Parker (2007) and Machold and Farquhar (2013), for example, have been able to secure access to observe full board meetings and/or board committee meetings to gain further insight into board tasks and the performance and effectiveness of boards.

Leblanc and Gillies' (2005) study was based on the analysis of observation and interview data collected from 39 organisations over a five-year period. Twenty-nine businesses were privately

[13] 'Active search', meaning the director's approach to acquiring missing information perceived to be necessary for decision-making.

owned companies; four were non-for-profit organisations; and, the remainder were government organisations. The purpose of this study was to identify the characteristics of an effective board. The data collection included interviews with the chief executive and/or some of the directors of 18 of the companies; single incursions to observe either one board meeting or one committee meeting, and interview some directors (13 companies); and, multiple incursions to observe either two or three board meetings or committee meetings, and interview some directors (eight companies). The sole sources of data were observed board meetings and interviews. No audio or video recording was made; nor were board reports and minutes inspected, or any other confidential or commercial data collected. Therefore, the analysis was dependent to a large extent on the notes made by the researcher at the time of the observation and the interviews, and their recollection of events afterwards. Notwithstanding this, ten director types were identified through the analysis of observation and interview data, five of which were described as functional and five were described as dysfunctional (see pp. 223–224). A 4-factor typology was also developed, the elements of which were competency, behaviour, strategy and recruitment (see pp. 167–169). The recommendations that emerged from this study provide helpful guidance for both subsequent research and practice (recommendations for effective board practice were provided). However, the study was silent on any longitudinally relevant analysis, and associations with firm performance were not explored—it was entirely a behavioural study.

Parker's (2007) research utilised as complete member participant-observation design[14] to study the internal governance processes of the boards of two not-for-profit agencies. Observations were conducted over a two-year period. Data included visual observations, all of the documentation available to board members (the researcher being a board member) and notes made both during and immediately after each board meeting. The findings that emerged from the analysis included detailed descriptions of boardroom processes and practices, the chief executive-chairman relationship, director selection and performance management, and the boardroom culture and the 'mood' of meetings. While board members were observed to oscillate between passive and active engagement in boardroom processes and practices, Parker's analysis concluded that the

[14] The researcher was a full board member of both participant organisations.

observed not-for-profit boards were increasingly moving "towards a private-sector business orientation and structuring, while at the same time retaining some features particularly identifiable with the nonprofit sector" (p. 932)—indication perhaps that the governance practices of profit-seeking companies may be increasingly influential across sectors. This is in spite of not-for-profit entities and profit-seeking companies having both quite separate motivations and underlying legal foundations.

Machold and Farquhar's (2013) longitudinal field study of six British boards advanced the understanding of board task performance (i.e., the board's ability to perform control and service tasks effectively). Whereas Leblanc and Gillies (2005) observed either no (18 organisations), one (13 organisations), or two or three (eight organisations) board meetings or committee meetings, Machold and Farquhar's longitudinal study observed between three and eight board meetings per organisation. This rich longitudinal data set enabled the researchers to gain a deep understanding of the tasks performed by the boards of the four not-for-profit entities and two profit seeking companies that participated in the study. Patterns of board tasks were examined—especially the board's performance of monitoring and control, service and strategy tasks. Consistent with the complex socially dynamic nature of board activity, task performance was found to be both non-homogenous and non-linear, and task patterns were observed to evolve over time.

The study completed by Machold and Farquhar (2013) provided much-needed longitudinal evidence from within the boardroom, highlighting the complex and idiosyncratic nature of what boards do. Together with Currall *et al.* (1999)[15], Michaud (2014) and a small number of other longitudinal observational studies of company, co-operative and not-for-profit boards that have been reported, Machold and Farquhar's study demonstrates the value of boardroom observation as an additional source of data. Many of the insights gained would not have emerged had the research been limited to the analysis of data collected from sources outside the boardroom.

[15] Currall *et al.* (1999) utilised a participant-observation design. How the participant-observer was able to both participate fully as a director and write a comprehensive and accurate stenographic record ("a running verbatim account of who said what to whom about which topic" (p. 12)) is not disclosed.

2.5.3 Board decision-making effectiveness

The making of strategic decisions can be challenging for boards (Lim, 2012) because they often do not have access to all the information required to make informed choices (Boxer, Perren, & Berry, 2013). Many directors perceive that the quality of their decisions and, therefore, their effectiveness, is primarily contingent on the quality of information provided by the chief executive (Nowak & McCabe, 2003), regardless of whether they are an executive director or an NED (Krause, Semadeni, & Cannella, 2013). High (and often discontinuous) rates of change and volatility (Bourgeois & Eisenhardt, 1988) within companies and markets add complexity—some of the information that boards require to inform decision-making may not actually exist. Also, the information that is available may be inaccurate or obsolete, of which the board may not even be aware. This is particularly so in high-growth companies where information asymmetries; information complexity; macro-environmental forces; the decision preferences, cognitive biases and limitations of directors; and, other endogenous and exogenous factors abound (Eisenhardt & Zbaracki, 1992; Hall, 2007; Marnet, 2005; Sharpe, 2012).

Bourgeois and Eisenhardt's (1988) investigation of decision-making in fast changing environments identified some seemingly paradoxical decision-making characteristics in successful companies. These included the making of decisions carefully but quickly, and the presence of a powerful chief executive and executive team. While Bourgeois and Eisenhardt's observation implies that successful companies are innovative and accepting of risk, decision-makers said they sought to make and execute decisions safely and incrementally. This suggests that the board may have an important risk assessment role (as opposed to strategy development).

Apparent and hidden motivations of the chief executive may affect both the decisions made by boards and the subsequent implementation of the board's decisions. If the chief executive limits the flow of relevant information to the board, for example, the board may not appreciate the complexity or importance of the strategic decision it is being asked to make. Similarly, if the amount of time allocated for discussion and debate is limited or insufficient, the problem could well be exacerbated. Poor decisions (or decisions not made because items were not raised by management to the board or the wrong questions were asked) can be costly in high-growth companies in particular because a fast-moving company may move some distance before a poor decision is detected (Chen, Katila, McDonald, & Eisenhardt, 2010). Notwithstanding these challenges, calls for boards to increase their involvement in strategy and strategic decision-making (McCollum, 2014) and to become more forward-looking (Tricker, 2012a) have become more common, but not universal (Zattoni & Pugliese, 2012).

The working style of the board, the board's knowledge and the motivation of directors to contribute also appear to be important antecedents of effective strategic decision-making (Levrau & Van den Berghe, 2007; Pugliese & Wenstop, 2007). Kerr and Werther's (2008) study supported this suggestion: that vigorous debate and creative interaction are hallmarks of a good strategy development process. The boards of successful companies are also reported to enjoy a strong relationship with the chief executive (Boyd, Haynes, & Zona, 2011). They make decisions together, and the amount of political interplay between directors and with the chief executive is low (Bourgeois & Eisenhardt, 1988), an observation consistent with the procedural rationality decision-making style described by Bailey and Peck (2013). In contrast, companies with high levels of political interplay and posturing, both around the board table and with the chief executive, appear to exhibit slower growth and lower profitability.

Levrau and Van den Burghe (2004) identified five requisites to an effective board meeting including the advance provision of information; open, in-depth debates or discussions; a strong but not dominant chairman; decisions that are well thought through; and, directors that are actively involved in the meeting and decision making. Their conclusion, that the capability of the chairman is especially important to provide effective leadership, and to ensure that individual directors participate and contribute appropriately and that board work is completed (McNulty, Andrew, Greg, & Clare, 2011) confirmed the findings of several highly reliable practitioners (including Cadbury (1992) and Higgs (2003)).

However, 'pluralistic ignorance' (Breed & Ktsanes, 1961) can affect director contributions to decision-making (Westphal & Bednar, 2005). Directors are less likely to express concerns about low firm performance or inappropriate strategy if they perceive that other directors did not share their concerns. This form of consensus thinking may impair debate, moderate group decision-making and, potentially, inhibit wealth creation (Kitney, 2015). If directors fail (or knowingly decline) to express their views and perceptions, they may, as a consequence, no longer be acting in the best interests of the company. Unless checked, this can lead to the board failing to notice that the company's strategy is not being implemented satisfactorily or that it is no longer appropriate), or ignoring variations between expected and actual performance.

These findings are consistent with Zhang's (2010) findings (see Section 2.5.2), and with the group effectiveness literature (Hackman, 2002; Hackman & Morris, 1975), which identifies group performance; the ability to work together over time; and, the extent to which the personal needs of each group member are satisfied as being important. Leblanc and Gillies (2003) appear to concur—they suggested that an effective board necessarily has three features: the right structure[16]; the right membership (a balance of competencies and, presumably, behaviours matched to strategic intent of the company); and, the right processes (how directors work together to make decisions). Trust and mutual respect (J. L. Smith, 2010); synergy and collaboration (Mowbray & Ingley, 2013); open attitudes (Cadbury, 1992); and, positive behaviours (Forbes & Milliken, 1999) also seem to be antecedents.

2.5.4 Towards a more complete understanding

The studies reported here provide helpful guidance for this research. The active engagement of the board in strategic management tasks, and co-operation, trust and teamwork amongst directors (and with management) are indicated as being beneficial to effective board contributions. Other significant factors include but may not be limited to the provision of information in multiple formats from multiple sources; directors actively searching for missing information; the strategic ability and competence of directors; the cognitive ability of both individual directors and the board collectively; and, an effective chairman who encourages both open discussion and vigorous debate during board meetings.

[16] Leblanc and Gillies (2003) asserted that independence between the board and management was important, although this has been challenged both within the quantitative literature (see Section 2.4) and, more recently, by Kay and Goldspink (2015).

Notwithstanding the insights produced by the aforementioned studies, most were informed by interview or survey data, or the inspection of the minutes of board meetings. Directors responding to interviews and surveys may have provided pessimistic, accurate or optimistic representations of what actually occurred in the boardroom (Fernandes & Randall, 1992), even if they intended to do so (Heracleous, 2001)—the extent to which this may have occurred is difficult to determine. Similarly, the minutes of meetings, which provide a summary of what supposedly was discussed and decided in a given board meeting, may suffer similar problems of interpretation and completeness. Summaries of group dynamics or director behaviours, for example, are rarely recorded in minutes.

Stablein's (2006) comment, that "characteristics must be examined to separate data from other sorts of representation" (p. 349) highlights the challenge faced by board and governance researchers. Interview and survey responses and the minute book provide valuable insight, albeit from outside the boardroom. However, if boards can be observed while in session, and the observation data is synthesized with data collected from secondary sources (outside the boardroom), then a deeper level of understanding and correspondingly greater insight *should* be achievable. Observation studies completed by, for example, Brundin and Nordqvist (2008) and Machold and Farquhar (2013)—both noted above—demonstrate the value of this suggestion.

2.6 The measurement of firm performance

Numerous different financial and non-financial measures have been used as indicators of firm performance in both the board research literature and in practice. Widely used metrics include revenue (e.g., sales, revenue growth); profit (e.g., earnings before interest and tax (EBIT), earnings per share); return measures (e.g., return on capital, return on assets, return on equity); market value (e.g., Tobin's Q); and, non-financial measures (e.g., customer satisfaction, strategic goals, expense reduction.

The basis upon which firm performance is actually measured is significant in the reporting of board–performance research, especially studies informed by quantitative data. Adjaoud, Zeghal and Andaleeb (2007), for example, reported no significant correlation between several attributes of directors and boards (i.e., composition, compensation, disclosure) and firm performance when traditional accounting metrics or return on investment (ROI), return on equity (ROE) and earnings per share (EPS) were used to measure firm performance. However, positive correlations were apparent when "value performance measures" (p. 624) including market value added (MVA) and economic value added (EVA) were used to assess the same data.

Two recent single country studies provide similarly contrasting evidence. One study of 150 of Australia's largest firms found no significant correlation to performance when either Tobin's Q or EVA was used as the measurement basis (Pham, Suchard, & Zein, 2011). In contrast, the results of a survey of 168 large listed Hong Kong companies indicate a positive—albeit tenuous—correlation between the quality of board practice and market valuation (Yan-Leung, Connelly, Ping, & Limpaphayom, 2011). Further, Ramaswamy, Ueng and Carl (2008) cited single-country (Black, 2001 on Russia; Black, Hasung, & Woochan, 2006 on Korea) and multi-country studies (Durnev & Kim, 2005; Klapper & Love, 2004) to support their claim of a relationship between what they called good corporate governance and increased market value.

While a variety of relationships between the attributes or practices of boards and subsequent firm performance can be inferred from these results, a cautionary note is appropriate. Most of the abovementioned studies were informed by quantitative data collected from secondary sources—potentially significant contextual factors were either not considered or controlled for. Adjaoud, Zeghal and Andaleeb (2007), for example, based their study on static attributes of boards not activities of corporate governance. Other studies (see Section 2.5) suggest that board effectiveness is more likely to be contingent on the activities of directors as they interact and on the tasks performed by the board during board meetings, than on any inherent structure or composition attribute of the board *per se*. Consequently, "more attention needs to be devoted to measuring corporate governance practices" (Larcker, Reiss, & Xiao, 2015, p. 1) and, ideally, at the source, within the boardroom.

Another challenge for research that attempts to associate board practices with firm performance (however measured) is the time lag between board interventions (generally, decisions made by the board) and any subsequent change in firm performance that may or may not actually occur. The amount of lag may vary considerably: it may be as short as days or weeks, or several or many months or years may pass before the desired outcome is achieved and any change in performance becomes apparent. If a strategic decision requires a major investment (e.g., a new factory or an international market development programme), years may pass before the decision is fully implemented and then longer before expected benefits are realised (Serra & Kunc, 2014). The expected and variable lag between interventions and any subsequent impact on performance needs to be accounted for within the research methodology and the analysis, and in the resultant findings, if the objective of the research is to discover categorical relationships.

While the goals of many strategic decisions are often expressed as financial performance targets (e.g., revenue growth, cost reduction, operating margin, EBIT), other motivations including market entry, market share or strategic value considerations are also used. Short- and long-term horizons add further complexity, both in terms of the motivations of the board and managers, and the ability of the company to apply resources and respond to market forces over a sustained period. Consequently, a single universal measure of ‘performance’, which implies that a single deterministic description of the purported board–performance relationship is achievable, is unlikely to be adequate for all decisions or contexts. The assignment of a contextually relevant measure for each strategic decision (both in terms of advancing the research agenda and to assist boards understand the effect of each strategic decision made in the boardroom) may offer a more productive means of assessing the quality and any impact of board decisions.

This research seeks to understand the contributions of boards in high-growth companies, especially in relation to board involvement in strategic management. The primary imperative of high-growth companies is growth, which suggests that gross revenue (and, more specifically revenue growth (De Backer, 2008)) is likely to be of great interest. Revenue results are typically accessible (if company financial reports are either published or can made available for inspection) and relatively unambiguous. However, company revenue is an overall measure and the level of reporting detail varies from company to company. As such an overall revenue measure may not reveal the positive, neutral or negative impact of any decision made in the boardroom. Many other factors, both within and external to the company may also affect the revenue result after the decision is made. Further, some decisions made in the boardroom may have a strategically positive impact but result in a revenue decline (e.g., the closure of a loss-making division).

Therefore, the usefulness of overall company revenue as a universal proxy measure may be limited to assessing the impact of strategic decisions that affect overall firm performance (e.g., the selection and approval of corporate strategy)—so long as the impact of the strategic decision can be determined. Even then, the contingent effects of management actions, market forces and other factors (including subsequent actions or inaction in the boardroom) may render any association between a strategic decision and any observed performance inflection (up or down) tenuous, at best.

2.7 Strategy and strategic management

Regardless of the measures used to assess the impact of strategic decisions made by the board, the achievement of whole-of-company goals (whether the maximisation of returns (D. Harvey, 2005), company value (Simons et al., 2000) or some other goal) is heavily dependent on the selection and implementation of an appropriate strategy to exploit resources and compete effectively. 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). Similarly, strategic decisions are those that shape the course taken by 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 the longer-term direction and performance of the company (Clegg, Hardy, Lawrence, & Nord, 2006).

That ultimate legal responsibility for firm performance lies with the board ("Companies Act," 1993) suggests that the board's involvement in strategic management in some form (Ingley & van der Walt, 2005; Lockhart, 2006) is likely to be important to the achievement of desired performance goals. Tricker's (1984) adumbration (see Figure 2-6 below) outlined one arrangement, placing strategic management at the nexus of board–management interaction. Board contributions to the development of strategy[17] (Huse, 2007); the making of strategic

[17] 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). The descriptors

decisions (Zahra, 1990); and, the effective monitoring of strategy implementation (Johanson, 2008) have been described in the literature.

Figure 2-6: A hierarchical view of the activities of governance and management
Source: (Tricker, 1984, p. 7)

The literature indicates that companies with strong, actively engaged boards should perform better than companies with more passive boards (McGahan & Porter, 2007; Zahra & Schulte, 1992), especially when effective dynamics exist between the board and management (Barroso, Dominguez, Vecino, & Villegas, 2009; Huse, 2009b) and during periods of crisis, challenge or change (Weitzner & Peridis, 2011). Anderson, Melanson and Maly's (2007) description of the board as a "strategic asset" (p. 787), implies the board may have inherent value to contribute to strategic management. Anecdotal support for this argument is also provided in the practitioner literature (see Hendry & Kiel, 2004, pp. 503–505). Further, Rindova's (1999) assertion that "the higher the complexity and uncertainty associated with a strategic decision, the more likely the participation of the directors in it" (p. 960), implies that the board's involvement is both

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'strategy formulation', 'strategy development' and 'development of strategy' are used interchangeably in this thesis.

important and more common when decision complexity is high. However, Rindova does not provide this or any other elucidation.

Prior research suggests that an association may exist between the board's involvement in strategy and strategic management[18] (Rumelt, Schendel, & Teece, 1994) and subsequent firm performance (Judge & Zeithaml, 1992). Despite this, and Tricker's (1984) suggestion (see Figure 2-6 above) and Nadler's (2004b) subsequent comment that value-added engagement is "both possible and desirable" (p. 27), agreement on the appropriate role of the board in strategic management is yet to emerge. Several different descriptions and conceptual models of board involvement in strategic management—strategy formulation in particular—have been proposed in the literature. In their examination of the board–strategy literature published over a 35 year period to 2007, Pugliese *et al.* (2009) identified three distinct periods of enquiry.

The first period, from 1972–1989 was characterised by an emerging debate about the board's role in strategy, although relatively few articles were published during this time. Most of the debate explored the "desirability of active involvement" (Pugliese et al., 2009, p. 299), and the extent to which boards should (or should not) be involved in the development of strategy. Zahra and Pearce's (1989) suggestion, that directors should have an active involvement "in the strategic arena through advice and counsel to [the] chief executive, by initiating own analyses, and by suggesting alternatives" (p. 298) recognises that the board has a service and advisory role at least. However, 'ownership' of strategy (both of the development process and of the strategy itself) lay with the chief executive. The debate lay unresolved, and no consistent definition of the term 'strategic involvement' emerged during the period. Few other conclusions were drawn.

The second period, from 1990 to 2000, coincided with the ascendency of agency theory (particularly amongst Anglo–American scholars) as the principal theoretical framework of board–management interaction. Pugliese *et al.* (2009) described this period as "the heyday of 'input–output' approaches" (p. 300). Most of the debate was centred on the structure and composition of the board (see Section 2.4), on the assumption that a structural response to the

[18] Strategic management: the tasks of developing, determining and implementing strategy; and, the monitoring strategy implementation and firm performance.

separation of ownership and control described over sixty years earlier (Berle & Means, 1932) was appropriate. However, a small number of researchers explored the board's involvement with strategy during this second period, albeit using an agency lens and data collected from secondary sources primarily from large Anglo–American companies. The results of these studies were inconsistent (Finkelstein & Hambrick, 1996), as the following examples illustrate.

Zahra and Pearce (1990) suggested that the board's involvement should include the development of the company mission, strategy conception and formulation and strategy implementation. Garratt (1996) agreed, emphasising the performance role of the board in both policy formulation and strategic thinking. A conceptual model proposed by McNulty and Pettigrew (1999) identified three levels of board involvement in strategy, namely, taking strategy decisions (the least involved); shaping strategic decisions; and, shaping the content, context and conduct of strategy (continuous influence). This conceptual model was similar to the one originally developed by Wheelen and Hunger (2006) in the mid-1980s and by Nadler (2004a), except it was simpler (Wheelen and Hunger's model categorised involvement into six levels of board involvement; Nadler's model, five).

The third period, from 2001–2007[19], coincided with the emergence of behavioural and cognitive studies of boards and directors (McNulty et al., 2013), and calls for direct observation (Gummesson, 2000) as an appropriate means of collecting data. An increasing level of scrutiny of management and firm performance by shareholders (Pye, 2001) was also becoming apparent. Further, the period saw the emergence of 'corporate directing'—an integrative process of directors governing, strategising and leading (Pye, 2002). The corporate directing proposal highlighted the dynamic nature of board work, including the difficulty of separating board tasks for individual study and the relationship between individual and collective action—as Machold and Farquhar (2013) subsequently observed.

An increasing focus on the boards' involvement in strategy was apparent throughout the third period. Schmidt and Brauer's (2006) conclusion, that the board should be involved in the formulation of strategy but not its implementation, was broadly consistent with McNulty and

[19] The Pugliese *et al.* research was published in 2009

Pettigrew's (1999) 'shaping strategic decisions' proposal. Nadler's (2004a) 'engaged board' classification of board involvement in strategic management (see Figure 2-8 below) suggested that the board should provide insight, advice and support. However, no explicit mention was made of the board's involvement in the task of developing strategy *per se*. In contrast, Ruigrok, Peck and Keller (2006) argued that board involvement should be limited to the evaluation and ratification of strategies presented to the board by management. Ruigrok *et al.* specifically excluded the board from strategy formulation and implementation tasks, presumably because the board was thought to lack appropriate knowledge to make a meaningful contribution or that these tasks were considered to tasks of management. This assertion was consistent with both Hilmer's (1994) earlier suggestion (that the board should not initiate or even determine strategy or policy) and the 'taking strategy decisions' level of involvement proposed by McNulty and Pettigrew.

As with the two previous periods, a variety of recommendations were published. While some interpretative studies were completed, the board–governance–strategy research agenda was still dominated by input–output research designs, performance proxies and the application of hypothetico-deductive science. Unsurprisingly, Pugliese *et al.* (2009) concluded that no single definition or interpretation of board strategic involvement had emerged during the 35 year period studied.

Tellingly, McNulty and Pettigrew (1999) noted that "a significant gap between prescription that boards should be active in strategy, and empirical evidence that boards are indeed active in strategy" (p. 50). Whether this noted difference was a response bias (their study was informed by interview data) or the consequence of some other bias is not clear. Regardless of the actual reason(s), the discrepancy between claimed and actual practice highlights the need for more research, and for researchers to get as close to reality as possible (Gummesson, 2007).

Notwithstanding this, several levels of board involvement in strategic management had started to emerge in the literature; and some models allowed for different levels of involvement at different times. Examples of the conceptual models of board involvement in strategic management that have been proposed (both during the period reviewed by Pugliese *et al.* and since) include Zahra and Schulte (1992); Hendry and Kiel (2004); Wheelen and Hunger (2006); Nadler (2004a, 2004b); Hendry, Kiel and Nicholson (2010); and, Lockhart (2013). Each of these is discussed below.

Zahra and Schulte (1992) identified four different 'modes' of board participation in strategic management. These included 'Total', whereby all directors are involved in strategy discussions and strategic options are regularly discussed; 'Committee', in which a board subcommittee considers strategic options and provides recommendations to board and chief executive; 'Advisory', whereby a group of directors (but not a subcommittee *per se*) makes non-binding recommendations to help the chief executive make strategic choices; and, 'Segment', where so-called mini boards are created to consider strategic options within individual business units. Zahra and Schulte's analysis of interview data collected from 72 large firms suggests that boards employ (knowingly or otherwise) different modes at different times, depending on several board, organisational and chief executive factors. The 'Total' mode was associated with the highest level of financial performance, which implies that the board's active and full involvement in strategic management may be material to the achievement of performance goals. 'Total' mode was associated with the highest level of financial performance and 'Advisory' mode was found to be was best for external growth. Considered together, it is not unreasonable to infer that a high-growth company may perform well if the board adopts both a 'Total' mode of engagement during strategy formulation and involves external advisors—but not necessarily so.

During the mid-1980s, Wheelen and Hunger (2006) proposed a continuum to describe six degrees of board involvement in strategic management (see Figure 2-7). Informed by interview data collected during board consultations, Wheelen and Hunger's analysis identified six 'degrees of involvement' ranging from, in effect, abdication through to strong leadership (perhaps even dominance, although this is not mentioned) of strategic management. More specifically, board involvement in strategy development ranged from high-influence boards reporting that they considered global trends and future scenarios and developed plans together with management, through to lower influence boards tending not to do any of these things.

Degree of involvement in strategic management — Low (passive) to High (active)					
Phantom	**Rubber stamp**	**Minimal review**	**Normal participation**	**Active participation**	**Catalyst**
Never knows what to do, if anything; no degree of involvement.	Permits officers to make all decisions. Votes as the officers recommend on action issues.	Formally reviews selected issues that officers bring to its attention	Involved to a limited degree in performance or review of selected key decisions, indicators or programmes of management.	Approves, questions, and makes final decisions on mission, strategy, policies and objectives. Active board committees. Performs fiscal and management audits.	Takes leading role in establishing and modifying mission, objectives, strategy and policies. Very active strategy committee.

Figure 2-7: Board of directors' involvement continuum, as proposed by Wheelen and Hunger

Source: (Wheelen & Hunger, 2006)

Subsequently, Nadler (2004a) proposed a similar continuum. He described five different models of board engagement in "influencing management's decisions and the company's direction" (p. 103). The contribution was informed by the analysis of data from a survey of 320 directors of large publicly-listed American companies. Nadler reported that many directors and chief executives claimed the board had a critical role in the general area of strategy. However, he also observed considerable variation in the interview data—board involvement ranged from passivity (where the board is perfunctory at best, operating at the discretion of the chief executive), to what Nadler termed an 'operating board' (the board having a dominant role in decision-making, as if it were management). Nadler's analysis resulted in a five-step continuum (see Figure 2-8 below).

Least involved				Most involved
Passive board	**Certifying board**	**Engaged board**	**Intervening board**	**Operating board**
Functions at the discretion of CEO. Limits its activities and participation. Limits its accountability. Ratifies management's preferences.	Certifies to shareholders that CEO is doing what board expects and that management will take corrective action when needed. Emphasises need for independent directors. Meets without CEO. Stays informed about current performance. Designates external board members to evaluate CEO. Establishes orderly succession process. Willing to change management to be credible to shareholders.	Provides insight, advice, and support to CEO and management. Recognises its ultimate responsibility to oversee CEO and company performance; guides and judges CEO. Conducts useful, two-way discussions about key decisions facing the company. Seeks out sufficient industry and financial expertise to add value to decisions. Takes time to define roles and behaviours required by board, and boundaries of CEO and board responsibilities.	Becomes intensely involved in decision-making around key issues. Convenes frequent, intense meetings, often on short notice.	Makes key decisions that management then implements. Fills gaps in management experience.

Figure 2-8: Five models of board engagement, as proposed by Nadler

Source: (Nadler, 2004a)

Nadler (2004b) also explored the board's involvement in the task of strategy development. He described a tension faced by chief executives—on one hand finding ways to "engage their boards" (p. 25) while on the other not "usurping essential management functions" (p. 25). Viewing strategy development as a process (Mintzberg, 1987), Nadler proposed a division of labour between board and management contributions in the areas of strategic thinking, strategic decision-making, strategic planning and strategic execution. Five requirements for effective board engagement were identified (see Exhibit 1, p. 27). These included a balanced but diverse board composition; an engaged executive team; the chief executive as the process leader; an open and constructive board culture, and, board accountability.

Nadler (2004b) recommended that board contributions should include active participation in the strategic thinking process; testing management's thinking; providing input to management's decision-making; reviewing and approving major decisions; and, approving strategic plans. Yet the tasks of initiating and, presumably (although this is not explicitly mentioned) ownership of the strategic thinking task; making critical strategic decisions; and, responsibility for engaging the board were allocated to management. Nadler concluded that board involvement might realise benefits including a better understanding of the company, and stronger buy-in and support for approved strategy. Interestingly, this conception (the 'engaged board') is one in which the board is an enabler in response to the chief executive's invitation, not a leader. The context for Nadler's research was the then dominant American board typology of chief executive duality (see Section 2.4.2), informed by data from large publicly-listed corporations. As a result, the conception of the chief executive was one of a powerful leader who held sway over both management and the board through the allocation of tasks and exertion of influence therein.

Hendry and Kiel (2004) explored the board's contribution to strategy from a different perspective: the exercise of financial and strategic control over management. Working from a detailed review of the normative and academic literature (especially McNulty and Pettigrew's (1999) contribution), and organisational control and agency theories, Hendry and Kiel proposed a theoretical two-by-two contingency framework to describe various board contributions. These included specifying the conditions of the strategy development process; monitoring and challenging of options proposed by management; and, monitoring strategy implementation. Interestingly, the board's involvement in developing strategy is not described in the framework, possibly because none of the contributions upon which the study was based envisaged such a role. The prominence of agency theory, the theoretical foundation of this study (which considers these to be tasks of management) may have influenced the conclusions that emerged as well.

Lastly, Lockhart and Crow (2013) inverted the thinking entirely. In revisiting Hilmer's (1994) original proposal, a division of labour between the board on one hand and management on the other was identified. Using 15 years of board observations, participation and research, they split the tasks of strategic management into a normative solution, disclosing the various complementary and conflicting activities the boards and management can undertake.

Together, the models and conceptual contributions discussed in the preceding paragraphs describe a range of board involvements in strategic management (generally) and in specific strategic management tasks (especially strategy development). That several different levels and styles of board engagement have been described in the literature reinforces the idiosyncratic and highly contextual nature of boards and board contributions; preferences of directors both when interviewed and in practice; and, the context within which boards operate. The relationship between board involvement in strategic management and subsequent firm performance was not explicitly described in these papers. However, Hendry and Kiel (2004) alluded to a contingent relationship, and Nadler's (2004b) value-added engagement recommendation (that the chief executive should engage the board in corporate strategy) and statement "While board participation in strategy doesn't always produce significant results, engagement can yield substantial dividends" (p. 28) implies that a relationship of some sort may exist.

If Pearce and Zahra's (1991) earlier conclusion (that a significant association exists between a powerful board and superior company financial performance) is applied to the continua proposed by Wheelen and Hunger (2006) (see Figure 2-7) and Nadler (2004a) (see Figure 2-8), better firm performance might be possible when the board operates at the 'active participation' or 'engaged board' positions, respectively. However, boards and companies are both complex structures that operate in a dynamic environment with many endogenous and exogenous influences. Therefore, the likelihood of any single position on either continuum (or any other model) being universally suitable for all types of company, all situations or even at all times is slim, at best. Nadler (2004a) made this point directly:

> Real-world boards slide back and forth across the scale, their levels of engagement changing as issues and circumstances do. A passive or certifying board in crisis, for instance, may morph temporarily into an intervening board to remove the CEO, and then into an operating board until a new leader is in place. (p. 104)

Further, the terminology commonly applied to governance and strategy activities seems to have led to a 'silo view' (Capasso & Dagnino, 2014), whereby corporate governance and strategic management are often considered to be distinct and separate functions—related to conformance and performance aspects of board responsibility respectively. If boards are to contribute to value creation, it may be more appropriate to hold corporate governance and strategic management tasks together, as Tricker (1984) surmised (see Figure 2-6), some of the models discussed above imply, and Ratnatunga and Alam (2011) asserted in their study. Tricker's adumbration placed strategic management at the nexus of the board–management interaction, implying that a tight coupling between the board and management may be conducive to increased effectiveness—the antithesis of an agency-based understanding of the board–management relationship. However, empirical research informed by data collected from, ideally, within boardrooms to support or refute this observation is yet to published.

Regardless of the board's actual involvement in strategic management at any given time, a fine line exists between the board having an active involvement (increasingly seen as desirable) and it impinging on responsibilities considered to be management (Nadler, 2004b). This dilemma is symbolic of the strategic choice and agency dichotomy described by Rindova (1999). Ravasi and Zattoni (2006) utilised the same dichotomy in their study of the political side of the board's involvement in strategic decision-making in mixed-ownership institutions. Their interview-based study revealed a negotiation role whereby the board seeks to reconcile diverging shareholder interests and priorities. While high levels of involvement and interaction between the board and management may have positive implications for strategic management effectiveness, the same high levels can be perceived as interference, or lead to loss of objectivity in oversight (D. W. Anderson et al., 2007) especially if the quality of the board–management working relationship is poor. The establishment of an appropriate division of labour (Lockhart, 2012) and a trust-based working relationship (J. L. Smith, 2010) between the board and management may help allay such concerns.

If boards are to make both timely and effective strategic decisions and, ultimately, exert influence from and beyond the boardroom, then the attributes of cooperation, teamwork, cohesion, and consensus building—both amongst the directors and with the chief executive—are probably necessary requisites (Baranchuk & Dybvig, 2009; Boxer et al., 2013). However, such interactions are expected to be difficult to achieve because boards meet infrequently. Some boards attempt to build trust and establish a shared sense of purpose—reportedly antecedents of effective teamwork

(Hackman & Morris, 1975; Lorsch, 1995)—by investing in social activities before or after board meetings (Crow, 2012).

The preceding commentary highlights not insubstantial variations in the research literature in terms of board engagement in strategic management (the board's involvement and role in strategy development in particular); and, the relationship between boards, strategic management and corporate governance. The studies reviewed here demonstrate that the possibility of board involvement in strategic management in some form has been acknowledged (but not necessarily accepted) for over 30 years. However, the appropriate level, scope and nature of the board's involvement in strategic management practices; the primacy dilemma (whether leadership of and responsibility for strategy development and decision-making should lie with the board or management); and, any impact such involvement may have on subsequent firm performance (Hendry & Kiel, 2004) is yet to be resolved (Steptoe-Warren et al., 2011). An added complexity is that many chief executives claim that boards do not actually understand the strategic drivers to their company's success (C. B. Carter & Lorsch, 2003; Sharpe, 2012), and some practising directors have admitted as much (Barton & Wiseman, 2015).

While the contributions described here have added much knowledge about boards, board–management interaction and the board's involvement in strategic management, few if any of the studies utilised board observation data to describe how boards actually contribute to strategic management. Consequently, the board's actual role in strategy formulation and implementation remains "an empirically understudied phenomenon" (Bordean, Borza, & Maier, 2011, p. 987).

Consistent with Gummesson's (1991) earlier call, Pugliese *et al.* (2009) called for more research, albeit with the qualification that a different methodological approach was necessary. They suggested that researchers "open the black box of board research" (p. 302). This recommendation reinforces the suggestion that the direct observation of group interactions (Schmuck & Schmuck, 1997) is likely to be necessary for research that seeks to discover how boards actually work (Leblanc & Schwartz, 2007); how board contributions to strategic management might influence subsequent performance outcomes; and, to identify the antecedents, conditions and contingent factors that might affect board decisions and any influence that the board wishes to exert.

Schwartz-Ziv and Weisbach's (2013) recent acknowledgement that "the way they [boards] make decisions is a mystery" (p. 363) highlighted the importance of direct observations as a source of data. Thus the purpose of this research: to collect data from boardroom observations and other sources to test the efficacy of Tricker's (1984) adumbration (see Figure 2-6)—that strategic management is appropriately positioned at the nexus of board–management interaction.

2.8 Theories of company growth

Theories of company growth and the contribution of various actors (including managers and executives, and directors where they exist) to achievement of growth provide the essential ontology for business research. While company growth has been described as endogenous (Niehans, 1963), the rate at which a company can grow seems to be dependent on the rate at which managers can prepare and successfully implement business plans (Penrose, 1959).

An early contributor to the literature on business growth was Ronald Coase[20]. His thesis of why firms exist—recorded in *The Nature of the Firm* (1937)—postulated that companies are formed when founders begin to hire people in order to reduce transaction costs associated with the production or procurement of goods and services. Transaction-cost theory (Williamson, 1979, 1981), stating that cost-of-production advantages are available when firm size is increased, and that these cost advantages are achieved by increasing the number of transactions emerged from Coase's early work. The transaction-cost argument is not open-ended however. Coase observed that a natural upper limit on firm size occurs when the internal cost of extra transactions becomes greater than the cost of carrying out the same transaction externally (through outsourcing, for example), an observation further developed by Williamson.

The natural upper limit described by Coase (1937) has similar characteristics those of the law of diminishing returns (J. B. Clark, 1894). Lowering the internal cost of organising extra transactions can raise the natural upper limit on firm size. Examples include negotiating lower prices for raw materials, improved staff productivity, and more efficient management practices.

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[20] Parallels between Coase's rediscovered contribution to transaction cost economics and that of Berle and Means (1932) to governance should not be ignored.

Coase treated the firm as a "black box" (Coase, 1992, p. 714) throughout his career. However, his conclusion that the main obstacle faced by researchers was the lack of data on the actual activities of firms (see p. 719) implies that he may have regretted this decision. The limitations that the decision imposed on his research, and Coase's realisation that the firm was too complex and that internal attributes and interactions are probably material to the achievement of outputs and outcomes may have been contributing factors. This observation is consistent with Gummesson's conclusion (1991) that researchers need to get as close as possible to the phenomena of interest. In the case of boards, the proverbial black box is the board meeting. Researchers need to strive to open it, so that the activities of the board including the primary activity, namely, corporate governance, can be actually observed directly.

Edith Penrose built on Coase's (1937) work by exploring the internal characteristics of the firm. In her now seminal work *The Theory of the Growth of the Firm* (1959), she argued that firms are entities that use resources to produce products and services for sale at a profit, based on their ability to capture and create value. Penrose emphasised the important role of managers in the creation and implementation of corporate strategy by observing that learnings and experiences from past performance can be helpful to future growth (P. Clark & Blundel, 2007; Gander, 2010). If growth is to be maintained over time, the rate at which management learns from experience (value capture) needs to be higher than the growth rate the company can sustain (value creation). Penrose postulated that the availability of suitable management talent is a limiting factor in company growth, a limitation subsequently entitled the 'Penrose effect' (Marris, 1964).

While Penrose (1959) explored internal characteristics of the firm (in contrast to Coase (1937) who did not) she remained generally silent on any specific structures, processes or systems that might be necessary within firms to achieve growth. However, Penrose did suggest that sustained growth was largely dependent on a company's ability to establish one or more "relatively impregnable bases" (p. 121): a precursor perhaps to the sustainable competitive advantage literature (Coyne, 1986; Jacobides, Winter, & Kassberger, 2012; Nilssen, Bertheussen, & Dreyer, 2014; Porter, 1998). Penrose seemed to have assumed that company growth occurs in a cyclical manner, whereby success (presumably increased revenues that are achievable as a result of the establishment of impregnable bases) leads to growth, and, in turn, growth leads to further success. This argument, however, is somewhat simplistic given the acknowledged complexity of business. Kreps (1996) hinted at the idiosyncratic and cognitive complexities through the use of the term "behavioural entities" to describe companies and the environment in which they operate, markets and economy.

Another theory of the firm that emerged about the same time as Penrose's theory was the highly influential (Argote & Greve, 2007) behavioural theory (Cyert & March, 1963). Like Penrose, Cyert and March asserted that any understanding of the firm could only be achieved after internal operations of the firm are understood (Pitelis, 2007): A reference perhaps to the need to investigate firms from within. In contrast, Penrose seems to have taken a longer-term focus of company growth, based on the application of excess resources to drive endogenous growth over time. However, neither theory is sufficiently complete to be considered universally applicable, even though both are regarded as being seminal and influential in the literature (Pitelis, 2005).

The literature is replete with debate about the determinants of firm growth (Coad, 2009). No consensus is apparent to explain why companies experience such difficulty achieving sustained growth (Barringer, Jones, & Neubaum, 2005), although the level of innovation appears to be a significant factor (Sheppard, 2010)—especially when it is encouraged by the board (Robeson & O'Connor, 2013). Company growth has been described as being largely "stochastic" (Marsili, 2001, p. 18), "idiosyncratic" (Coad, 2009, p. 96) and "heterogeneous" (Delmar, Davidsson, & Gartner, 2003, p. 190), and that the determination of profits (Jacobides et al., 2012) may be more dependent on sector-level factors than endogenous factors. These observations create an impression that company growth follows a "random walk" (Foss, Mahnke, & Geroski, 2000, p. 169). However, company growth seems to depend (in part, at least) on the actions and role performance (Ong & Wan, 2008) of the board—the making of strategic decisions (Scherrer, 2003) and the effective management of resources (Wernerfelt, 1984, 1995) in particular. These observations provide support for the possibility that the purported governance–performance relationship may actually exist; that the board can exert influence from the boardroom through its actions; and, that board contributions can have an effect on firm performance, albeit indirectly and inconsistently so.

2.9 High-growth companies

A variety of approaches to strategic management and decision-making by boards of different types of companies are apparent in the literature. The boards of high growth companies, for example, reportedly add a strategic dimension (Zahra & Filatotchev, 2004) because they are more likely to be actively engaged in practices and activities that contribute to the achievement of performance goals (Arthurs et al., 2009) than their counterparts in large corporations. The directors of high-growth companies are also thought to be more innovative, cognitive, engaging and flexible (Ruigrok et al., 2006). Further, the boards of companies funded by venture capital or private equity often utilise different processes and practices from those used by the board of large, publicly-listed companies (van den Berghe & Levrau, 2002).

High-growth companies are those companies that achieve and sustain growth rates greater than their corresponding industry averages. Several definitions of 'high-growth company' have been provided in the literature. The most commonly used measure of growth is annualised revenue growth expressed as Compound Annual Growth Rate (CAGR) (De Backer, 2008), although employment growth is also mentioned (NCOE, 2001).

Some definitions provided in the literature propose very high firm growth-rate thresholds. Barringer, Jones and Neubaum (2005), for example, used a CAGR of 80% sustained over three years as the basis for their definition of 'rapid growth companies'. Tonge, Larsen and Ito (1998) applied a high (but not as extreme) CAGR of at least 40% sustained over a three year period to describe 'super-growth company'. While these categorisations are acknowledged elsewhere in the literature, they are not widely supported as being suitable thresholds for definitional purposes, perhaps because they are too demanding to achieve and sustain on an on-going basis.

Storey (1994) and Birch (1994) both proposed more moderate growth-rate thresholds within their definitions. They separately suggested that a growth rate of 25% CAGR sustained over four years was an appropriate threshold above which a company should be considered to be a high-growth company. These proposals are similar to the one provided by Birch (1987). Birch's proposal, of 20% CAGR sustained over a three year period, is reportedly the most widely used definition of a high-growth company (Umamaheswari, Sushil, & Momaya, 2011). Consequently, Birch's proposal provides a useful criterion from which to select high-growth companies for participation in this research.

The meta-model developed by Charreaux (2008) and refined by Wirtz (2011) (see Figure 2-4) characterised a variety of interactions that can occur between the board governance and management, with specific mention of fast growing entrepreneurial firms. Wirtz's proposal—that the cognitive lever is more prominent (Mrad & Hallara, 2010) is growth-oriented companies (Penrose, 1959)—is intuitively attractive given the proximate relationship between boards and management common in entrepreneurial and high-growth companies.

Successful leaders have also been found to work more closely with their boards (Daily & Dalton, 1992), to the extent that the distinction between board and management roles and activities is often unclear (Brunninge, Nordqvist, & Wiklund, 2007). However, the high level of influence typically exerted by entrepreneurial founders (Arthurs et al., 2009) in smaller high-growth companies can present some challenges for the boards of these companies. Growth often ranks a higher priority than profitability (Taylor, 2003); sometimes at the expense of shareholder value (Aggarwal & Samwick, 2003). Balancing the tension between company growth on one hand, and the effective monitoring firm performance (especially financial viability) on the other (Taylor, 2001) can be challenging. Further, the board's ability to monitor firm performance and govern effectively may be compromised (Lasfer, 2006) if directors—especially NEDs—cannot assert power adequately (Lorsch, 1995). Leadership capability and style, visionary leadership (Fischer & Reuber, 2003) and the timely introduction of a professional manager may help mitigate these risks.

While the literature on board practices and the governance of high-growth companies is "rather fragmented and lacks an integrative theoretical framework" (Wirtz, 2011, p. 433), the discussion here supports the observation that the motivations of boards and management in large publicly-listed companies are often different from those of their equivalents in smaller growth-oriented companies including high-growth companies. It follows that smaller closely-held or quasi-public high-growth companies may be a more suitable population for this research, because the boards of companies within this category are expected to be more involved in strategic management and make more strategic decisions (than the boards of large publicly-listed companies). If instances of board involvement in strategic management can be observed directly (especially board involvement in strategy development and strategic decision-making), and data can be collected from multiple sources within several exemplar cases (Clegg et al., 2006) for analysis, then the boards of high-growth companies are likely to be a more fruitful population to study than the boards of large publicly-listed companies.

2.10 A pathway forward

This review demonstrates that researchers have studied many attributes of both boards and directors including structure and composition attributes of boards, and director behaviours and boardroom practices, amongst others. Most of the research has been motivated by positivist ideals; the isolation of observable board attribute variables (e.g., board size, diversity, chief executive duality, status of directors); the subsequent search for regularities between dependent and independent variables of interest; and, ultimately, the pursuit of formulaic descriptions of the board–performance relationship (McCahery & Vermeulen, 2014). While many correlations have been reported (see Section 2.4), the paucity of consistent results (Adams et al., 2010) is stark—suggesting that the structure and composition of the board probably is not directly causal to any subsequent performance outcome at all.

The crude input–output model (of board attributes and firm performance variables) and the dogmatic use of reductionist and development-by-accumulation approaches (Kuhn, 1970) to conduct board research (which generally ignores the social nature of board activity; director behaviours and interactions between directors during board meetings; influential factors that occur both inside and outside the boardroom; and, other contextual factors) seems to have arrived at an impasse. Support for this observation is provided by Adams et al. (2010), who asserted that the question of whether boards play a role "cannot be answered econometrically as there is no variation in the explanatory variable" (p. 59). As a consequence, studies that search for a single immutable truth about boards (Dian, 2014); a one-size-fits-all theory of board–management interaction (A. L. Boone et al., 2007; Davies & Schlitzer, 2008); an optimal board structure (Adams et al., 2010); or, even, a universal market-based (Pitelis & Clarke, 2004) or policy-based (Carver, 2010b) 'system of governance' (Charreaux, 2008) could well be futile. This is in spite of the practitioner community having at various times both promoted and embraced all such arguments.

However, the possibility of making informed leaps and conjectures may actually have value in the study of social phenomena, especially when attempting to describe reality, a point deftly made by Popper (1972):

> We do so with the help of conjectural theories; that is, theories which we hope are true (or near the truth), but which we cannot establish as certain or even as probable (in the sense of probability calculus), even though they are the best theories which we are able to produce, and may therefore be called 'probable' as long as this term is kept free from any association with the calculus of probability. (p. 40)

If further insights are to be gained including additional knowledge about board–management interactions and the purported governance–performance relationship (that supposedly emerges as a result of the board in session), 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.

A growing number of (largely qualitative) studies have recognised that board–management interactions are both complex and idiosyncratic. The emergence of these studies in response to the deficiencies of the dominant input–output quantitative approaches pursued in the 1990s and 2000s has produced new knowledge and helpful guidance to inform future research including this research. The active engagement of the board in strategic management (Zahra & Schulte, 1992); and, other factors including effective chairmanship (Zhang, 2010), board role (Ong & Wan, 2008) and task performance (Machold & Farquhar, 2013), collaboration (Mowbray & Ingley, 2013), trust (J. L. Smith, 2010), objective debate (Levrau & Van den Berghe, 2007), teamwork (Ruigrok et al., 2006), cognitive ability (Chou et al., 2012; Wirtz, 2011), tacit knowledge (Guzak & Rasheed, 2014), competence (Leblanc & Gillies, 2005) and a focus on both the purpose of the company and future firm performance (Lorsch, 1995) are indicated as being beneficial to effective board contributions. These factors, all of which describe aspects of board activity may be more significant antecedents (than the inherent structure or composition *per se* of the board (Larcker & Tayan, 2011)), if influence is to be exerted from the boardroom.

Notwithstanding the progress made in recent years, especially by qualitative researchers who have got much closer to the phenomenon of interest (i.e., corporate governance), the overriding challenge of gaining access to observe what boards actually do when they meet remains a significant barrier to knowledge. Consistent with Gummesson's call (1991) and Pugliese *et al.*'s (2009) conclusion, further progress is expected to be possible if the 'black box' of the boardroom be prised open (Leblanc & Schwartz, 2007) to observe directly what actually occurs in the boardroom. This should enable the methodological shortcomings of input–output studies (Bhagat, Bolton, & Romano, 2008) including the assumption of congruence within the black box (Lawrence, 1997) and concerns over the correctness and reliability of data collected from outside the boardroom (Stablein, 2006) to be addressed. Calls to enter the boardroom reinforce Leblanc's (2004) assertion that "the only possible way to know whether boards operate well is to observe them in action—to see and understand the processes by which they reach decisions" (p. 440).

Hendry and Kiel (2004) suggested that "longitudinal studies could be considered to explore how and under what conditions boards change their balance between strategic and financial controls and what impact this has on firm performance" (p. 515). Wirtz (2011) added that in-depth longitudinal field studies would be helpful to capture the dynamic interactions, and that comparative studies would be "particularly relevant" (p. 446) when studying entrepreneurial firms (and, presumably, high-growth firms, although not mentioned). Together, these comments remind scholars that the pursuit of firm performance is an important priority of company boards, and that both chronology and the operating context are relevant to both boardroom activity and governance research.

The board *may* be able to influence firm performance (in some form and to some extent) from within the boardroom if it actively engages in the tasks of strategic management together with management (Crow & Lockhart, 2016)—as Tricker (1984) conceptualised over three decades ago (see Figure 2-6). However, the subsequent effects of board decisions are expected to be, necessarily, contingent on multiple factors including, especially, the actions of management who are responsible for implementing board decisions, as Leblanc (2003) demonstrated in his study. A structured, realist approach (Easton, 2010) informed by both extant literature and data collected over an extended period (ideally, from multiple sources including direct observations of boards in session and from other sources outside the boardroom) may provide a useful pathway towards new knowledge. This suggestion, which moves beyond the investigation of board structure, composition and behaviour variables; and, the use of data collected from outside the boardroom (yet builds on the guidance in the qualitative literature noted above) is discussed in detail in the following chapter.

Chapter 3: Research methodology and design

Governance is as much about deciding human goals as it is about applying the appropriate science.

Newton, Deetz, & Reed, 2011, p. 19.

3.1 Introduction

The purpose of this chapter is to explore the research methodologies that have been used to conduct board and governance research, and to describe the approach used to pursue the question of interest to this research. The chapter is organised as follows. Ontological and epistemological considerations for board and governance research are discussed, and resolutions for identified challenges are proposed. An alternative approach for more effective corporate governance research, based on a longitudinal multiple-case study design; the collection of primarily qualitative data; and, an iterative approach to analysis is then introduced. Ethical considerations are discussed. Finally, the method used to conduct the research including the recruitment of participants; and, the collection, collation and analysis of data is described in detail.

3.2 Ontological and epistemological considerations

3.2.1 Objectivist and constructionist perspectives

Much of the board and governance research published to date has been conducted under the rubric of positivism and hypothetico-deductive science (Ketokivi & Mantere, 2010) and, therefore, it holds an underlying assumption of an objectivist reality. Most of these studies have been informed by (primarily) quantitative data collected from sources outside the boardroom including large-scale surveys, questionnaires and publicly available documents. The extensive approaches used within this body of research have produced a variety of correlations (see Section 2.4) including at times implausible or tenuous relationships (Dulewicz & Herbert, 2004) between observable dependent[21] and independent variables (Ackroyd, 2000).

While a consistent set of director duties are specified in law (see Table 1-1), boards are social structures that cannot operate apart from the company or the wider business ecosystem. Boards have the power to make decisions of many types, the intention of which is to exert influence from the boardroom (including on firm performance) and to monitor and control the actions of management (regardless of whether actually occurs or not). The processes of decision-making in boardrooms and the effects of decisions beyond the boardroom are also contingent on multiple endogenous and exogenous factors, often outside the boardroom.

Consequently, several ontological assumptions (Dillon & Wals, 2006) upon which much of the positivist-inspired board research (irrespective of methodological technique) has been based (e.g., ontological reductionism (Lachapelle, 2000), a single objective reality (Deely, 2009) and that a constant conjunction between variables implies a causal explanation (Cartwright, 1989)) may be flawed, resulting in methodological challenges (Mir & Watson, 2001) for researchers. Also, research predicated on positivist research traditions (and associated assumptions) cannot easily be used to solve 'how' and 'why' questions about social phenomena because objective facts are difficult to establish with any confidence (Lee, 2011).

When Eisenhardt (1989) noted that most empirical studies followed the positivist pathway that leads from theory to data she also acknowledged that "the accumulation of [deep] knowledge involves a continual cycling between theory and data" (p. 549). Eisenhardt's hope was that researchers would "complete the cycle by conducting research that goes in the less common direction from data to theory" (p. 549), reinforcing an iterative approach to knowledge creation. Therefore, research that seeks to understand how boards actually work (cf. search for relationships based on the structure or composition of boards) may need to move beyond positivist foundations (and associated assumptions) to ensure both the social reality of the

[21] Typically, structural or composition attributes of boards

phenomenon most of interest (i.e., corporate governance) and the open system within which the phenomenon is understood to occur are adequately accounted for.

The possibility of a socially defined reality (Hammersley, 2013), whereby knowledge is assumed to be both subjective and context-specific offers an alternative path to understanding how boards work and, especially, the conduct of corporate governance. A small but growing group of researchers has embraced constructivist ontology, intensive methods and inductive reasoning for board and governance research. Studies within this literature have produced rich descriptions of board activities, director behaviours, board–management interaction and board performance, as reported in Section 2.5. The defining priority of this research has been the pursuit of a deep, contextualised understanding (Gubrium & Holstein, 2003) and meaning (Manning & Kunkel, 2014), typically in the qualitative tradition (Denzin & Lincoln, 2003).

The synthesis of data collected from multiple sources using intensive methods is recommended because "data that are in the public domain are not well suited for analyzing governance attributes" (Aguilera et al., 2016, p. 177). Support for the use of intensive qualitative methods (e.g., interviews, observation and case studies) is provided by Tsoukas (1989), who suggested they are an "epistemologically valid" (p. 566) means of collecting data for iterative analysis to identify underlying factors that may enable complex phenomena to be described and, potentially, explained.

However, knowledge of whether qualitative data collected for corporate governance research is an accurate representation (Stablein, 2006) of what actually occurs in boardrooms may not be possible if the research is limited to the analysis of data collected from one or even multiple sources outside the boardroom. Schwartz-Ziv and Weisbach's (2013) conclusion, that "the way they [boards] make decisions is a mystery" (p. 363) highlights the challenge for research reliant on data collected from outside the boardroom, regardless of the ontological foundation.

If knowledge of what boards actually do and how influence is exerted from the boardroom is to be achieved, relationships including underlying and unobservable factors that may contribute to observed events need to be discerned and the socially dynamic nature of board activity needs to be accounted for. Consequently, the direct observation of board meetings (Leblanc, 2003) (especially prolonged observation) is likely to be a crucial source of data in addition to data collected from more conventional sources outside the boardroom including in-depth interviews, surveys and published company documentation because the "social world is reproduced and transformed in daily life" (Bhaskar, 1989, p. 4). Christensen and Carlile (2009), and Machold and Farquhar (2013) successfully embraced this principle in their qualitative studies of board activity.

3.2.2 Mechanisms

When change occurs in social systems as a result of human agency or social structure (Stergiou, Ashraf, & Uddin, 2013)—the consequential effects of decisions made by a board of directors, for example—the change is likely to have been activated by mechanisms that may themselves be dormant or active (Fleetwood, 2011) at any given time. A 'mechanism' is thought to be a complex interaction within a structure or system that, when activated, can lead to a change occurring (Bunge, 1997, 2004), albeit with contingent effect.

Bunge (2004) argued that mechanisms have component parts, the activation of which may not necessarily result in any particular outcome (expected or unexpected) occurring. Thus, a cause can be considered to be "whatever is responsible for producing change" (Sayer, 2000, p. 94) (whether the change actually occurs, or not) or, more precisely, a "condition that either necessitates or renders more probable its effect, in a given environment of conditions" (Little, 2011, p. 273). Bunge's (1997) suggestion that a mechanism is "what makes a concrete system tick" (p. 410) adds insight. However, the suggestion was general: no references or associations (direct or implied) between mechanisms and the phenomenon of interest to this research were made. Notwithstanding this, the board and corporate governance may be analogous to 'structure' and 'mechanism' respectively—although this remains to be tested.

Superficially, mechanisms are similar to processes—they are both complex constructs. However, they are not the same. A process is a series of tasks or actions including, potentially, condition actions generally performed in a predetermined sequence having commenced at a specified start point. In contrast, a mechanism is a contingent system of multiple component parts that interact together *when* activated. The crucial difference between these constructs is that a process implies a sequence of activities that occurs or is followed in order, whereas a sequence is not necessarily implied when a mechanism is activated. Further, mechanisms may be social mechanisms—complexes of interacting social categories (Steel, 2004), also with contingent effect.

An implication from the preceding discussion is that events can occur as a result of the activation of some sort of catalyst or property of an object, via one or more conditionally activated mechanisms (Mason, Easton, & Lenney, 2013). The possibility of a mechanism-based conceptualisation of corporate governance is intuitively attractive, especially given complex socially dynamic nature of board activity and decision-making, and the plethora of characteristics mentioned in the literature.

Charreaux (1997, 2008) and Wirtz (2011) explored the applicability of a mechanism-based understanding within their board and governance research. They conceptualised the board as a mechanism, within a broader and complex 'system of governance' (see Figure 2-4). Their usage of 'mechanism' is consistent with the definition provided by Bunge (2004)—a complex interaction within a structure that can lead to a change occurring. However, the conception of governance adopted by Charreaux and Wirtz is somewhat different from that adopted for this research (see Section 2.2). Notwithstanding this, the meta-model provides helpful guidance to inform this research.

Charreaux's (1997, 2008) and Wirtz's (2011) proposals suggest that a mechanism-based approach may offer an viable means of understanding how boards work and how influence is exerted by boards. If a mechanism or, potentially, a hierarchy of mechanisms (Danermark, Ekstrom, Jakobsen, & Karlsson, 2002; Wirtz, 2011) and, probably, social mechanisms (Little, 2011) can be identified, it may be possible to develop descriptions of how boards exert influence from the boardroom. Underlying qualities (Groff, 2011; Morais, 2011) possessed and expressed by social agents (in this context, directors) may have an effect on the activation of the mechanism as well. Antecedent attributes identified in the literature (see Chapter 2, especially Section 2.5 and 2.10) are likely to provide helpful guidance during such analysis.

Notwithstanding the prospect of a mechanism-based understanding being possible, the identification of underlying mechanisms is likely to require "imaginative theorising" (P. H.

Andersen & Kragh, 2010, p. 148); "intuitive leaps" (Avgerou, 2013, p. 411); and, iterative cycles of theorising, testing and refinement because they are unlikely to be consistently exercised (Godfrey & Hill, 1995) or directly observable (Dobson, Myles, & Jackson, 2007) in practice. Therefore, a research philosophy capable of providing a dialectically robust foundation for the analysis of data collected from multiple sources and the discernment of unobservable mechanisms (including, potentially, a hierarchy of mechanisms) is also likely to be necessary.

3.2.3 Critical realism: an alternative approach to knowledge

A realist perspective—specifically, critical realism (Bhaskar, 1975)—may offer an alternative pathway towards new knowledge about how boards work including mechanism-based understandings. The social science literature suggests that approaches to research founded upon critical realism enable complex organisational phenomena to be investigated and identified in a holistic manner (Wynn & Williams, 2012).

Bhaskar (1989) observed that "[underlying] structures are not spontaneously apparent in the observable pattern of events; they can only be identified through the practical and theoretical work of the social sciences" (p. 2). This assertion exposes an important difference between critical realism and empiricism, which requires empirical evidence to be produced before knowledge is admitted. Critical realism assumes a stratified ontology comprised of *real*, *actual* and *empirical* domains (Bhaskar, 1975). The *real* domain contains structures and mechanisms with enduring properties and powers (Sayer, 1992). However, they cannot be directly observed. Events that are generated by the unobservable structures and underlying mechanisms are located in the *actual* domain, and the subsets of events that are observable are located in the *empirical* domain. Consequently, the possibility of underlying mechanisms is accepted. That they cannot be observed does not preclude their inclusion in theoretical descriptions of phenomena.

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 et al., 2007) are to identified. This is likely to necessitate the use of alternative approaches to the analysis of data, including iterative techniques in an attempt to "explain what conditions in reality may have or could have led to observations" (Olsen & Morgan, 2005, p. 275) or, more straightforwardly, to propose answers to the question, "what structures are necessary for this event or phenomena to come about?" (Morais, 2011, p. 70).

Critical realism has been used with some success to conduct research in several fields of business and management research including accounting (Bisman, 2010); economics (Lawson, 1994); management studies (Fleetwood & Ackroyd, 2004); investment subsidies (Krupnik, 2012); entrepreneurship (Menzies, 2012); organisational decline (Pajunen, 2008); marketing (Easton, 2002); and, information systems (Easton, 2010; Zachariadis, Scott, & Barrett, 2013). However, its use in board and governance research to date is rare.

Abduction, a "sensible and scientific form of inference" (Bryant & Charmaz, 2007, p. 216) is suggested as a means of iteratively (Griggs, 1987) analysing data from various sources including prior literature, and constructing and testing explanations (Levin-Rozalis, 2010) based on the redescription of observed data from the empirical domain (Morais, 2011). Using "mechanism-centred theory" (Morais, 2011, p. 71), abduction starts with the suspicion that a postulate may be true (Bertilsson, 2004). In this research, the postulate to be tested is that the board's active involvement in strategic management is important if influence is to be exerted from the boardroom.

An associated technique, retroduction (P. Clark & Blundel, 2007; Zachariadis et al., 2013) offers a means of retrospectively inferring the unobservable structures and underlying mechanisms thought to have effect on events and empirical observations. An iterative process (P. H. Andersen & Kragh, 2010) of analysis utilising abduction and retroduction (Williams & Karahanna, 2013) applied to strategic decision sequences, boardroom interactions and information flows led should lead to a deeper understanding of the relationships among data. Practical adequacy (Sayer, 2000) is the goal of the analysis.

3.3 Responses to identified challenges

Several epistemological challenges to the conduct of research attempting to answer the research question (see Section 1.3) were alluded to in the preceding discussion and the literature review (Chapter 2). These challenges include securing access to observe the phenomenon most of interest to this research *in situ*; the detection, discernment and collection of relevant data from multiple sources for analysis; data validity and reliability; and, the role and impact of the researcher as an observer within the boardroom. If resolutions to these challenges can be achieved, then it *may* be possible to collect sufficient reliable data and conduct an iterative analysis both to understand board involvement in strategic management and to tentatively suggest how boards can exert influence from the boardroom and, in so doing, answer the research question. These challenges and possible resolutions discussed in the following sub-sections.

3.3.1 Access to observe boards in session

The importance of gaining access to observe social phenomena directly was highlighted in the organisational studies and business research literature decades ago (Gummesson, 1991). Gummesson later re-asserted that "traditional research methods used in business research do not provide satisfactory *access"* (2000, p. 14, emphasis original), and again that the gaining of access is crucial to enable the researcher to get as close to reality as possible (2007). Of board research, Heracleous (2001) added that "behavioural observation and in-depth interviewing" (p. 171) was needed, and that "a healthy dose of skeptism is in order" (p. 171)—recognition perhaps of the complexities inherent in the conduct of social research; the value of observation data alongside data collected from interviews or other sources; the need to adopt a critical perspective; and, by implication, that various biases need to be managed.

Despite the importance of access to "opening up the black box" (Johanson, 2008, p. 345) to obviate assumptions of congruence (Lawrence, 1997) that have beset board and governance research and identify what actually goes on in boardrooms having been acknowledged (Huse, 2009a; Leblanc & Schwartz, 2007; Lockhart, 2010), relatively few business researchers including board researchers have heeded these calls. Currall et al. (1999), Samra-Fredericks (2000a), Leblanc (2003), Parker (2007) and Machold and Farquhar (2013) are examples of notable exceptions.

The analysis of data collected from both within and outside the boardroom may enable the difficulties experienced by many researchers to be resolved and a deeper understanding of this otherwise opaque phenomenon (i.e., corporate governance) to be achieved. If research biases can be overcome (or managed, at least), direct observation should also enable the researcher to reduce the number of assumptions made (Marshall & Rossman, 1999), and to verify or correct data collected from secondary sources (Fernandes & Randall, 1992) more so than if the research treated the boardroom as a black box (Erakovic & Overall, 2010).

Notwithstanding the apparent benefits of collecting reliable primary data for effective research of social phenomena, many organisations and groups have been unwilling to grant access—company boards particularly so (Darke, Shanks, & Broadbent, 1998). "Strong norms of privacy" (Pettigrew, 1992, p. 164) and hubris (Hiller & Hambrick, 2005) have been significant barriers. However, a small number of boards have granted access to allow researchers to conduct firsthand observations of board meetings. Most of the studies informed by observation data published to date have been based on a single incursion into the corporate boardroom (e.g., Crow, 2012; Edlin, 2007; Martyn, 2006; Staite, 2015), although a handful of studies have been based on multiple incursions into corporate boardrooms (Currall et al., 1999; Machold & Farquhar, 2013) and board committee meetings (Leblanc, 2003). These studies produced knowledge of, amongst other things, boardroom activity; board tasks; director behaviours; decision-making processes; and, board effectiveness—knowledge that may otherwise have remained hidden had access to observe the board in session not been granted (Leblanc & Gillies, 2005). However, they did not produce (and did not seek to produce) explanatory knowledge of corporate governance or the governance–performance relationship.

While access is a prerequisite if boards in session are to be observed directly, neither access nor first-hand board observation data *per se* are panaceas to effective corporate governance research. Researchers still face the not insignificant challenge of accurately discerning and interpreting relevant data, both during the observation and subsequently during analysis.

3.3.2 The conduct of observing boards in session

One goal of this research is to observe the board in an environment that is as authentic as possible (i.e., the board in session). Various forms of observation have been discussed in the literature including participant observation and non-participant observation (Junker, 1960). Direct observation has been used as a technique to collect qualitative data (Gold, 1958) in a variety of contexts (Kawulich, 2005). In some contexts (such as that by Masters and Johnson (1966)) it has provided the critical breakthrough for understanding.

Participant observation (DeWalt & DeWalt, 2011) is a form of data collection in which the observer is also an active member of the group being observed (Vinten, 1994). Often used in action research (McNiff, 2013), this type of observation can lead to considerable insight, as Sloan (1964) demonstrated. However, the use of participant observation for board research (Parker, 2007; Samra-Fredericks, 2000b) can be very demanding if the researcher–observer needs to both observe the board meeting and make comprehensive notes (Currall et al., 1999) while also attempting to participate fully including fulfilling their duties as a company director—even more so if no audio or video recording is made. Necessarily, note taking would be selective (Peverly, Garner, & Vekaria, 2014)—Machold and Farquhar (2013) concluding that "active participation in boards' business may preclude additional immersion in an observer role" (p. 151). This suggests that the two tasks (of a participating as a director and fulfilling duties and obligations, and of making comprehensive observations of the board in session) are, separately, 'full-time' tasks, if they are both to be performed well.

An alternative approach to data collection by observation is to conduct silent and non-participatory observations (Gold, 1958). Non-participant observation[22] of boards is appropriate when the observer is not a director and, therefore, cannot participate in the board meeting. This approach enables the observer to concentrate completely on observation and the collection of relevant data, thus circumventing the challenges of participant observation identified above. Leblanc (2003) and Machold and Farquhar (2013), for example, both demonstrated the value of the technique.

[22] The terms 'nonparticipant observation' and 'complete observer' are both used in the literature.

Regardless of the participation status of the observer, discernment and sense making (Henneberg, Naudé, & Mouzas, 2010) both during the observation and in the subsequent analysis are challenges for observation-based qualitative research. However, it may be possible to reduce the effect of these challenges if several techniques including audio recordings of meetings and interviews (see Section 3.3.4 below) are used to collect from multiple sources, and the accuracy of the data is verified through the application of triangulation and other comparative techniques.

3.3.3 Interviewing governance actors

The collection and synthesis of data collected from several different sources should contribute to a deeper level of understanding of board work than what would otherwise be possible if board research was limited to the analysis of data from any single source including, for example, observations or interviews. Data collected from interviews with key governance actors including the chairman and chief executive should provide different perspectives thus enhancing the quality and richness of the data set. The comparative analysis of data collected from interviews with key governance actors with other sources should assist contextualise observation data; verify data collected from other sources; and, align reflections with praxis.

The three major categories of interview that are typically used to collect data on social phenomena are the structured interview (questionnaire or survey), semi-structured interview and the unstructured interview (Creswell, 2013). The structured interview[23] is suitable for situations in which response options are essentially known or predetermined, and respondents are asked to select from the fixed range of pre-determined answers to expedite aggregation for statistical analysis. In contrast, the unstructured interview is a free-ranging and typically informal conversation, in which a general list of topics of interest is used to elicit responses. The unstructured interview is well suited to exploratory research and "ferreting out underlying attitudes" (Wispe & Thayer, 1954)—although not without introducing categorisation and coding difficulties during analysis. The third major category of interview is the semi-structured interview technique (Galletta & Cross, 2013). Questions relating to a predetermined list of topics of interest to the research are asked, but with flexibility to be exercised during the interview. Open and

[23] The term "standardized interview" (Bryman & Bell, 2007, p. 210) is also used)

probing questions (Rabionet, 2011) are used to elicit full responses from the interviewee, which may lead to a free-flowing discussion and unanticipated commentary.

The semi-structured interview technique is preferred for this research. The topics of interest are known but flexibility is required to elicit open and full responses—and to explore lines of enquiry not considered prior to the interview. Interviewees will be asked to describe their understanding of company history; board structure, practices and processes; what happens in boardrooms; the board's involvement in strategic management; how strategy is formulated; how decisions including strategic decisions are made; how decisions made by the board are monitored; how firm performance is verified; boardroom interactions; who controls the board agenda; who prepares board papers; and, other potentially relevant factors.

The interview responses are expected to produce data that is consistent with observation data. However, they may not. Interview respondents may provide accurate responses, or they may provide responses that are inconsistent with observation data or they may provide responses of convenience (Moorman & Podsakoff, 1992). The motivation of the interviewee is unlikely to be immediately apparent. However, if the interview data, observation data and data from board packs is both compared and synthesised, then the result should provide a more reliable understanding than what data from any one source could reveal individually. It may also reveal the extent to which interview data is a reliable source (representation) of the boardroom.

3.3.4 The collection of authentic data

Grounded social research (Glaser & Strauss, 1967) provides a seemingly useful framework within which to pursue research to understand what boards actually do. Grounded theory seeks to ignore *a priori* knowledge including seemingly credible theories, metatheories and models that have been proposed in the literature, and any knowledge possessed by the researcher about the phenomenon being investigated. However, research that seeks to actively ignore extant knowledge and *a priori* postulations and inherent biases of the researcher essentially requires the research to start with a blank slate—a *tabula rasa*. As a consequence, everything about the phenomenon of interest must be investigated thoroughly and all data must be captured, in case it is relevant to the research. Thus, grounded social research places heavy demands on both the researcher and the research participants.

Assuming access to boardrooms can be achieved to collect data from observations of boards in session and the conduct of corporate governance, a fully grounded approach essentially requires that every verbal, non-verbal and visual interaction in the boardroom during the board meeting be captured. Such an approach is expected to require the use of multiple video cameras (to provide a complete visual record of every gesture, comment and action of each and every person in attendance at the board meeting) and high-quality microphones (to ensure all utterances are captured, including any interjections and quiet side comments between directors). In addition, every document used in the board meeting including formal board papers; private notes, comments and annotations written by directors; and, any notes recorded electronically by directors needs to be captured and copied for inspection, in case it is significant.

Some researchers, including a team at Queensland University of Technology (QUT), have attempted a 'collect everything' approach, in the grounded tradition. The QUT team confirmed[24] that this approach to data collection resulted in copious amounts of video, audio and written data for analysis—the quantum of which may possibly be beyond that which can be readily or reasonably distilled into meaningful knowledge. One team member said that the presence of video and audio recording equipment and several observers "probably resulted in behaviour modification" amongst board members of the social enterprise being observed, and another quickly volunteered their agreement at the statement.

The presence of a researcher as an observer *in situ* can also result in behaviour distortion (Robbins, Spranca, & Mendelsohn, 1996; Robson & Wardle, 1988) or modification (Fisher, 1993; Ganster, Hennessey, & Luthans, 1983; Zerbe & Paulhus, 1987) by participants, to suit a plethora of obvious or hidden motivations (Krueger & Ham, 1996). Behaviour modification can be difficult to detect and manage (Fisher, 1993), particularly in one-off observations. Knowledge

[24] Researchers at QUT were visited while various design and data collection options were being considered for this research, to understand the merits and challenges of the 'collect everything' approach they have adopted.

of whether observations are an authentic representation of both normative boardroom practices and interactions between directors, or whether the researcher has been deceived (Burgoon, Blair, & Strom, 2008), intentionally or otherwise, cannot be reliably determined if the research is limited to a single observation. Consequently, authentic interactions and behaviours may remain hidden. A different approach, which will probably be less intimidating to participant directors; less likely to result in behaviour modification; and, more likely to produce accurate data for analysis is needed to expedite meaningful research.

Longitudinal observation can reduce the impact of non-participant observer-caused effects (McKinnon, 1988). Participants are thought to revert to authentic behaviours (Maitlis, 2004; Vissak, 2010) over time, as they become more comfortable with the presence of a non-participant observer, especially if both the observer and any research equipment are unobtrusive. Silent observation and the use of non-intrusive recording equipment are also expected to be important to the collection of dependable data—reducing the possibility of behaviour modification from that which might otherwise occur if the boardroom was not a place of research and incorrect interpretation during analysis. The use of several techniques together including non-participant observation, unobtrusive recording equipment and longitudinal observation is expected to result the most authentic interactions being observed and recorded accurately.

3.3.5 The status of the observer and the discernment of relevant data

Another difficulty to be overcome in the conduct of non-participant observation and subsequent data analysis concerns the contextual knowledge of the researcher. If observations of boards in session are conducted by someone devoid of knowledge of common director interactions and boardroom practices (i.e., corporate governance), in the grounded tradition, or if the data is analysed by someone who does not possess contextual knowledge of what actually occurred in the boardroom during the board meeting, the likelihood that inappropriate data might be captured; crucial data discarded; vital context lost; or, data misinterpreted; or, some combination of these possibilities appears to be high.

Observers without boardroom experience as company directors may be beset by an additional problem, of not knowing what interactions and data might be relevant at the time the observations took place. While 'modified' grounded theory approaches have been proposed (Strauss & Corbin, 2008) and used (Samra-Fredericks, 2000a), even Glaser and Strauss had different views (Glaser, 1998) over when and how to conduct such research, then or since. Therefore, some *a priori* knowledge must be acknowledged (Burrell & Morgan, 1979).

A more realistic and potentially workable option (than to collect all data) might be to collect that subset of the data that is most directly relevant to the research question and the immediate surrounding context, and to embrace *a priori* knowledge including both the extant literature and knowledge possessed by the researcher. If observations are conducted by an non-participant observer who is familiar with boardroom protocols and practices through their directorial experience and training, and if an audio recording of the observed board meeting is made as an additional source of data, then it ought to be possible to make more reliable non-participant observations as if through the board's eyes; identify patterns, associations and unexpected events; discern contextually relevant data; and, note but put aside irrelevant interactions[25].

However, this alternative places an additional burden on the observer, by requiring them to identify in real-time that data which is likely to be relevant and significant to the phenomenon being studied and to the research question, and to discard insignificant or irrelevant data. Also, the resultant analysis and findings will be theory laden and biased to some extent due to the very training, pre-conditioning and experience of the researcher. Such biases (Krueger & Ham, 1996) are difficult—but not impossible (Langlois & Prestholdt, 1977)—to mitigate.

This discussion highlights a significant challenge for observation-based board and corporate governance research: that the researcher is sufficiently knowledgeable to recognise and record relevant interactions in the boardroom, yet sufficiently receptive and reflective so that few assumptions are made. Some events may be spontaneously observable (e.g., a formal decision made by the board), while others may be subtle or seemingly irrelevant (e.g., a quiet exchange between two directors), until they are considered holistically in the body of data. The significance of data including the interactions between directors may be difficult to determine without subsequent reflection, review and comparison with data from other sources or collected from

[25] Providing observer/researcher biases are challenged and potential blind spots are illuminated.

other meetings (e.g., the relevance of an individual's actions or interactions at any given time might be quite obtuse). An incomplete or erroneous analysis may follow if the observer does not know "how to separate detail from trivia" (Patton, 2002, p. 260).

Despite this suggestion, much of the board and governance research reported to date has been conducted by researchers who seem to lack the practice and experience of the phenomenon in question (Bennis & O'Toole, 2005). Curiously, subject matter experts typically undertake research in other disciplines. For example, doctors typically perform medical research; engineers typically perform engineering research; and, anthropologists or sociologists typically perform cultural and social research. Yet researchers with an interest in boards and corporate governance, many of whom appear to lack business or boardroom experience, have become responsible for discerning relevant interactions and identifying contextual indicators. Even if such researchers were able to gain access, how would they be able to identify relevant interactions and contextual indicators necessary for the production of knowledge? While exceptions do exist, Bennis and O'Toole's observations appear to be widely applicable.

Scholars wishing to avoid the risks to the efficacy of observation-based board and governance research face a difficult choice: to delegate the research and analysis to a researcher with immediate and relevant company boardroom experience; defer the research until relevant experience has been accumulated; or, face the daunting task of capturing all possible data—in the grounded tradition, to avoid the possibility of missing important data—and to enlist a suitable team of experts to undertake the analysis. This dilemma—of knowing what data to capture (because it is likely to be relevant) and what to discard (because it is likely to be irrelevant)—is sufficiently significant to black box research (and widespread) that a name is appropriate: the Rhoades Dilemma[26].

The challenge of not knowing whether observed interactions are authentic or not may be insurmountable if the researcher lacks directorial experience and if data collection is limited to

[26] The Rhoades Dilemma is so named in honour of a highly experienced and now retired company director, board chairman and doctoral scholar who raised and discussed this very problem with the researcher during the course of the research project.

boardroom observations only. However, these challenges may be surmountable if an experienced director with current knowledge of normative boardroom practices and interactions collects and analyses the data; and, if several board meetings are observed over time; and, if boardroom observation data is validated and compared with data from other sources outside the boardroom including, ideally, interview data, board reports and minutes of meetings. Congruence of data from different sources should allay concerns over the reliability of data. If any discrepancies become apparent then the reliability of the source that produced the dissimilar data must be both questioned and investigated further.

3.3.6 The relevance of time

The consideration of time (Evans, 1997) is also crucial to research that seeks to understand corporate governance, strategic management and the governance–performance relationship. The consequences of a given decision (including any observable changes in firm performance) can, by definition, only occur after the decision is made. If performance changes following a strategically important decision are detected and the context can be described, then it may be possible to associate the performance change with a prior decision. However, associations are expected to be indirect and tenuous due to the contingent influence of multiple factors including the actions of management to implement the decision, and other endogenous and exogenous factors.

Persistent observation (Y. S. Lincoln & Guba, 1985) over an extended period should enable any impact of decisions made by boards and other interventions to be observed, if they occur. This suggests that a longitudinal study is likely to be beneficial to the collection, collation and analysis of authentic firsthand data, from which knowledge about strategic decisions and decision sequences and the consequential impact of decisions should emerge. However, the viability of a longitudinal study is dependent on gaining access to boardrooms to make firsthand observations of board practices over a sufficient time period to identify both decisions and any performance inflections that may follow (possibly weeks or months if not years later). If access can be achieved (as discussed in Section 3.3.1); board interactions and governance practices observed; relevant and authentic qualitative data can be collected from multiple sources (to improve reliability) and subsequently validated (Creswell & Miller, 2000); and, strategic decisions and performance inflections identified, then it *may* be possible through further analysis to both associate decisions made in the boardroom with subsequent performance inflections and learn enough to tentatively describe the board's involvement in strategic management and the workings of any governance–performance relationships observed in the data.

3.4 Case study research

Intensive research is recommended when the objective of research is to gain the deep understanding (McEvoy & Richards, 2006) of social phenomena. Case studies are widely recognised as the appropriate method for in-depth research into complex socially dynamic phenomena (Klein, 1999) with many relationships, variables, or processes (Beverland & Lindgreen, 2010). The case study is not restricted nor associated with any particular research philosophy or methodology (Dubois & Gadde, 2002).

The literature suggests case study designs are appropriate to search for underlying mechanisms (Williams & Karahanna, 2013), and from which to develop or test conceptual models (Sayer, 2008). Case studies are also well suited to addressing 'how' and 'why' questions (Yin, 2009). Yin suggested that the more the research seeks "to explain some present circumstance, the more that the case study method will be relevant" (p. 4). Eisenhardt and Graebner (2007) added that case studies are "one of the best (if not the best) of the bridges from rich qualitative evidence to mainstream deductive research" (p. 25). These assertions suggest that a case study design is well suited to this research.

Many definitions of case study research have been proposed. No universally accepted definition is apparent (Stewart, 2012). However, Schramm's oft-cited definition and Easton's more recent contribution provide relevant insight:

> The essence of a case study, the central tendency amongst all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result. (1971, cited in Yin, 2009, p. 17)

> Case research can be defined as a research method that involves investigating one or a small number of social entities or situations about which data are collected using multiple sources of data and a holistic description through an iterative research process. (Easton, 2010, p. 119)

In contrast to positivist-inspired research methods, case study research does not involve reductionism (Aaboen, Dubois, & Lind, 2012) or the manipulation or control of variables or attributes (Cavaye, 1996). The preferred approach to data collection is to observe the subject of research within a real-life context (Amabile et al., 2001), to gain a holistic understanding (DeWalt & DeWalt, 2011) of the specific phenomenon being studied and the surrounding context. Case study approaches also enable researchers to explore processes and events over time (Woodside & Wilson, 2003)—persistent observation (Y. S. Lincoln & Guba, 1985) being crucial to the identification of associations that may exist between actions taken and subsequent consequences of actions and, therefore, to this research.

Notwithstanding this, issues relating to subjectivity and methodological rigour of case-based research including case selection bias, the ability of the researcher to discern relevant data from superfluous data have been raised. Critics have argued that the case study method is too subjective for the creation of scientific knowledge (Eisenhardt & Graebner, 2007) because it lacks rigour (Finlay & Ballinger, 2006); and, the results are often unconvincing (Otley & Berry, 1994). However, the use of a rigorous process (Gibbert, Ruigrok, & Wicki, 2008); comparative analyses (A. L. George & Bennett, 2005); and, detailed reporting (Crotty, 1998) including rich descriptions (Creswell & Miller, 2000) are expected to enhance the legitimacy of the case study as a suitable methodology for this research. The collection of data of several types from several (primary and secondary) sources, and triangulation of data (Johnston, Leach, & Liu, 1999; Stewart, 2012) should add rigour, richness and depth, and enhance the analysis, trustworthiness and credibility of the findings that emerge. This commentary demonstrates that it is not unreasonable to support Gibbert *et al.*'s (2008) conclusion that "case studies therefore represent a methodology that is ideally suited to creating managerially relevant knowledge" (p. 1465).

Multiple-case study designs add an important dimension. Despite supposedly being more difficult to implement (Stewart, 2012) the multiple-case design provides contrasting advantages over the single-case design (Eisenhardt, 1991) because they enable patterns of similarity or differences (Fidel, 1984; Tobach, 1976) to be identified. However, multiple case-based research—including the collection, validation and analysis of relevant data from multiple sources; identification of any associations and underlying mechanisms; and, discussion of findings that emerge from the analysis—can be slow (Birks & Mills, 2011), demanding (Lockhart, 2006) and difficult to complete in a manner that is methodologically credible (Ketokivi & Mantere, 2010).

3.5 The unit of analysis

The purpose of this research is to investigate how boards work and the practices of corporate governance and strategic management in company boardrooms. The board is required by law to perform specified duties as it seeks to fulfil the responsibility delegated to it (see Table 1-1). While a board is comprised of at least one director (generally several), responsibility and accountability (Keay & Loughrey, 2015) for firm performance rests with the board as a whole.

One of the main tasks of the board is to make decisions (McGregor, 2002; Useem, 2003) during board meetings (Bainbridge, 2002). Individual directors and the chief executive may contribute to the decision–making process, but neither has authority to make binding decisions on behalf of the company—unless an individual director is the sole director, or a subset of directors has been explicitly delegated authority by the full board to make binding decisions (on very rare occasions this could be anticipated[27]).

The board's involvement in the strategic management process including strategy development, strategic decision-making and the monitoring of strategy implementation (alongside more traditional monitoring and compliance activities) has been identified as an important consideration for boards seeking to exert influence from the boardroom (see Chapter 2). This suggests that research to study board–management interaction; the board's involvement in strategic management; and, any relationship between board contributions in the boardroom and

[27] The instance of George Jones and Sundance Resources Limited is one such example.

subsequent firm performance should investigate these tasks closely. The *strategic decision* is the appropriate unit of analysis for such research.

3.6 Research ethics

This research, to investigate how boards, board–management interaction and corporate governance under the rubric of Massey University. It requires interaction with people and the collection of data from both individuals and social groups (boards). Therefore, under the terms of the Massey University Human Ethics Committee (MUHEC, also the Committee), the proposed research design must be approved before the proposed fieldwork can proceed.

The MUHEC ethics approval process is designed to provide protection to research participants, the researcher and Massey University. The results of a questionnaire provided by the Committee are used to determine whether the research satisfies the criteria for a low-risk project or whether a full ethics approval application is required. If all 21 questions are answered in the negative then the research is considered to be 'low-risk' from an ethics perspective. A short-form notification to MUHEC is the sole requirement for low-risk research. However, if any of the 21 questions are answered in the affirmative, a full ethics approval application is required.

The proposed research design was assessed against the published MUHEC criteria. It appeared to meet all of the specified requirements of the short-form notification process, so a short-form notification was prepared and submitted for processing. Approximately six weeks later a succinct response is provided, stating that proposal was not considered low-risk and that a full application was necessary. A full application was prepared.

The Committee's consideration of the full application gave rise to several questions and requests, some of which were straightforward and readily dealt with. However, some requests suggested that the Committee might not have been familiar with normative business and board practices, to the extent that it could not provide an adequate assessment of the application. One requirement in particular was problematic. The Committee asked that every director provide explicit written consent to participate in the research, and that consent be sought and given before *every* observed board meeting or interview. This requirement was considered to be unrealistic in practice. The research design was dependent on the unanimous consent of the board at the outset to allow observer access for the entire period of research. Yet the Committee's request would enable any individual director to withdraw consent at any point, for any reason. Thus, a participation decision made in good faith could be undermined by the actions of an individual director at any point during the data collection process. Such an action would render the data collected to that point useless. The Committee did not seem to appreciate that boards make decisions as a whole, and that the chairman has the authority to sign on behalf of the board. However, an exchange of correspondence over the ensuing two weeks resulted in a decision to approve the research as originally proposed. An approval letter (HEC approval code Southern B 13/18) was subsequently issued (see Appendix A). With the ethics approval secured, the fieldwork could proceed.

3.7 Overview of research method

The opening of the black box of boards, to collect primary data from the firsthand observation of board meetings and inspect source documents, is thought to be critical (Leblanc & Schwartz, 2007) to obtaining a deep understanding of how boards actually work and, therefore, the conduct of corporate governance. The knowledge and insight gained from the analysis of data collected from multiple sources (i.e., primary *and* secondary sources) should transcend those available from the analysis of data from primary *or* secondary sources (Bales & Flanders, 1954). Stiles' (2001) suggestion that several perspectives are required to gain a deep and accurate understanding of the social phenomenon of interest and for the effective triangulation of data (Peck, 1995) reinforces the value of collecting data from multiple sources. Cornforth and Edwards (1999), Leblanc (2003) and Machold and Farquhar (2013), for example, have all demonstrated the value of such an approach in their studies of boards.

Further, an iterative approach to discovery—based on the analysis of primary and secondary data and the subsequent testing of conjectures and postulates developed from the literature—is an appropriate research technique through which to understand what boards do; how boards intent on exerting influence from the boardroom work; and, from which conceptions of corporate governance can be developed and tested. More specifically, a longitudinal multiple-case study

(A. G. Rashid, 2011) of select high-growth companies, founded on the field-based (Alam, 2005) collection of data from primary and secondary sources and a mixed-method approach to analysis (Onwuegbuzie, Johnson, & Collins, 2009) is recommended. The participation of at least two high-growth companies prepared to grant access for the observation of board meetings over time; the conduct of interviews; and, the inspection of relevant source documents is needed for a viable study, to enable comparisons between decisions and decision sequences, both within companies and between companies, to be made.

Once collected, the primary and secondary data will be inspected, coded and collated. The goal of this organisation process is to assemble a holistic overview of the company—especially of the company operating context; board structure, membership and activity; decision-making practices; and, financial performance trends. The ensuing analysis will attempt to identify strategic decisions; decision sequences and circumstances surrounding decisions; evidence of post-decision monitoring and verification; and, performance inflections and consequences of decisions. Outhwaite's summary (1987) provides a helpful context, "the realist model of explanation involves three basic steps, the postulation of a possible mechanism, the attempt to collect evidence for or against its existence, and the elimination of possible alternatives" (p. 54). The mechanism to be investigated and tested in this research is that the board's involvement in strategic management is significant to the board exerting influence from the boardroom.

3.8 Participant selection

The population of interest to this research is that subset of New Zealand-based high-growth companies with an established board and normative corporate governance practices in place (see Section 2.9). The likelihood of observing board involvement in strategic management practices (especially strategy development and strategic decision-making but also monitoring and verification of strategy implementation) and other related activities of interest in the boardrooms of companies within this population is expected to be greater than in the boardrooms of mature publicly-listed companies, or in small privately-held companies where either the separation of shareholder, director and management roles may not be apparent and normative corporate governance practices are often not practiced.

Convenience (Bryman & Bell, 2007) and purposive (Lucas, 2014) sampling techniques were used to assemble an initial list of potentially suitable participant high-growth companies. Six selection criteria were used to qualify participant companies. The criterion and basis for each are provided in Table 3-1 below.

Table 3-1: Criteria used to select participant companies for research

Criteria	**Basis**
High growth	The making of strategic decisions is more likely to occur in the boardrooms of high-growth companies than in larger, more mature companies. The OECD high-growth definition of 20% CAGR sustained over three years is the benchmark. Sustained growth over time filters out companies with explosive single-year growth. Ideally, prospective companies should be companies of substance[28].
Separation and practice	A formal separation between board and management activity, and normative governance practices are apparent. Indicators of practices include regular board meetings; defined chairman and chief executive roles; provision and reception of written management and financial reports; recording of minutes of meetings; and, formal reporting to shareholders (generally the Annual General Meeting).
Continuous trading	Prospective companies are and have traded continuously for at least five years. Continuous trading is an implied requirement of the OECD definition Longitudinal data should enable the impact of historical strategic decisions to be observed. (The impact of some decisions may not become apparent until months or even years after the original decision is made.)

[28] In accordance with the Institute of Directors in New Zealand definition, a company of substance should meet at least two of the following three criteria: Consolidated gross assets of at least $10M; consolidated revenues of at least $20M per annum; and, at least 30 full-time equivalent staff.

Criteria	Basis
Location	Prospective companies are domiciled in New Zealand and most, if not all, board meetings are held in New Zealand. This convenience criterion was added as a means of managing the cost of attending interviews and board meeting observations. Board activities of interest are expected to be observable in companies domiciled in other jurisdictions. However, the theoretical generalisation of the findings from New Zealand data to companies in other jurisdictions should be possible.
Access to board data and published documentation	At least three years of board data and published documentation is available. Board data includes written board reports, minutes of board meetings and other written material received by or produced by the board. Published company documentation includes company annual reports and director and shareholder records. Data is expected to provide a longitudinal view of board structures, processes and activities; company strategy; strategic decisions and decision sequences; firm performance; and, potentially, associations between board activity and firm performance.
Consent to participate and grant access	Prospective companies agree to participate in the research. The board agrees to the collection of primary and secondary data over a defined research period (of at least 12 months), and the chairman and chief executive agree to be interviewed. The threshold for the consent is a unanimous board resolution. An additional consent will be sought from the chief executive to explicitly secure their consent.

The names of potentially suitable companies were collected from multiple sources including the business networks of the researcher, supervisors and colleagues; the New Zealand Stock Exchange register of publicly-listed companies[29]; and, the 2011 (Deloitte, 2011) and 2012 (Deloitte, 2012) Fast50 lists of high-growth companies. An initial list containing 46 company

[29] The list of company names on the NZX register as at 31 March 2013 was used.

names was assembled. Companies needed to satisfy all of the criteria listed in Table 3-1 before their participation was confirmed. A desk-based analysis was conducted to assess the companies against the first four selection criteria (high-growth, separation, continuous trading, location). The 25 companies that failed to satisfy all four criteria were excluded from further consideration. A plan to approach each of the remaining 21 companies was developed.

Formal and informal pathways (Leblanc & Gillies, 2005), and direct (by the researcher) and indirect (via in intermediary, an access broker) approaches were used to approach the remaining 21 companies to request and negotiate access. Pathways included formal letters, telephone calls, scheduled meetings, impromptu discussions and informal meetings. A Research Information Sheet (see Appendix B) was used to assist with the presentation of important information about the research to the prospective board and chief executive and to answer questions. This briefing document described the research including the proposed data collection, data management and data security processes; participant rights; confidentiality; ethics; and, a specific request to participate in the research.

A direct approach was used when an existing relationship with at least one director or the chief executive was available, and brokered access (Leblanc & Schwartz, 2007) was used when no prior relationship existed with the prospective participant. An access broker, who was both known to the prospective participant and—importantly—trusted by most if not all of the directors, provided the necessary linkage and the credibility to introduce the research. Extensive use was made of existing business contacts, referrals, and professional and academic associates to identify potential access brokers. Four different access brokers were identified to make the initial approach to nine of the prospective participant companies. The remaining 12 companies were approached directly.

The approach by the access broker or the researcher was the first time the possibility of participating in research was broached with each of the prospective companies. The initial goal was to pique the interest of the prospective participant sufficiently to secure a commitment to at least consider the participation request. Whenever interest was piqued, a meeting was offered to enable the prospective board to meet with the researcher to ask questions, make comments and begin to build the confidence, commitment and trust thought to be necessary to expedite a positive decision towards participation. Generally, the first approach was made to the chairman, although the initial point of contact was often the chief executive or one of the directors. Eight of the 21 companies that were approached agreed to consider the participation request further. The other 13 companies declined—either outright (if the contact person was not confident that the request would receive a favourable hearing by colleagues) or soon thereafter following private discussions amongst the directors or with the chief executive.

Those that declined to participate in the research were asked to provide a reason for their decision. Some agreed to do so and others declined. The most common response was that the board was not prepared to allow external parties into the boardroom. One response was especially direct: "You might discover something about us that we don't like or want known". Other reasons included variations on the sentiment that the board was too busy, or that the company was experiencing too much change to accept the request. One chairman said, "there is nothing in this for us, so why bother with all that hassle?" Another board, which initially considered the research request quite favourably (all of the directors but one had indicated they were happy to provide consent), decided against proceeding when the remaining director who had been absent during the initial discussion voiced strong opposition to any involvement in the research with the comment, "Over my dead body". The chairman of that company suggested that the objection was vociferous because the director (personally) did not want to be observed. These declinations were consistent with the strong norms of privacy discussed elsewhere in this thesis.

Verbal or written responses were provided to all of the questions and comments from the eight boards indicating a preparedness to consider the request. In two instances, more information was provided to the access broker, so they "could speak with the chairman directly". Four of the eight company boards subsequently declined participation. Meetings were offered to the four remaining boards and three took up the offer. The research request and associated presentation was scheduled as an agenda item at a regular company board meeting. Two of the remaining four boards subsequently declined to participate in the research, along those lines identified above.

Two companies agreed to participate in the research from the initial list of 46 companies. Agreement was by way of a formal board resolution in each case, carried unanimously. The consent of the chief executive was also sought (separately from the consent provided by the board), the purpose of which was to confirm that the chief executive agreed to participate and consented to be interviewed. Formal consent forms were signed as soon as practical after the board resolution was passed, and the verbal consent of the chief executive was provided. The two chairmen signed separate consent forms (see Appendix C) on behalf of their respective boards and companies, and the two chief executives signed separate consent forms to confirm their agreement to be interviewed. Once each pair of consents was signed, the participation of that company was considered to be secure.

The process of recruiting participants—including the creation of the initial list of company names; desktop assessment; identification of access brokers; initial access requests; responding to questions; and, making presentations as required—commenced immediately after MUHEC approval (see Section 3.6) to conduct the research was granted. The participation of the first company was secured approximately seven weeks after later, and the second was secured approximately two weeks after that. The process was time consuming—with setbacks, disappointments and significant periods of delay waiting for phone messages to be returned, email correspondence to be answered and proposals to be considered. The successful recruitment of two companies satisfying the selection criteria meant that the proposed research design—a longitudinal multiple-case study—remained viable.

Both of the companies that agreed to participate in this research did so on the condition of strict confidentiality. The chief executives and the chairmen stressed this point. Confidentiality was considered by the companies to be crucial: their involvement in the research meant the sharing of highly sensitive information including details of company strategies; plans; past and present firm performance; director capabilities; and, challenges. Consequently, data that could lead to a participating company being identified, or could be used to achieve identification through a forensic process, has been omitted from this thesis and associated documents. No identifiable raw data were shared with the research supervisors either. The companies are identified, simply, as Alpha and Bravo.

3.9 Data collection

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 participating in this research. An overview of the sources from which data were collected is shown in Table 3-2 below. In total, six years of board data and 25 years of company data were collected from primary and secondary sources. Sources included firsthand observations of board meetings over a twelve-month period (henceforth, the observation period); semi-structured interviews with the chairman and the chief executive of each company; confidential source documents used by boards (i.e., three years (the observation period plus two previous financial years) of board report packs, presentation material and minutes of meetings); and, published documents and public records (over 12 years (the observation period and previous financial years) including annual reports, website data and Companies Office records). In addition—unexpectedly—informal conversations with some of the directors after board meetings, and with several other people external to Alpha and Bravo (henceforth referred to as informants) provided supplementary data.

Table 3-2: Primary and secondary data sources

	Primary source (within boardroom)	**Secondary source (outside boardroom)**
Source	Board meetings Board packs	Confidential interviews Published data
Type	Audio recordings Visual observations Observation notes Board packs including minutes	Audio recordings Interview notes Annual reports Company website and press releases Companies Register data

3.9.1 Board meetings

Board meeting observations commenced during the first half of 2013 and the final observations were completed in mid-2014. The start and end dates of the observation period were negotiated and agreed with each participant company during the recruitment discussions. The exact dates are immaterial to the research and are not disclosed.

Consistent with the proposed approach to observation, a complete observer typology (Junker, 1960) was utilised. Board meetings were observed in their entirety, except any board-alone time convened by the chairman. Visitors, executives and any executive directors were also excluded. An audio recording of each board meeting was made with the consent of the board, and handwritten notes were written (see Section 3.9.3). There was no interaction with the directors or other participants during the observed meetings, except discrete greetings before and after each observed meeting. If a visitor attended a board meeting, or part of a meeting, the researcher was introduced as a visitor in a straightforward manner, without any further elucidation.

3.9.2 Chairman and chief executive interviews

The chairmen and chief executives of Alpha and of Bravo were interviewed separately at a date, time and venue of their convenience. Each chairman and chief executive was asked to review and sign an approved consent form (see Appendix C) prior to the interview. Consent included permission to make an audio recording of the interview (see Section 3.9.3). An interview guide—a list of interview topics and questions for discussion (see Appendix D)—was used as a prompt to ensure that relevant matters of interest were covered.

The shortest interview lasted approximately 60 minutes, the longest 95, using a semi-structured interview typology. An audio recording of each interview was made with the consent of each interviewee. Handwritten notes were also kept. The interviewees were assured that the discussion was and would remain completely confidential. They were asked to refrain from discussing the interview with anyone else, to minimise the possibility of any collusion. Every interviewee agreed to comply with this request. Some of the interviewees were interviewed a second time to clarify comments and validate data that, at the time of collection, were somewhat ambiguous.

Both of the chief executives that participated in the research are long-serving employees of their respective companies, although not always as chief executive. Their extended length of service in the respective company, and their willingness to provide full and candid responses, provided unexpected access to firsthand accounts (albeit representations of data) about many aspects of the company's history, historical strategic decisions and firm performance.

Several of the interviewees also offered personal reflections during the interviews—on otherwise private matters, relationships and challenges. These fortuitous reflections were made without solicitation and, rather obviously, the interviewees felt sufficiently comfortable to offer them. However, a trust relationship (of some sort) was a factor in these responses. Crucially, this commentary provided further insight and a depth of understanding to inform the analysis. In all likelihood, these reflections would have remained hidden had the interviews utilised a structured interview typology or been conducted in a formal office setting[30]; the research had been limited to the inspection of confidential board documentation; or, other worse still, the inspection of public material only. They also provided circumstantial data for later comparison; to elucidate observation data and enable conclusions drawn from the analysis of data from other sources could be confirmed or rejected.

3.9.3 Audio recording data and handwritten notes

A smartphone capable of producing high quality recordings was used to collect a complete audio record of all utterances during each observed board meeting and semi-structured interview. An unobtrusive device was used to reduce the possibility that any of the directors, the chief executive or other individuals might 'play to the microphone'. Interestingly, several other directors placed their own smartphones, laptop computers or tablet devices on the table when they arrived for the board meeting, so the presence of an additional device was not out of place. The audio data files provided a complete factual record of the verbal commentary and interactions in each observed board meeting and interview including general comments, tones of speech, interjections and

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[30] Interview venues were at the discretion of the interviewee. Most of the interviews were conducted away from Alpha and Bravo premises. In one case, the interview was conducted in a very informal setting—at the interviewee's residence and amongst an interior renovation project!

periods of silence. This record, of what was actually said, by whom, during board meetings and interviews formed the core of the primary data set. It provided a complete and indisputable record of what was said during the meeting or interview, beyond that which could be assembled from memory during or after the event; handwritten notes of the event (even a full stenographic, Hansard-style transcript); board packs; meeting minutes; or, any other single written or verbal source.

Comprehensive handwritten notes were written during each board meeting and interview. Between eight and 11 pages of closely-spaced notes were written in an A5 notebook at each observed meeting. Fewer notes were written during each of the interviews: between five and eight pages. The primary purpose of the notes was to highlight specific points of interest and relevance to the research. In particular, notes relating to strategic decisions; non-verbal gestures and interactions that may be relevant to the analysis; any unusual activity; and, other data that might assist with triangulation were written. The handwritten notes were reviewed, catalogued and cross-referenced after each meeting or interview, the purpose of which was to assist with recall later and to expedite crosschecking during the thematic analysis and subsequent phases of the research.

3.9.4 Confidential and published documents, and public material

Two important tasks to be completed within the research were to identify strategic decisions and to attempt to identify associations between strategic decisions and either any subsequent changes in firm performance or the achievement of agreed performance objectives. Copies of historical board data were requested so that decisions and circumstances leading to decisions could be identified for analysis. Board data (also described as 'board pack' in this research) refers to the written documents used by directors in board meetings (typically but not exclusively board reports), and documents produced as a direct consequence of board meetings (typically but not exclusively minutes and action registers). A copy of the board pack was provided to each director three to five days before each board meeting. An electronic copy of the same documentation was provided, usually on the same day it was distributed to the directors.

In addition to the board packs received during the observation period, copies of board packs produced in the two-year period immediately prior to the observation period were provided. Henceforth, the three-year period (two of the board's written material and one of direct observation) from which primary data was collected is described as the 'research period'. The chief executive's executive assistant of each company collated the historical board data as requested and provided it in an electronic format on a USB memory device.

Company annual reports, half-year reports and other relevant published but not necessarily public documentation was requested from each participating company. This data provided a longer-term perspective of the strategies employed by each company, messaging to shareholders and of the company's financial performance, both to inform the analysis and to assist with triangulation. Documentation available in the public domain was also collected, catalogued and stored. In total, 12 years of records were collected from each company.

Other documentation collected to inform the research included press releases; information from company websites; and, information about the directors, shareholders and shareholdings published on the New Zealand Companies Register (www.business.govt.nz/companies). This data provided important contextual information, to further inform the analysis.

3.9.5 Informal sources

In addition to the data collected from primary and secondary sources, data was also collected from several ad hoc conversations with company directors and external informants during the course of the research. This data source was not anticipated during the research ethics approval process. However, its conformance with a MUHEC low-risk notification application ensures that its inclusion here would not challenge the norms of research ethics.

A total of 19 conversations occurred with directors after observed board meetings. These occurred as directors were leaving the boardroom or the building where the meeting had been held. Conversations ranged from approximately two minutes to approximately six minutes in duration. While directors initiated all of these conversations, the researcher asked questions and offered brief replies during some of the exchanges—primarily to clarify a director's remark or to elicit a little more information. The directors' comments were either reflections on some aspect of the just-completed meeting or questions asking whether the observation had been helpful to the research. Though brief, most of the exchanges were helpful in elucidating perceptions formed during the observed board meeting. A file note was made as soon as reasonably possible after each exchange.

Seventeen conversations occurred with external informants during and following the observation period, most who had no formal or direct relationship with either company, or any director of either company. However, five informants were current or former employees of either Alpha or Bravo at the time of the respective conversations. Conversations ranged from approximately one minute to approximately eight minutes in duration. The researcher, through business or professional networks, knew all of the informants. However, none were friends or otherwise connected socially. While some of the informants knew of this research (in general terms only), none knew the identity of any participating company or individual, and the identities of the participant companies were not disclosed at any point. These conversations were of an entirely opportunistic nature and they did not compromise confidentiality in any manner.

The external informants provided unsolicited reflections or made passing comments about Alpha or Bravo, as part of a broader conversation. No probing questions were asked or remarks made to protect against the possibility of the identity of Alpha or Bravo becoming known. A record of relevant data was written immediately after the conversation with the informant. The researcher simply listened politely. The unsolicited comments were fortuitous and helpful on occasions to the development of emergent understandings. Several comments helped validate perceptions, ideas, themes and theoretical concepts that had started to emerge during the initial analysis. All of the comments made by the informants were treated as being circumstantial only. They were used in conjunction with validated primary or secondary data to enhance the understanding. The commentary does, however, reflect the relatively small scale of the New Zealand economy and relatively narrow business networks of the board director community in particular.

3.10 Data storage

All of the data collected for this research (in both electronic and hardcopy form) was catalogued and stored securely to satisfy the confidentiality requirements of the participant companies. Handwritten notes, printed board packs and other hardcopy documents were stored in a secure cabinet, except when they were being used for analysis. Electronic copies of board data and audio recordings were transferred onto a computer for storage and later review and analysis. One duplicate copy of each electronic data file was created for backup purposes. Duplicate files were encrypted, password-protected and saved on a backup storage device. The backup device was placed into physically secure storage (separate from the secure cabinet used for hardcopy documentation) for safekeeping. No other copies of the raw data were made.

An additional confidentiality requirement was that all of the raw data collected for research (audio recordings, handwritten notes, confidential source documentation, copies of published and public documentation) and all material produced during the course of the research process that contained data that could lead to the identification of the participants (especially research notes and working papers), whether in electronic or hardcopy form, be destroyed at the conclusion of the project. An unequivocal commitment was provided to each participant company; with the clarification that destruction would occur after the thesis had been successfully examined. The clarification was accepted.

3.11 Data collation

Following the collection of primary and secondary data from the two participating companies, potentially significant and seemingly relevant data from observations; interviews; board packs; published documents; and, public records were collated to facilitate the first- and second-order analysis to follow. Data from each company was collated onto a decision table and a synthetic timeline framework, both to assemble all relevant data in one place and to provide a holistic overview of the data set. These are described in the following sub-sections.

3.11.1 Decision table

All of the decisions made while the boards were in session were identified and collated onto a decision table. Several different types of decisions were anticipated, ranging from operationally trivial decisions (e.g., agreement on the start time of an upcoming meeting), through to the strategically important decisions (e.g., formal approval of company strategy or the appointment of a chief executive). The following table of decision categories (codes) was used to classify each decision (see Table 3-3 below). The primary data was inspected to identify decisions made by the board. While board minutes were the initial data source, the audio record of each board meeting and the researcher's notes written during observed meetings were reviewed—both to confirm the accuracy of the minutes and to identify and record any decisions not recorded into the minutes. Any discrepancies were identified and noted for later analysis, in case a pattern of erroneous recording became apparent.

Table 3-3: Categories used to classify boardroom decisions for analysis

Decision category	Criteria
Formal compliance or operational decisions (FCO)	Decisions made by the board via a formal resolution, to satisfy a compliance requirement or other formal operational requirement. Formally recorded in the minutes. Examples include the formal approval of minutes and the formal approval of annual report.
Informal operational decisions (IO)	Informal decisions made by the board, possibly on nod of heads or other informal expression of agreement. Decisions may or may not be recorded in minutes. Decisions not ostensibly part of any decision sequence. Examples include agreement to change the order of meeting agenda items or date of the following meeting.
Lead-up decisions (LU)	Decisions made by the board that are precursory to subsequent strategic decision. May or may not be formally recorded in the minutes, but expected to be material to a future strategic decision. Examples include a request for some supplementary financial or competitor analysis, to inform a merger or acquisition proposal.
Strategic decision (SD)	Major decisions which, when implemented, are expected to have a significant effect on, or change to firm performance. Supported by formal resolution and minute.

All of the formal decisions made by the two boards—that is, those supported by a formal board resolution—were recorded accurately. However, several operational decisions made by the Bravo board were not recorded in the minutes, although none of these decisions were material to the company's strategy or strategic decision-making processes. An accurate and comprehensive record of all of the decisions made in the Alpha boardroom—including informal and operational decisions—was provided in the minutes.

3.11.2 Lockhart–Taitoko synthetic timeline framework

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 objective was to gain a more holistic perspective of board and company activity. The framework developed by Taitoko (2002), and subsequently used by Lockhart and Taitoko (2005) (henceforth, the LT framework[31]) in their detailed longitudinal board and corporate governance failure study was used for this research. Once loaded with data from primary and secondary sources, the LT framework provide a summary of board and management activity; director interaction; and, board involvement in strategic management especially strategy development, strategic and other decisions, decision sequences[32] and monitoring activities. Also, associations between seemingly disparate attribute, relationship, action and decision data were revealed.

Data collated onto the LT framework included company financial performance data (revenue and EBIT[33] data, as proxies for firm performance); board membership, structure and composition data; the identity of the chief executive, chairman and directors; strategic decisions and decision sequence data; and, other seemingly relevant and significant data. Most of the data was objective in nature (or unambiguous, at least), meaning little if any interpretation was required before the data was recorded onto the longitudinal chart. An iterative process was used to inspect source data, code it and check it before it was recorded on the LT framework. Two LT frameworks[34] were assembled for each participating company. The first provided an overview of the entire 12-year period (13 years in the case of Bravo) for which data was collected; and, the second provided a more detailed perspective of relevant events, activities and interactions during the

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[31] So named here. Lockhart and Taitoko (2005) did not name the framework in their original work.

[32] Some of the decisions made in the boardroom were ‘lead-up’ decisions—precursors to a later strategic decision. Strings of such decisions are described as decision sequences in this research.

[33] Earnings Before Interest and Tax

[34] The actual Alpha and Bravo LT frameworks are not disclosed in this thesis. They contain confidential raw data, disclosure of which would breach the terms of the confidentiality agreements signed with each participating company.

three-year period for which board data including board packs and minutes of board meetings was collected.

3.12 Data analysis

The literature review (see Chapter 2, especially Section 2.7) identified that the board's active involvement in strategic management tasks—especially in strategy development and strategic decision-making—is an important consideration for boards seeking to exert influence from the boardroom. Building on conceptual models provided in the literature (especially those by Tricker (1984), Nadler (2004b), Leblanc and Gillies (2005) and Wheelen and Hunger (2006)) and the methodological approach described by Outhwaite (1987), two goals were established. The first goal was to understand the significance of the board's involvement in strategic management (as indicated in the literature) in the two participants high-growth companies. The second goal was to comment on any observed relationship between corporate governance, strategic management and firm performance that became apparent during the analysis.

Consistent with prior studies that have sought to gain a deep understanding of the work of boards (e.g., Machold & Farquhar, 2013), an iterative approach to analysis was used for this research. 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 identified in the data. This was followed by a more in-depth analysis, which sought to understand the nature of the board's engagement in strategic management; search for any associations between board engagement, strategic decisions and performance inflections; and, investigate 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 postulate (that the board is able to exert influence from the boardroom via its active involvement in strategic management). The results of the first- and second-order analyses are reported in Chapters 5 and 6 respectively.

The data was inspected to identify decisions made by the board. Decision data was validated and then recorded in a decision table (see Section 3.11.1). All of the board packs, minutes and audio recordings were reviewed again in search of patterns of activity relating to the strategic decisions identified in the decision data. Close attention was paid to board practices and sequences of decisions leading to a strategic decision and any board activity relating to a prior strategic decision (i.e., post-decision monitoring or controlling activity). Data validation included the comparison of observation data including handwritten notes with audio recordings and meeting minutes. Errors and omissions in the observation record (especially handwritten notes) were noted and corrected. The validation of data between data sources mitigated the effects of researcher biases associated with selective note taking (Peverly et al., 2014) and other omissions (Underwood & Underwood, 2005) including discrepancies between the observation record (memory of the observer plus handwritten notes), actual comments made by individual directors during meetings (audio record) and the formal record of the meeting (meeting minutes). Any discrepancies between actual events and the meeting record were noted for further investigation. Decisions and decision sequences were then recorded onto the appropriate LT framework (see Section 3.11.2).

Data collected during the 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, make strategic decisions and monitor both strategy implementation and firm performance; and, other matters. Seemingly relevant data from the interview record were crosschecked (Kisely & Kendall, 2011) against at least one other source (Huettman, 1993) before being accepted as being reliable and recorded. Some anomalies between described activity and actual observations were identified through this process, suggesting that interviewees provided answers of convenience (Moorman & Podsakoff, 1992) on occasions—whether they chose to or even realised they were doing so or not. Discrepancies between the interview data and data collected from the boardroom observations were noted, checked and where possible, resolved. The process of crosschecking qualitative interview data from multiple sources (Denzin, 2012) helped mitigate the effects of extant biases of both the researcher and interviewees (Diefenbach, 2009). The crosschecking process also assisted in the identification and correction of misinterpreted visual and verbal cues observed during board meeting observations, and inaccurate recall of events by interviewees when interviewed.

Revenue and EBIT data were recorded onto the respective LT frameworks and inflections in the data lines (i.e., performance inflections) were identified. Strategic decisions, and the sequences of decisions that preceded them (i.e., lead-up decisions), and subsequent monitoring activity were also summarised onto the LT framework. Data relating to lead-up decisions, decision sequences and strategic decisions were reviewed in detail in an attempt to identify—albeit tentatively—any associations or relationships between a strategic decision made by the board and any one or more of the subsequent performance inflections noted in the data. Possible associations were explored in detail including repeatedly checking between data sources to determine whether the performance inflection seemed to be related to any other prior strategic decision. Board involvement in strategic management was analysed and recorded—several different levels of involvement were observed throughout the longitudinal data set. The division of labour (allocation of strategic management tasks between the board and management) was analysed and findings tabulated, and a conceptual model of observed board–management developed.

An iterative thematic analysis (Vaismoradi, Turunen, & Bondas, 2013) was then used to examine data relevant to each of the strategic decision sequences (especially observation data—the audio record of meetings and handwritten observation notes), in pursuit of both an increasingly comprehensive understanding of board activities and interactions that may have been material to effective board contributions. Antecedent factors identified in the literature (see Section 2.10) informed the analysis. Factors were grouped into seemingly reasonable ‘themes of interest’ (see Table 3-4 below) that were expected to be observable in the data. Data relevant to each strategic decision sequence was reviewed closely, in search of evidence to indicate the presence of these themes of interest within each sequence. The findings from this analysis were noted, checked against multiple sources and refined. This process was repeated until a level of saturation and consistency was achieved (no further insights were emerging). A mechanism-based model of corporate governance and the governance–performance relationship was then developed. The findings that emerged from the overall analysis are discussed, in the context of both extant literature and theoretical perspectives, in Chapter 7.

Table 3-4: 'Themes of interest' to inform thematic analysis of strategic decision sequences

Possible antecedent factors (from the literature)	Emergent 'themes of interest'
Director competence (Ferkins & Shilbury, 2012; Leblanc & Gillies, 2005) Tacit knowledge (Guzak & Rasheed, 2014), Board role performance (Ong & Wan, 2008) Board task performance (Machold & Farquhar, 2013)	Demonstrable skill and expertise of directors
Active involvement of board (Zahra & Schulte, 1992)	Engagement in strategic management tasks
Focus on future performance (Lorsch, 1995) Forward-looking (Tricker, 2012a) Sense of strategic intent (A. Campbell & Yeung, 1991a)	Focus on future (company purpose, strategy and performance goals)
Synergy and collaboration (Mowbray & Ingley, 2013) Collegiality and trust (Bailey & Peck, 2013) Effective chairmanship (Zhang, 2010) Teamwork (Ruigrok et al., 2006; Vandewaerde et al., 2011)	Collaboration and cooperation between directors and with chief executive
Oversight (Useem & Zelleke, 2006) Incremental approach to decision-making (Bourgeois & Eisenhardt, 1988) Group decision-making (Vallaster & Koll, 2002)	Decisions, controls and adjustments

3.13 Summary

The purpose of this chapter was fourfold. First, the philosophical and methodological challenges experienced by many of the researchers who have investigated boards and board–management interactions were explored, and proposals to resolve identified challenges were presented. Second, a preferred approach to research founded a longitudinal multiple-case study design was presented and discussed. The suggested approach attempts to address the "irresolvable problems" (Groff, 2011, p. 314) of prevailing approaches to board and corporate governance research. Third, ethical considerations were discussed. Finally, the method used to conduct the research was described, in detail.

The data collected for this research is presented in Chapter 4, after which the analysis is presented in Chapters 5 and 6. The findings that emerge from the analysis are expected to provide insight into the activities and priorities of the boards of two high-growth companies, and the respective board's involvement in strategic management, leading to enhanced understandings of how boards attempt to exert influence from the boardroom.

Chapter 4: Data

It is a capital mistake to theorise before one has data.

Arthur Conan Doyle

4.1 Introduction

The purpose of this chapter is to present select data[35] collected as a result of the fieldwork. Several different collection methods were used to collect data from both primary and secondary sources, as was described in Chapter 3. These included the direct observation of board meetings; semi-structured interviews with the board chairman and chief executive; and, collection of documentation including board packs, board meeting minutes, annual reports, other reports and presentation material, news releases and website pages. Data was also collected from several informal conversations that occurred during the course of this research.

In total, the data set collected from the fieldwork included two years of board observations, six years of board data; 25 years of firm performance and reporting data; six interviews with chairmen and chief executives; and, 19 informal conversations with participating company directors. 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 objective of collecting, collating and cataloguing such a comprehensive set of data from multiple sources was to provide a robust foundation for analysis.

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[35] The data presented in this chapter and supporting appendices is estimated to represent less than five per cent of the entire data set by volume. Data presented here has been both screened (DeSimone, Harms, & DeSimone, 2015) and cleansed (Osborne, 2013) to ensure the anonymity of all participants.

This chapter is arranged as follows. The two participant companies are introduced to provide contextual information that may be material to the subsequent analysis. Boardroom practice data is reported. Decision data is then summarised. Three hundred and fifty-eight (358) decisions were identified from the data, of which nine were identified as being strategic decisions. Each board's involvement in strategic management (especially strategy development but also strategic decision-making, strategy implementation and performance monitoring); the circumstances relating to each of the strategic decisions (i.e., strategic decision sequences) made during the research period; and, the analysis of each decision sequence is described in detail in Chapter 5. Finally, a summary of the data collected for this research is presented.

4.2 The participant companies

The purpose of this section is to introduce the two companies that agreed to participate in this research. Confidentiality agreements signed with the two companies preclude the naming or reporting of any defining characteristic that might lead to the identification of either company within this thesis or any related document. As a consequence, the companies are identified only as Alpha and Bravo. Contextual information about the companies and boards that can be disclosed follows.

4.2.1 Alpha, the company

Alpha is a large[36] professional services firm domiciled in New Zealand. The head office location and industry sector are immaterial to the analysis and are not disclosed. However, the company, which was founded in the latter decades of the twentieth century, employed more than 250 staff during the research period. Alpha's customers are other businesses. The company operates from multiple locations in New Zealand and abroad. The company shares are extensively held.

A graphical representation of Alpha's total revenue and EBIT data from FY2003 to FY2014 is shown in Figure 4-1 below. Financial data were collected from annual reports. While the Y-axis

[36] Large, meaning at least $30 million total annual revenue in each of the two immediately preceding accounting periods ("Financial Reporting Act," 2013, Section 45). This same descriptor also applies to Bravo (see Section 4.2.3).

of the graph has been scaled[37], periods of revenue performance are visible. Revenues of approximately 65 units per annum were achieved from FY2003 to FY2008 (inclusive), after which a decline was experienced. Revenues dropped sharply in FY2009 and again in FY2010, to a low point of approximately 50 units (Y axis). Strong growth was experienced from FY2011 onwards, up to over 120 units of revenue per annum during the observation period. EBIT performance remained within a band of 1–2 units per annum from FY2003 to FY2007. Losses of up to 4 units per annum were reported in FY2008 and FY2010. Alpha became profitable again from FY2011.

Upon the completion of non-disclosure agreements, the data in this figure was made available to the examiners for the purposes of the PhD examination only. It has now been removed with the express intention of maintaining confidentiality and anonymity of the participants and companies that contributed to this research. Readers and fellow researchers can have confidence that the data supported the analysis. Therefore, read past these 'gaps' and progress to the analysis that follows.

Figure 4-1: Total revenue and EBIT data from FY2003 to FY2014 (Alpha)

The total revenue performance of Alpha, expressed as a percentage change from the previous financial year is shown in Figure 4-2 below. Following the flat revenue period from FY2003 to FY2008 (minimal growth), revenues declined in FY2009 and FY2010 at 14 per cent and 10 per cent respectively. Then, growth rates of 38%, 39% and 26% per annum were achieved in the three following years (FY2011, FY2012, FY2013), the years used to qualify Alpha's inclusion in this research.

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[37] A scaling ratio has been applied to Alpha and Bravo financial data of preserve confidentiality. The actual total revenue and EBIT data cannot be disclosed in this thesis.

Upon the completion of non-disclosure agreements, the data in this figure was made available to the examiners for the purposes of the PhD examination only. It has now been removed with the express intention of maintaining confidentiality and anonymity of the participants and companies that contributed to this research. Readers and fellow researchers can have confidence that the data supported the analysis. Therefore, read past these 'gaps' and progress to the analysis that follows.

Figure 4-2: Total revenue percentage change from FY2003 to FY2014 (Alpha)

4.2.2 The Alpha board

The Alpha board was comprised of six non-executive directors (NEDs) during the research period—five males and one female. Two of the directors had shareholding interests and the remaining four were independent[38]. The chairman was one of the independent directors. Membership of the Alpha board was relatively stable but not static during the research period. Two additional directors joined the board and no directors left the board. All but one of the directors was an experienced director or chairman of at least one other publicly-listed or quasi-public company. Several of the directors have previously served in chief executive or executive management roles, in other companies in the same or a similar industry. The chief executive was not a director.

Regarding the director additions, one appointment occurred as a result of a process to fill a perceived skills gap amongst the incumbent directors. Shareholder approval was sought and gained to increase the size of the directors' fees pool to fund one additional director. One of the requirements established by the board was that any new director be capable of chairing the board (the incumbent chairman wished to retire from the chair and no other directors wanted to serve as chairman). Following shareholder approval, the assistance of an external agency was sought

[38] Independent, meaning they satisfied the NZX listing rule (see https://nzx.com/regulation/listing-rule-guidance). Note, the NZX listing rules and criteria are used here to define independence, not to necessarily indicate that either Alpha or Bravo was a publicly-listed company.

to recruit a suitable director. An appointment was made several months later. The new director was subsequently elected as the board chairman as planned. The retiring chairman remained on the board as a director. The other addition occurred as a result of a large shareholder exercising an appointment right.

4.2.3 Bravo, the company

Bravo is a large company domiciled in New Zealand. The head office location and industry sector are also immaterial to the analysis and, therefore, are not disclosed. The company, which employs several hundred staff, has been operating for more than a decade, in multiple locations in New Zealand and abroad. Bravo's customers are almost exclusively other businesses. Several of the company founders were executives during the research period. The company shares are widely though privately held.

A graphical representation of Bravo's total revenue and EBIT data from FY2002 to FY2014 is shown in Figure 4-3 below. Financial data were collected from annual reports. The Y-axis of the graph has again been scaled. Revenues climbed more or less steadily from approximately 7 units per annum in FY2002 to 115 units in FY2014. The rate of growth slowed in FY2010 before climbing above 20 per cent per annum again for the remainder of the 13-year period from which data was collected. Despite strong growth over an extended period, Bravo's EBIT result ranged between zero and 3 units throughout the entire 13-year period, except in FY2011 when an EBIT of over 4 units was reported; and, in FY2014 when an EBIT loss of over 8 units was reported.

Upon the completion of non-disclosure agreements, the data in this figure was made available to the examiners for the purposes of the PhD examination only. It has now been removed with the express intention of maintaining confidentiality and anonymity of the participants and companies that contributed to this research. Readers and fellow researchers can have confidence that the data supported the analysis. Therefore, read past these 'gaps' and progress to the analysis that follows.

Figure 4-3: Total revenue and EBIT data from FY2002 to FY2014 (Bravo)

The revenue performance of Bravo, expressed in percentage change terms from the previous financial year is shown in Figure 4-4 below. Bravo experienced strong revenue growth of over 50 per cent in FY2004 and FY2007, interspersed by 29% and 26% per annum in FY2005 and FY2006. Apart from six per cent growth in FY2010, Bravo achieved revenue growth results of between 21 per cent and 30 per cent per annum through the remainder of the research period.

Upon the completion of non-disclosure agreements, the data in this figure was made available to the examiners for the purposes of the PhD examination only. It has now been removed with the express intention of maintaining confidentiality and anonymity of the participants and companies that contributed to this research. Readers and fellow researchers can have confidence that the data supported the analysis. Therefore, read past these 'gaps' and progress to the analysis that follows.

Figure 4-4: Total revenue percentage change from FY2003 to FY2014 (Bravo)

4.2.4 The Bravo board

The Bravo board was comprised of six male directors during the research period. One of the directors (the chairman) was independent, and four others were executive directors. With the exception of the chairman, the other directors had limited direct board experience beyond Bravo and its associated subsidiary companies. The chief executive was also a director, but not the chairman. Membership of the Bravo board was static throughout the research period. No new directors joined the board and no directors left the board. The careers of the Bravo board were also relatively homogenous: most of the Bravo directors had similar professional backgrounds and industry sector experience.

4.3 Board practice data

Data relating to board practices is summarised in this section. Boardroom observations (i.e., audio recordings, visual observations and observer notes) provided the primary data source. However, data collected from the chairman and chief executive interviews (i.e., audio recordings and interviewer notes), and from source documentation (i.e., board packs and meeting minutes) provided further insight into the board practices and activities in board meetings. Relevant contextual characteristics of respective board meetings convened during the observation period are summarised in Table 4-1 below.

Table 4-1: Contextual characteristics of board meetings during observation period

	Alpha	Bravo
Regular board meetings	10	9
Typical duration of regular meeting	5 hours	4.5 hours
Meeting frequency	Monthly	Two-monthly[39]
Regular board-alone time	Yes	No
Formal agenda and annual calendar	Yes	Yes
Typical length of meeting minutes	6–8 A4 pages	3–4 A4 pages
Strategy days (see Section 5.2)	2	0
Venue[40]	75% head office	66% head office

4.3.1 Board calendar and agenda

The boards of both companies utilised a board calendar, work programme and formal agenda to guide their activities during and between board meetings. Each Alpha board pack contained a comprehensive board calendar and work programme. The dates and locations of each scheduled board meeting for the remainder of the financial year were specified, and major items of business to be conducted—or compliance decisions expected to be made—at particular meetings were identified. The Bravo board calendar (a copy was included in each board pack) showed the dates

[39] The frequency with which the Bravo board met was changed from one meeting every second month to one meeting per month during the observation period. The board decided that more frequent meetings were required to respond to commercial challenges the company was experiencing at the time and several significant matters of strategic importance to the company's future.

[40] The board meetings not held in the company's head office were convened in branch office locations or offshore. The motivations, stated during interviews, included "visibility amongst staff", "to demonstrate 'in market' presence" and "to facilitate meetings with customers and suppliers".

and locations of future meetings, for the balance of the financial year. Major items of business were recorded separately in an annual work plan—a copy of which was included in the final board pack of each calendar year notifying the following calendar year.

The Alpha chief financial officer, in their role as board secretary, maintained the board calendar and work programme for the board. However, the board largely determined the contents of the calendar and work programme. The annual cycle of compliance and planning activities including statutory reporting, reporting to shareholders, annual budget, audit processes, scheduled strategy days, performance and remuneration reviews, and strategically important initiatives that required the attention of the Alpha board were recorded together in one document. Information about any scheduled luncheon or dinner events, to which a client or supplier may be invited to meet the board and chief executive together to share their thoughts were also listed on the calendar.

The Alpha board was observed to conduct major business in close accordance with the priorities listed on the work programme. However, any unscheduled items that were identified as being of sufficiently high priority to justify the urgent attention of the board were also attended to. Scheduled but less urgent items were deferred to a subsequent meeting as necessary. This occurred twice during the observation period. Directors were observed to refer to the calendar and work programme document from time to time during board meetings, both to confirm the dates of future meetings and to identify upcoming statutory or compliance items and priorities.

The Bravo board calendar contained a list of future board meeting dates and venues only. The Bravo chief executive and the chief financial officer produced an annual work programme. A copy was included in the board pack of the last scheduled board meeting each calendar year only. As a result, the board was reliant, to some extent at least, on those that created the agenda to check that items on the work programme were scheduled appropriately. During the observation period, nearly half of the items listed on the Bravo work programme were not dealt with during board meetings.

The Alpha board meeting agenda was determined, largely, by major items listed on the board's annual calendar and work programme; important items notified by management or the chairman; and, action items from previous meetings. This included both strategy items and monitoring and compliance items. While control of what was actually discussed was shared between the Alpha board and management during the observed meetings, the discussion was influenced, to a large extent, by the content of the reports in the board pack. The chairman and chief executive of Alpha usually met a couple of weeks prior to each board meeting to review the recent firm performance and the achievement of delegated actions, review the work programme, discuss other matters of interest including business outlook, and on the board agenda and the material and reporting that needed to be included in the board pack.

The chief executive and chief financial officer largely determined the Bravo board agenda, with the assistance of the chairman. These three people met together approximately two weeks before each scheduled board meeting to discuss recent business performance and to create the agenda for the upcoming board meeting. The full board determined little, if any, of the agenda—although discussions about the board agenda may have occurred within the management team, of which most of the executive directors were members. The executive directors had the power to influence the agenda through their day-to-day interaction with the chief executive and chief financial officer. However, they did not exercise this power in the boardroom in any visible or observable manner throughout the observation period. No claims of influence were made when the chief executive was questioned. The chairman also doubted whether the other executive directors had any influence over the Bravo agenda at all.

The Bravo chairman was observed to defer to the chief executive and the chief financial officer at the beginning of each observed meeting, to clarify which agenda items were the highest ones for that meeting. While the chief executive and chief financial officer were not asked by name when the question was asked, the chairman looked directly at them for a response each time the question was asked. Interestingly, the Bravo chairman claimed (when interviewed) that the board controlled the agenda of board meetings. He referred to the pre-meeting discussion in which the agenda was discussed to support the claim, and said the "any director can put anything on the agenda". That the chairman discussed the agenda may have been the case, and the work programme may have been referenced during pre-meeting discussion as well—although whether it actually was the case couldn't be determined because no records were kept. However, the observed interaction in Bravo board meetings revealed that while the chairman, chief executive and chief financial officer discussed the agenda, the board did not actually determine the agenda. Control of the agenda, board reports and discussion lay with the chief executive mainly, and possibly the chief financial officer as well.

4.3.2 The board pack

The structure of the Alpha and Bravo board packs were quite similar. The standard pack included the notice of board meeting; meeting agenda; register of director's interests; minutes of the previous board meeting (or meetings, if a conference call meeting took place since the previous formal meeting); management reports including the chief executive's report and divisional reports; financial reports including various past performance and forecast reports; papers associated with major or notified agenda items; and, periodically, papers associated with special presentations—although not necessarily in this order. The structure of the board pack and the type of information directors expected to be provided within board packs were discussed once during the observation period, by each board. Summaries of the two discussions are provided in the following paragraphs.

The Alpha chairman asked the directors for feedback about the structure and content of the board pack during the first observed meeting. One director asked that "operational highlights, challenges and a quarterly future focus" be presented "in a clear and concise manner" within each board pack. The director subsequently clarified the request to mean that the operational priorities for the ensuing three months be presented. Another director asked for performance against strategy and strategic initiatives to be explicitly reported to "enable the board to monitor implementation and verify the effectiveness of approved strategy and strategic initiatives more readily". The director then said that they "expected to see the actual performance compared against the desired objective [of the strategy or strategic decision]". No other director spoke. The chairman then summarised the requests; asked that there be no repetition in the chief executive and chief financial officer reports; and, said that an alternative structure (of the chief executive's report) was required. During the exchange, the three speakers addressed their comments directly to the chief executive by name, without reference to the chairman.

After a brief discussion including some more detailed suggestions from two other directors who had not spoken, and a response from the Alpha chief executive (saying that all of the requests and suggestions could be accommodated), the chairman again summarised the important changes that the board required to the structure of the board pack and to the content of the chief executive and management reports. The chief executive responded by committing to make the requested changes in the report presented to the next meeting. A brief summary of the discussion was recorded in the minutes, but no formal resolution was made, nor were any actions or specific instructions to change the structure and content of the board pack recorded. However, the chief executive and chief financial officer both wrote notes during and immediately following the discussion.

The structure and content of the Alpha board pack was observed to be different at the following meeting—especially the chief executive and chief financial officer reports. The changes that had been made to the reports were briefly discussed. The directors agreed that the changes were consistent with the requests and instructions of the board. The chairman thanked the chief executive for the updated structure, noting that the updated report was "much easier to work with". Several other directors expressed agreement, either verbally with a brief comment or visually by nodding their head.

The Bravo board also reviewed the structure of the board pack during the observation period. The review coincided with the board's decision to change the frequency of its meetings. The timing of the review was probably coincidental because no one made any reference to the change in meeting frequency (or the situation that led to the decision to review the frequency of meetings) during the discussion about the structure of the board pack. The motivation to change the structure of the Bravo board pack lay elsewhere. This became apparent later when one of the directors said, "I think the board had been experiencing some difficulty understanding the reports as presented". Another director chipped in "me too". After a brief period of a few seconds, the chairman added a summary comment, "Discerning what information might be relevant is difficult". Curiously, the board had worked with the then current report structure for several years, during which time the membership of the board had not changed. No concerns or comments about the format or content of the reports had been expressed by any of the directors prior to this discussion either.

Several options to reorganise the board pack and management reports were discussed by the Bravo directors: the goal to ensure that the reports “more adequately meet the board’s needs”. The two main options that were discussed were a single functional structure that reflected the functional structure found in most companies (sales, production, support/corporate services), and a one-report-per-operating-entity structure (Bravo was comprised of several operating entities). After some discussion, several of the directors expressed a preference in favour of the one-report-per-entity option. The chairman sought comments from others. Directors responded by nodding their heads. The chairman, having observed the signals of agreement, then asked the chief financial officer (in his capacity as board secretary) to ensure that the reports be restructured in this way, so that all of the information pertaining to each entity is reported in one place. The chairman then asked the chief executive to “come back to the next meeting with a new format for discussion”. Three of the directors re-stated their support for the request, albeit in a side conversation. Then another director said, “Further refinement might be necessary but this could occur at the next meeting”. The chief executive committed to consider the board’s suggestions, and to make some adjustments for the board’s consideration at the next meeting.

The structure of the Bravo board pack (the management reports in particular) was noticeably different at the next board meeting. The changes were consistent with those that had been requested at the previous meeting. However, there was no further discussion at the next meeting or any subsequent meeting—not even a passing reference or comment—even though the chairman had explicitly asked the chief executive to “come back to the next meeting with a new format for discussion”. None of the directors asked questions or challenged the new structure. That the amended structure and content was not discussed again amounted to tacit approval. No formal record of the earlier discussion or acceptance of the change was recorded.

The chief executive and chief financial officer of the respective companies prepared the board packs with administrative assistance provided by the chief executive’s executive assistant. Executive managers contributed papers for inclusion in the board pack, to a specified format, as required. The chief executives' assistants collated reports and supporting documentation into a consolidated board pack under the tutelage of the chief executive. The executive assistant distributed electronic copies of the board pack to directors after the board pack was approved for release. This generally occurred several days before each scheduled meeting. Both boards used a secure on-line folder (portal) system to store board packs. The directors were notified when the board pack was available for inspection and download. Printed copies were also distributed. Most of the directors of Alpha and Bravo used printed copies of the board pack during board meetings, and they referred to annotations they had made prior to the meeting (presumably when they were reading the reports, in preparation for the meeting). They also made annotations on board packs and wrote private handwritten notes during meetings.

Neither chief executive requested additional agenda items or submitted late papers to their respective boards during the observation period. However, verbal updates were provided on several occasions (generally when papers were expected or planned but they were not ready by the deadline for distribution). The accepted practice of both boards was to accept a verbal report (sometimes a paper was distributed with the verbal report) in preference to making an extraordinary distribution of late paper(s), or to deferring the agenda item to a later meeting.

The Bravo board made a decision during the observation period to move away from printed and bound packs to a paperless system whereby board packs were viewed on electronic devices during board meetings. Bravo directors could request printed copies of the board pack if they wished, but none did so. The decision to make the change was unanimous. It was motivated in part by an opportunity to save considerable administration effort and cost, and reduce the administrative burden for directors who lived or worked away from the Bravo head office. However, the presence of tablet devices and laptop computers in Bravo board meetings enabled directors to surreptitiously check email or do other work during the course of board meetings if they so chose—and many did. On two occasions at two separate meetings, one director became sufficiently distracted to completely lose the thread of the discussion. Notwithstanding the adoption of electronic board packs and the use of electronic devices in the boardroom to read board packs, there was no discernible change in the style of the interaction between the Bravo directors following the 'paperless' decision.

4.3.3 Minutes and action register

The minutes of board meetings provided a summary of the discussion that occurred during the board meeting and a formal record of the decisions made by the board. Consistent with generally accepted board minute-taking protocols, both boards kept a summary of the board meeting including key discussion points and formal resolutions and decisions. A full Hansard-style record of the entire conversation that occurred during the board meeting was not written (see Weatherston & Bridgman, 1975). The Alpha chief executive's assistant acted as the minute secretary for the Alpha board, and the Bravo chief financial officer performed this role for the Bravo board. Both minute secretaries took copious notes throughout each observed board meeting, most of which were entered directly into a laptop computer. However, notepaper was also used to record handwritten notes and to cross-reference back to page numbers and items in the board pack. Both minute secretaries also wrote notes directly onto hardcopies of the board pack on several occasions, primarily to make cross-reference markings, or to note the location of any errors or any corrections that were required. The accuracy and completeness of the minutes of each meeting was largely dependent on the minute secretary's judgement: their decisions as to what was material or important to the discussion and, therefore, ought to be recorded.

A copy of the draft minutes of the previous board meeting was included in the subsequent board pack for the directors to review and board to approve. Corrections were made if errors were discovered when the draft was reviewed. Corrections were recorded on the agreement of the board, after which the board approved the minutes, complete with any amendments. The draft minutes were deemed to be generally correct, although a few alterations were necessary at some meetings before they were approved. The effectiveness of this review process was dependent on the accuracy of the director's recall of both the discussion and any decisions made at the previous meeting. One five occasions during the observation period, directors were observed to disagree amongst themselves about the accuracy of the minutes—each director having a different slightly recollection and interpretation of the discussion and, on one occasion, the intent of the decision that the board had made. This highlighted the fallibility of human recall despite the director's best intentions and belief their recollections were accurate.

The boards of both companies kept a tabular record—an action register—of the tasks and actions generated as a result of decisions or requests made during the course of meetings. The action register included the name of the action; the person responsible for its completion; and, an expected or required completion date. Both boards used the action register to hold directors, committee chairs and the chief executive accountable for the completion of previously assigned actions and information requests.

The Alpha board reviewed the action register immediately after the minutes of the previous meeting were approved. The chairman said that placement early on the agenda was intentional: it enabled the board to review previous actions while directors were fresh and it provided space for any further discussion or decision-making later in the same meeting, if required. Also, most of the items on the action register during the observation period were directly linked to (and therefore were significant to) Alpha's strategy and strategic priorities.

In contrast, the Bravo board reviewed the action register towards the end of each board meeting, after the major items had been dealt with, the management reports had been received, and minutes of previous meeting had been checked. The review was cursory. The chairman asked action owners to confirm whether assigned actions had been completed, or to provide an update if not. Over half of the items on the Bravo action register were relatively detail-oriented operational items, a marked contrast to the contents of the Alpha action register. Many items on the Bravo register were tasks that could have been solely dealt with by management.

4.3.4 Chairmanship and flow of meetings

The Alpha and Bravo boards were both chaired by independent chairmen who have also held chief executive positions (elsewhere) in the past. Both were experienced directors and chairmen, having chaired the boards of several other publicly-listed and quasi-public companies; long-standing and active members of the Institute of Directors (the Institute); and, both claimed to be familiar with prevailing so-called best practices of corporate governance including those outlined in the Institute's document, *Four Pillars of Corporate Governance Best Practice in New Zealand* (2012).

While the Alpha directors and managers arrived in the boardroom and interacted socially before the meeting, all were seated at the board table before the scheduled start time of each meeting. The chairman called the meeting to order at the scheduled start time, welcomed everyone, acknowledged the presence of the researcher as an observer, and began the meeting. The first order of business at Alpha board meetings was to confirm the agenda. The chairman sought comments from the other directors to identify any matters on the agenda that were of particular interest or importance to that director, so that the board and chief executive were aware of them, and so that an appropriate amount of time could be allocated. Apologies were received. Information about any visitors or presentations scheduled to occur during the course of the day's meeting was communicated.

Each Alpha meeting then proceeded in the order specified on the agenda, commencing with the approval of the minutes from the previous meeting (or meetings, if the board had conducted a teleconference meeting for example). The action register was then reviewed. The standard approach adopted by the chairman was to take the reported status of each action item 'as read'. The directors sometimes asked questions to seek clarification about the status of a particular item or to challenge progress if they perceived a deadline was at risk or had been missed. The chief executive provided a verbal update if a tangible development had occurred since the action register was prepared. After the action register was dealt with, the chairman moved on to receive and consider the chief executive and finance reports, and then the major items as identified in the agenda.

The Alpha chairman maintained steady progress through the agenda during each observed board meeting, whilst providing space for directors to speak; ask questions or debate points if they wished; and, allowing time for those matters previously identified as being important. Regular reports were taken as read during board meetings. However, authors of reports could make comments to highlight any points they thought merited comment. The directors were asked whether they had any questions. Conversations and interactions between the directors were free ranging, with vigorous debate across the table throughout the course of all observed meetings. The directors changed their minds on occasions, in response to comments made by other directors and the general tenor of the debate. Extended periods of silence were rare.

Some of the discussion in observed board meetings was directed through the Alpha chairman. At other times, it occurred directly between directors or with the chief executive. The chairman was comfortable with this style of interaction: during the interview, they said they encouraged a direct and free-flowing style of interaction because they thought it was more conducive to effective communication and understanding. The chairman confirmed this when interviewed. The free-flowing nature of the interaction was especially apparent when a major agenda item, or a topic requiring a significant decision, was being considered. All of the directors were invited to contribute to the discussion to the extent that the chairman sat silently for extended periods while the discussion continued. However, towards the end of each major discussion, the chairman called on individual directors (by name) if they had not contributed, asked a question or offered a viewpoint. This style of chairmanship reflected two comments made by the Alpha chairman during the interview, stating that it was "important that all voices were heard", and that "The board meeting is an inclusive conversation between all directors and the chief executive, not a conversation with or through the chairman".

Bravo board meetings tended to start at or near the scheduled start time, depending on when the directors arrived. Most of the directors were seated ready at or within a few minutes of the scheduled start time, although one particular director arrived a few minutes late on several occasions. The chairman enquired as to the whereabouts of the absent director each time this occurred. In each case, the chairman decided to delay the start of the meeting pending the arrival of the director, which appeared to have the effect of endorsing lateness. However, none of the other directors expressed any concern or made any comment about punctuality.

While the Bravo chairman chaired most meetings in accordance with the order of items on the published agenda, he demonstrated some flexibility by moving any high priority items that were identified at the beginning of the meeting up the agenda. Any decision to change the sequence of agenda items was made with the agreement of the board. Generally, changes were made to create space to discuss particularly important topics while directors were fresh and not under any pressure to conclude the meeting at the scheduled time. Less important topics and those requiring less attention were deferred in the meeting or were rescheduled to another meeting if major items took longer than expected and insufficient time remained to deal with the remaining matters adequately. Generally, management reports—including chief executive report, manager's reports and the finance report—and the minutes of previous meetings, were the last items on the agenda. While directors were free to ask any questions, they wished about the management reports or make comments, few took the opportunity to do so. The reports were often taken as read. On one occasion, they were hurriedly dealt with as directors were starting to clear their papers at the end of the meeting.

One Bravo director seemed to be particularly busy during the observation period: arriving late on several occasions. He apologised on arrival and explained that "prior commitments" had taken longer than expected to complete. He also needed to attend scheduled conference calls or other meetings immediately after most of the observed board meetings, which meant there was no latitude to extend meetings. On two separate occasions, the director left the meeting to attend to matters described as "urgent". Once, the director signalled the possibility of an impending disruption—contingent on a message being received—at the beginning of the meeting. This pre-emptive courtesy was appreciated by the chairman and the other directors, although a sense of frustration was apparent when the expected disruption (a phone call) occurred and again after the meeting. On the other occasion, the director's action was in response to an electronic message that arrived during a board meeting without warning or the prior knowledge of the director. The director's behaviour (of announcing the situation and excusing themselves from the meeting after they had read the message by saying that, "Something has come up that I need to deal with now") disrupted the concentration of other directors. While the director was clearly disrupted by events outside the boardroom at times, he did ask meaningful questions when present and concentrating on the board discussion. The chairman, the other directors and the chief executive all tolerated the behaviour, perhaps because they valued the contributions of the director beyond the disruption caused from time to time, or were simply reluctant to call it to order.

4.3.5 Boardroom interactions

Discussions and interactions between directors in the Alpha boardroom were observed to be both direct and purposeful. While all of the directors were engaged in discussions—some more so than others—the Alpha directors did not always work together as one cohesive board. The Alpha chairman validated this observation. During the interview, he made a passing comment, saying that "the board is not united as one, and the company's purpose is neither clear nor agreed amongst the directors". This, despite company revenues having grown at more than 20% CAGR in recent years and market survey results suggesting the company's products and services were well-regarded in the marketplace.

Some tension between the independent directors[41] and the NEDs was apparent from time to time. The independent directors and the NEDs did not agree on aspects of the purpose and strategic objectives of the company, as the chairman had noted. This had the effect of contributing to, at times, dysfunctional interactions in the boardroom. The underlying tension between the NEDs and the independent directors often became apparent when the board was considering strategically important items, though not always. For example, during one exchange, one of the NEDs said, in an assertive manner, "The company needs to achieve strong growth *and* pay dividends to shareholders each year". This confirmed a comment the chief executive had made when interviewed: that the NEDs were seeking to both maximise dividend payments and grow the value of the company on an on-going basis. To grow (revenues) but not pay dividends was regarded as being unacceptable to the NEDs. This was stated by one of the NEDs during the discussion. In contrast, the independent directors were convinced that the reinvestment of all of the profits (to fund growth activities) was both appropriate and that it consistent with the strategy that the Alpha board had previously approved (to pursue growth). They said that they considered the payment of dividends to be secondary, and that any payments should be contingent on sufficient free cash being available from which to do so—challenging the voice of the shareholders.

The two NEDs on the Alpha board were quiet during observed board meetings. The independent directors tended to speak more often, and more confidently than the NEDs. The NEDs generally only spoke when invited to do so by the chairman. The contributions of the NEDs were also observed to be at odds with the flow of the discussion at times. One of the NEDs was quite

[41] While all of the Alpha directors were non-executives, some were shareholders (named NEDs here) and some were not (named independent here).

transparent about their lack of knowledge, saying that, "I do not understand the detail being discussed because it was outside my area of expertise. Therefore, I am happy to support the view of the majority". This gesture of apparent consensus was received with some relief by the independent directors, but may have simply been an abdication of the NED's responsibility to make an informed decision.

At times the independent directors worked together almost to the exclusion of the NEDs, although no explicit intention to do so was either observed or reported. The Alpha chairman corroborated this observation during the interview. They suggested that the independent directors did not always respect the contributions of the NEDs. The disunity that was observed in the boardroom from time to time frustrated both the chairman and the chief executive, and some of the other directors as well. Notwithstanding this, Alpha has established a record of high growth—both top-line revenue and operating profit—in recent years despite the observably challenging interactions that have occurred in the boardroom.

In contrast, the observed interaction between the Bravo directors tended to be relatively reserved and, periodically, noticeably aloof. Comments were often quite considered and pauses were commonplace. It was not uncommon for periods of up to 8 to 10 seconds of silence before a director spoke or responded to a question. Directors rarely became animated while speaking. Directors generally only spoke when invited to do so by the chairman or the chief executive. The observed interaction in the Bravo boardroom was largely, but not exclusively, a discussion between the chairman, chief executive, chief financial officer and one other director. The other directors made infrequent contributions. One director in particular often only spoke twice or three times during an entire board meeting—and then only briefly to ask a question, respond to a question or offer a comment. Sometimes, the executive directors were observed to defer to the chief executive. If the chief executive was silent, pondering a point, then the other directors tended to be silent as well—although not always—as they seemingly waited for the chief executive to comment.

The Bravo board continued to operate to a defined pattern throughout the observation period. It did not adjust its *modus operandi* or reallocate resources noticeably in response to major challenges. For example, the company experienced a major cash flow shortfall during the observation period. The problem was not new. The chief executive had signalled the possibility of a cash flow problem in executive reports for upwards of 12 months before the situation reached a crisis point. While the company had been achieving revenue growth, costs were growing at a similar or greater rate. This had the inevitable effect of placing considerable pressure on working capital. While the board had discussed the possibility of tight trading conditions several times over the preceding eighteen months, and several scenarios and responses had been discussed, the board did not create an action plan to mitigate the business risk. Nor did it instruct the chief executive to do so. The board continued to monitor the situation, presumably on the expectation that things would 'come right'. Responsive action was only initiated when cash reserves declined markedly and overdraft facilities approached their full limit. At that point, decisive action was taken, including staff redundancies and restructuring aspects of the business operation. Only once the seriousness of the situation was accepted was decisive action deemed necessary, the recovery plan was then developed and put into action immediately.

4.3.6 Interaction between board meetings

Interaction between the Alpha directors and management team between board meetings was generally limited to discussions and meetings between the chairman and the chief executive. When interviewed, the chief executive described the amount of interaction between board meetings between directors or with the chief executive as "minimal, if at all". Confirmation was provided by the chairman, who said that there was "little if any" interaction between Alpha directors outside board meetings, or between directors and the chief executive either. Meetings of the two standing or special-purpose committees[42] of the Alpha board that were convened were notable exceptions. These committees performed tasks delegated by the Alpha board. Minutes were kept, and reports and recommendations were presented to the full Alpha board as required. The committees made no binding decisions. The chairman volunteered that little if any lobbying

[42] The Alpha standing committees were the audit committee (the charter required it to meet at least twice per annum) and the remuneration committee (met as required). Special-purpose sub-committees were established as determined necessary by the board. The capital structure sub-committee was one example.

of directors by other directors or by management occurred between board meetings. That there was little if any interaction between directors between board meetings suggests this claim is accurate.

The Alpha chairman and chief executive both reported they usually met together in-person once between board meetings—normally at a midpoint in time. The purpose of the meeting was three-fold: first, to keep the chairman appraised of significant operational matters including firm performance, market developments, competitor activity and staffing; second, to report progress on actions from previous board meetings; and, third, to prepare the agenda and identify reporting requirements for the next board meeting. The chief executive said that they also used the meeting to test ideas with the chairman and assess likely levels of support for ideas that might be presented to the board at a future meeting. The chairman said that they used the meeting to provide mentoring, coaching and guidance to the chief executive as they thought was warranted.

The Alpha chairman and chief executive also spoke with each other by telephone most weeks (usually about once per week, but sometimes more or less frequently), and they exchanged email messages regularly. The chief executive described the telephone conversations as being informal discussions to maintain the relationship and "to keep <*chairman's-name*> fully apprised of recent developments of interest". When interviewed, the chairman and the chief executive both said that they considered the meetings, phone calls and email exchanges to be important to the quality of their relationship, and to the maintenance of trust in particular.

The Alpha chairman and chief executive also travelled together from time to time—generally on the invitation of the chief executive—to attend customer events or business meetings. The chief executive said that this uninterrupted time together was used to maintain the relationship; explore sensitive matters and other matters germane to the performance of the business; and, to seek counsel from the chairman.

The Bravo chairman and chief executive also met between board meetings, usually once. They independently said that the primary purpose of their meeting was to review recent trading performance and to discuss the agenda for the upcoming board meeting. The chief financial officer was usually present, providing financial information and to record discussions if required[43]. The Bravo board did not operate any committees. There was no indication during the interviews or at any other time, from either the chairman or the chief executive, that the time was used the explicitly maintain the relationship between the chairman and the chief executive, for coaching or support, or to discuss future priorities.

4.4 Boardroom decision data

The purpose of this section is to present data relating to the decisions made by the Alpha and Bravo boards during the research period. Four different types of decisions were made, as was anticipated in Section 3.11. Decisions made by the two boards during the observation period were identified in the primary data collected for research—the observation data (the review of audio recordings and notes taken while the board was in session revealed that some minor decisions were not minuted) and minutes of meetings in particular. Source documents were used to identify decisions made in the two years preceding the observation period. The board packs and minutes of meetings were the main source of data for this earlier period, meaning any decisions made but not recorded will have been missed because the meetings were not observed.

Both chairmen and both chief executives claimed that all major decisions, especially strategically important decisions were recorded accurately in the minutes. Consequently, any decisions that were not recorded in the minutes are likely to have been informal or relatively minor operational decisions. Therefore, their significance to the analysis is expected to be minor.

In total, 358 decisions were identified from the data from both companies. An iterative process was used to check and classify each decision in accordance with the decision category criteria (see Table 3-3). First, all seemingly major decisions were identified and assessed against the strategic decision criteria. Fourteen such decisions were identified, nine of which were found to satisfy the strategic decision criteria. Then the 349 remaining decisions were then reviewed again. Each decision was reassessed and classified against the remaining criteria (FCO, IO or LU) and recorded in the decision table.

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[43] This is a somewhat unusual role as the meetings between the chief executive and the chairman are not board activities.

Quarter-by-quarter summary lists of the decisions made by the Alpha and Bravo boards during the three-year research period are shown below, in Table 4-2 and Table 4-4 respectively. An evidential inspection of the data (annual view, see Table 4-3 and Table 4-5) suggests that both boards made similar numbers of decisions in each of the three years for which data was collected. That the membership of each board was stable but not static during the research period; and, that the minutes were written by the same person throughout the research period; and, that a similar number of decisions were made, suggests that the data collected from Year 1 and Year 2 can be considered to be reliable, alongside data collected in Year 3, the observation period.

Two of the nine strategic decisions were to approve corporate strategy (see Section 5.2). The remaining seven strategic decisions were assigned descriptive names (see Table 4-6) to assist with identification during the course of the research. All of the strategic decisions identified in the data were preceded by at least one prior decision (generally several). Relationships and associations between so-called lead-up decisions were identified from the data, whereby some lead-up decisions were precursory to other lead-up decisions. These sequences of decisions that were made, necessarily, in a sequential order, are called decision sequences in this thesis. An analysis of each strategic decision, including the sequence of activities and decisions leading to the strategic decision was made; the decision itself; management's implementation of the decision; and, any subsequent action taken by the board including monitoring that the decision had been implemented and verifying expected results were achieved is provided in Chapter 5.

Table 4-2: Decisions made by Alpha board during research period

Period	FCO	IO	LU	SD
1Q Yr1	6	3	4	0
2Q Yr1	5	3	3	0
3Q Yr1	4	8	19	0
4Q Yr1	5	10	2	1
1Q Yr2	4	3	2	0
2Q Yr2	3	4	4	0
3Q Yr2	5	12	5	1
4Q Yr2	2	3	4	1
1Q Yr3	5	8	5	1
2Q Yr3	3	8	3	0
3Q Yr3	5	9	4	0
4Q Yr3	4	6	3	0

Note: Observation period is shaded.

Table 4-3: Decisions made by Alpha board, annual summary

Period	FCO	IO	LU	SD
Year 1	20	24	28	1
Year 2	14	22	15	2
Year 3	17	31	15	1
Total	51	77	58	4

Table 4-4: Decisions made by Bravo board during research period

Period	FCO	IO	LU	SD
1Q Yr1	2	7	1	0
2Q Yr1	2	4	3	0
3Q Yr1	6	12	5	0
4Q Yr1	4	9	7	2
1Q Yr2	3	5	4	0
2Q Yr2	3	3	1	0
3Q Yr2	5	11	3	0
4Q Yr2	1	4	2	0
1Q Yr3	5	9	2	0
2Q Yr3	3	7	2	0
3Q Yr3	4	9	6	2
4Q Yr3	4	4	1	1

Note: Observation period is shaded.

Table 4-5: Decisions made by Bravo board, annual summary

Period	FCO	IO	LU	SD
Year 1	14	32	16	2
Year 2	12	23	10	0
Year 3	16	29	11	3
Total	42	84	37	5

Table 4-6: Strategic decision (sequences) made during research period

Decision ID	Decision	Discussed in detail
D1	Acquisition of capital to expedite growth strategy	Section 5.3.1
D2	Expansion into international market: Soft entry	Section 5.3.2
D3	Commitment to international market: Acquisition	Section 5.3.3
D4	Strategic reorganisation	Section 5.3.4
D5	Equity event	Section 5.3.5
D6	Portfolio diversification	Section 5.3.6
D7	Strategic market development	Section 5.3.7
D8	Alpha corporate strategy	Section 5.2.1
D9	Bravo corporate strategy	Section 5.2.2

4.5 Summary of data

Together, the data collected for this research provided a multi-year record of the board activities and operating contexts of two widely-held high-growth companies in New Zealand. Publicly available data and circumstantial comments from informants provided additional information for the understanding of context. The analysis that follows in Chapters 5 and 6 provides insight into the activities and priorities of boards, strategic management practices (especially the development of strategy and strategic decision-making) and emergent but irregular associations with firm performance. The first-order analysis provides a foundation for further (second-order) analysis including the development of a collaborative model of board–management interaction and a mechanism-based model of the governance–performance relationship presented in Chapter 6.

The data set collected from the fieldwork amounted to approximately six gigabytes of sound recording files; over 250 pages of handwritten observation and interview notes; and, approximately 650 megabytes of board pack and other documentary data (nearly two thousand printed pages). Three hundred and fifty-eight decisions were identified in the data, nine of which were strategic decisions. Unexpectedly, 36 informal conversations with directors after meetings and external informants provided additional insight.

The goal of collecting and collating a comprehensive set of quantitative and qualitative data from several disparate primary and secondary sources was to provide an holistic overview of board activity, decision-making and contextual information for analysis. This so-called 'Camera One' perspective[44] is expected to provide an overall context for the first-order analysis that follows in Chapter 5.

[44] 'Camera One' is the colloquial name given by camera operators and production staff to the video camera used to record an overview of a sports match. Usually positioned high in the spectator stands, Camera One usually provides panoramic views only, for context, not detailed close-ups of specific players, plays or other details of the game.

Chapter 5: First-order analysis

5.1 Introduction

A summary of the first-order data reduction and analysis is presented in this chapter. The reduction and analysis was conducted in accordance with the research methodology described in Section 3.7, in pursuit of a preliminary understanding of the respective boards' involvement in corporate governance and strategic management. The board's involvement in strategy formulation, the making of strategic decisions and monitoring of management activity is described in detail.

Current and historical approaches to the process of strategy formulation and the board's involvement therein are described. Then, an analysis of each board's involvement in strategic-decision making is provided. Three hundred and fifty-eight decisions were identified in the data, nine of which met the 'strategic decision' criteria (see Section 1.2.2, Table 3-3 and Section 4.4). The board made seven strategic decisions and two were ratifications of decisions that were made, in effect, by management. All have been included in the analysis because they provide insight into board practices and behaviours; the relative power of the board (to exert influence on decision-making); and, inform the research question. Strategic decision sequences identified in the data are analysed, resulting in detailed descriptions of each sequence of events including the tasks and circumstances both leading up to and following each identified strategic decision. Finally, a summary of the first-order analysis is provided as a foundation for further (second-order) analysis described in the following chapter, Chapter 6.

5.2 Board involvement in the strategy development

The respective boards' involvement in the task of strategy development is described in detail in this section. Current and historical accounts are provided. The process of formulating strategy was performed quite differently in the two companies during the research period. It has changed within each company over time as well. While neither company's specific strategy (current or previous) can be disclosed, the respective approaches to both the development of strategy and the monitoring of strategy implementation utilised by the two companies and the board's involvement therein is presented in the following sub-sections. Examples are provided where it has been possible to do so without breaching the legal commitment, and moral and ethical responsibility to confidentiality and anonymity. Historical approaches to strategy development were revealed during chairman and chief executive interviews. These provided rich firsthand descriptions and insight of how strategy has been developed at Alpha and Bravo in the past. Descriptions provided during individual interviews were verified using data from other sources (e.g., other interviews, board documentation, strategy documents where available) before being accepted into the analysis.

5.2.1 Alpha: current approach

The Alpha board and management team intentionally developed corporate strategy together during the research period. The so-called strategy day was the primary forum. However, strategic options were regularly discussed during scheduled board meetings, and references to elements of the agreed corporate strategy were also common. The strategy day was an activity of usually one business day in length (but sometimes longer, if deemed necessary) whereby all of the participants worked together to consider the business environment in which the company operates; identify and debate strategic options; select preferred options; and, either formulate or refine strategy.

All of the Alpha directors and the chief executive were committed to the strategy day concept. Two strategy days per year were scheduled to consider the overall direction and strategy of the company, and to develop or refine strategic options or a specific strategic priority. Strategy days usually followed a condensed board meeting. The amount of meeting time dedicated to regular board matters and compliance items was reduced to approximately two hours or less. Typically, regular reports and the action register were taken as read, unless a specific item or question needed further consideration by the board. Upon completion of these items, the regular board meeting was closed and the board moved its attention to the strategy day agenda. The chairman and the chief executive both volunteered that high value was placed on all directors, the chief executive and appropriate managers working together in a highly collaborative manner—as one group of peers—on the entire strategy development process (excepting the preparation of detailed analyses, which was undertaken by managers). The attendee list included all of the directors, the chief executive, most of the senior executive team and selected staff. Contributions were also elicited from other people including selected customers and suppliers who were invited to make presentations.

By way of example, one strategy day was dedicated to understanding an international market and the identification of strategic options to pursue the perceived market opportunity effectively, with the intention of identifying and developing a preferred strategic option. In-market experts were invited to address the assembled group. The provision of environmental information was expected to better inform the group's considerations. The outputs of the strategy day included a short list of preferred strategic options and some action items. Further discussions occurred during following board meetings, in preparation for a subsequent strategic decision (whether to pursue the market opportunity or not). Several months later, the board made a strategic decision to acquire another company in order to secure the critical mass deemed necessary to advance Alpha's overall strategy. Acquisition had been identified as one of the preferred strategic options.

Alpha's strategy, once formulated and approved, was published as a one-page 'blueprint'. The company's purpose, vision, primary objectives (including revenue, profit and other measures), target markets, strategic and operational priorities and desired organisational culture were all summarised in a tabular format. The company's desired future state, expected pathway (to achieve that future state) and expected results (if successful) were included. The chief executive said the main benefit of consolidating the major elements of strategy into a one-page diagram was clarity. "Readers, especially staff, can see the overall plan. They can readily see how the various pieces fit together to form the whole and what the result will be. They can also see where they fit."

The collaborative approach to strategy development used by Alpha produced a wide range of strategic options from the various contributors. Directors heard contributions and suggestions firsthand; provided their own contributions; tested assumptions; voiced concerns; explored scenarios; and, asked questions concerning points of interest. Board contributions included the provision of knowledge and innovative ideas; questions; critical thought; and, informed debate. The board and management identified preferred options together through this discovery and analysis process, either immediately (if they become apparent during the discussions) or subsequently if further investigation was required or requested by the board. Once preferred options were identified, the chief executive prepared detailed implementation plans for discussion with the board at a later board meeting.

The Alpha board was demonstrably engaged in the strategy development process throughout the research period, at strategy days especially. While the Alpha board worked closely together with the chief executive and their executive team on the development of strategy, the board did not lead the strategy development process *per se*. The chairman said he expected strategy leadership to be provided by the chief executive and their executive team. "They understand the business and the market opportunity better than we do" was the justification provided by the chairman. The answer to a supplementary question clarified the comment to mean that the chairman expected the chief executive and managers to make active contributions. However, the expectation did not extend to allowing the chief executive to lead the process of developing strategy in isolation from the board before presenting it for approval—as some sort of *fait accompli*. The chairman expected the board to be fully engaged in all facets of the process including assisting with the discovery of strategic options that emerged from presentations, discussions, market intelligence and other sources; contributing original ideas; debating (vigorously, when appropriate) various options identified in the discovery process; forming opinions; identifying preferences; confirming that preferences were consistent with and would contribute to the purpose of the company; and, ultimately—after the necessary detailed analysis was completed and supporting documentation was prepared—approving the preferred strategy. As such, the process was determined and controlled by the board, and the board was actively engaged therein.

Consistent with the expectations of both the chairman and the chief executive, the Alpha directors used their considerable market knowledge to contribute actively to the discussion of strategy topics on both the strategy days and regular board meetings; and, to identify, consider and refine strategic options as they saw fit. The Alpha chairman spoke at length about a strong connection between the process of strategy development and the subsequent performance of the company. His summary statement was direct. "The board needs to be fully involved all the way. It's crucial to driving the performance of the business". While the chairman and chief executive were both clear that strategy approval lay with the board and implementation lay with the chief executive, ownership of the strategy development process and of the strategy that emerged from it demonstrably lay with the board and the chief executive together.

Following its decision to approve the proposed strategy, the board maintained a close interest in the implementation of the strategy it had helped to formulate. The board asked the chief executive to provide regular progress reports for each strategic initiative. The board actively monitored the financial and operational performance of the company during the observation period, through the board reports provided by the chief executive and the chief financial officer, and enquiries made by directors during board meetings. The chief executive also reported specifically on strategy implementation. The board wanted to know whether the approved strategy, strategic initiatives and tactical actions were being implemented as planned and whether the expected performance objectives were being achieved or, if not, what remedial actions were being taken. Variations between actual and expected performance were highlighted and management provided an associated commentary. The board also wanted to hear of new opportunities to expedite the achievement of the strategy, and that new strategic options to further grow and develop the company were being identified for future consideration by the board and management together.

The board also called for and received visits and presentations during meetings from managers who reported directly to the chief executive. These presentations, and the discussions that followed, were considered by the board to be highly valuable. Directors thanked managers after their presentation was complete and they often continued to discuss the presentation (albeit briefly) after the manager had left the meeting. The presentations provided the board with firsthand descriptions of activity and resultant performance—in essence another perspective against which the board could monitor and verify actual performance against planned performance. Directors asked questions both during and after these presentations to clarify points being made by the executive and to enhance their understanding. Directors also asked probing questions to, challenge the executives about their plans, the assumptions they had made and their expectations of future performance. Questions to establish the degree of alignment between the executive's proposals and approved strategy were also asked.

The monitoring and verification of the performance of the company by the Alpha board extended to a review of the board itself, and of the board's practices. The Alpha board conducted a formal board review during the research period. Generally, one review per annum was scheduled. External evaluators were used to provide a level of objectivity and rigour (beyond the Institute of Directors' board evaluation service that had been used in the past). The purpose of the board review was to evaluate the processes and practices in use; the quality of individual director contributions; teamwork; and, importantly, assess the effectiveness of the board as a collective body of directors in discharging its duties. A written report was provided to the board. It was discussed as an agenda item at a subsequent meeting, and alterations to boardroom interaction and practice were made, as the board saw fit. A brief reference to the governance review was also included in the company's annual report.

The Alpha board also monitored the performance of the chief executive on an on-going basis. A report summarising the chief executive's priorities was provided to the board once per quarter. The board used the report to determine whether the chief executive was, in the board's view, focussing their attention on the right things, and whether important tasks were being completed as expected. The board also used the report during the observation period to initiate a discussion with the chief executive because they appeared (to the board) to be very busy. The board asked the chief executive to review their workload and reporting structure. The board's stated purpose was to reduce the chief executive's workload, in order to create more space and time for strategically important priorities and tasks that needed to be performed by the chief executive.

The board also received summary results of staff engagement surveys, performance payment and bonus schemes, and information about staff professional development reviews. A formal human resources strategy presentation was made to the board during the observation period. The board was attentive to the reports and presentations it received. Directors asked questions as they sought to understand the information that was provided, to confirm that the staff and staff effort were well aligned with the overall corporate strategy and company purpose. The board was particularly interested in the staff morale and human resource capability within the business, and whether the chief executive had the right quantity and calibre of staff to deliver the strategy and achieve desired firm performance goals.

5.2.2 Alpha: historical approaches

The Alpha board's involvement in strategic management practices has been varied over time. There have been periods in the past when the intentional development of strategy (by the board, management or other party) was largely autocratic (during the formative years of the company); a period when a dominant chief executive led the strategy development process with little, if any, meaningful input from the board or others including staff; and, a period when the board led the strategy development process strongly itself—almost to the exclusion of the chief executive.

A previous Alpha chief executive developed strategy with little if any involvement from the board. Several people who were managers at the time had independently reported this to one of the current directors, who recounted the event and spoke candidly about it. A former staff member corroborated the story directly, and in detail. This triangulation from a tertiary source suggests that the reporting director had good recall of past events and that their account could be largely relied upon.

The chief executive at the time was new to the business. They proposed a new high-growth strategy to be achieved by refocussing most of the business' resources on a narrow set of products and services. The board and staff had little involvement in the development of the new strategy. The strategy selected by the then chief executive necessitated a major change in direction for the company. It was not adequately researched or resourced (financially nor people and expertise). Despite this, the strategy was proposed to the board: the board was asked to approve the final strategy proposal, and it did so after asking several cursory questions, in a perfunctory manner.

While the board endorsed the chief executive's strategy[45], it did so without understanding the significance or appropriateness of the strategy, the resourcing requirements or the risks associated with it. Subsequently, the chief executive reportedly "imposed his strategy on management and staff".

What appeared to be optimistic presentations, proposals, reports and projections were delivered to the board, both at the time the strategy was first presented by the chief executive for approval, and subsequently during strategy implementation. However, there is little evidence then or since to suggest that the board monitored the implementation of the new strategy effectively. The board was unaware of emergent difficulties when they started to become apparent (staff had concerns within six months of when the implementation of the strategy got underway). Annual reports to shareholders also provided an optimistic outlook during this period, and no record of any concerns amongst directors is evident in the minutes. It was only when a senior manager approached one of the directors directly some months later that the disquiet that had been percolating amongst the management and staff was first brought to the board's attention. The minutes and board reports provide no evidence to suggest that the board had discussed, or was even aware of emergent problems.

At least six months elapsed between the point that staff first noticed problems with the implementation of the strategy, and when the staff member contacted the director directly to report what was, by then, a major problem. The company's declining cash position should have been apparent to the board during the intervening six-month period, because balance sheet data was provided to the board (within the financial section of the board pack) each meeting. That the board took no action suggests it either did not recognise the signals provided in the financial reports at the time, or it ignored them.

However, the board intervened strongly when it discovered that the failure of the company was imminent. The situation had worsened markedly over a short period, to the point where the company's solvency was questionable. The board decided to 'release' the chief executive

[45] Chief executive's strategy: so-called because the chief executive developed it with little if any input from the board or ownership by the staff. It was, almost exclusively, their idea, hence autocratic.

(promptly, though professionally), and most of the directors also submitted resignations having realised they had failed in their duties of care. The shareholders were consulted. The directors who had resigned agreed to continue until new directors were appointed. An acting chief executive was appointed, and a process to recruit new directors was commenced. When a new chair-capable director was appointed, the previously-signalled director resignations became effective, as planned. Soon thereafter, a second new director was appointed. With these appointments, a platform for reinvigorating Alpha was established.

The current chief executive, current chairman and the immediate past chairman all said that the strategy proposed at the time was extremely risky and, worse, it was not well understood by the board or managers. This comment, made with the benefit of hindsight and the passage of time, implies that the board had not scrutinised the proposal adequately before it was approved. Nor had the board realised the gravity of the situation including the extent of the financial and other problems until it was almost too late—the monitoring of strategy implementation had been ineffective. Independent enquiries were not made by directors to verify variations between expected and actual firm performance either.

Following the near failure of the company, a series of urgent changes were made. The incoming board decided that it needed to be actively and directly involved in the decision-making and strategic management processes of the company. After a series of urgent remedial steps were taken, the new board adopted an iterative approach to market assessment and strategy development. Initially, the board imposed itself: it decided to participate directly by leading the strategy development process (albeit with the support and involvement of the acting chief executive), an approach that had not been utilised at Alpha before. The board confirmed the core purpose of the company with shareholders; established general strategic principles; identified strategic options that were refined to become draft strategic priorities; and, a preferred strategy was agreed upon. Subsequently, the incoming acting chief executive was asked to develop detailed implementation plans.

The new board gave its final approval of the strategy once the detailed plans were developed, discussed and found to be consistent with the higher-order principles and structural elements developed earlier. This board-led approach had strong support from shareholders; the acting chief executive; management; staff; and, business partners at the time. The revenue performance of the company declined—as was anticipated—while the board made decisions about several parts of the business that the acting chief executive described as “bad business”. The chief executive acted on the board’s decisions. Decisions were made to divest some parts of the company, and other parts were wound up. Subsequently, the company began to experience strong customer demand soon after the changes were implemented and new marketing messages were announced. Strong revenue growth followed soon thereafter—as was anticipated by the new strategy.

5.2.3 Bravo: current approach

Bravo employed a management-centric approach to strategy development. The Bravo board did not actively participate specifically in the development of strategy by way of any focused and specific strategic thinking activity. Bravo management led the process, even though the Bravo board’s work programme contained an item called ‘strategic planning’, which indicated that the board would be engaged in the strategy development process in some way. The Bravo board did not dedicate any time to the development of strategy during the observation period, nor during board meetings either, and no strategy days were scheduled into the board’s work programme.

However, the chief executive initiated a strategy review during the observation period, following a realisation that the expected outcomes of the extant strategy were not being achieved. The board did discuss firm performance during the observation period, but company strategy was not reviewed and no remedial action was initiated—until a sharp decline in working capital occurred, which forced the board’s hand.

The company had experienced relatively steady revenue growth over many years (see Figure 4-3). However, the company started to experience financial pressure—expected profits were not being achieved—because expenses were not under control. The first signals of a looming problem were detected approximately eighteen months earlier, when the chief executive stated in a board report that the company was experiencing difficulty meeting cash flow and profit targets. While the board accepted the chief executive’s reports at each board meeting, the board took no direct action at the time. This occurred despite signals provided in the chief executive's report at least twice, and verbally on several subsequent occasions.

The chief executive, in response to the severe cash flow and working capital difficulties that the company had begun to experience, proposed "an urgent review of the company's strategy". The board agreed, without discussion. A subcommittee was established and powers were assigned, empowering the subcommittee to "take whatever action was needed" to protect the company from failure. In the days following the board meeting, the subcommittee produced a tactical action plan. The immediate objective was to stabilise the financial position of the business as quickly as possible. All discretionary expenditure was stopped, and an organisational restructure was initiated to reduce staff elevated costs. Assistance was sought from the company's bank and other external advisors. Notwithstanding the powers delegated to it (including to act), the subcommittee discussed the proposed restructure with the board at the next meeting. The proposal was well received. One director noted "the importance of communications and messaging", to ensure staff understood the proposed actions and why they were necessary. The chairman said that, "while the restructuring plan buys the company time, a comprehensive new strategy is still crucial to assure the future viability and success of the business". The board approved the organisational restructure proposal and instructed its implementation to the chief executive.

Concurrent with (but separate from) the subcommittee's work, a general manager, under the chief executive's direction, initiated a strategy development process. A high-level roadmap and a detailed three-year strategy document were created. A slide deck format was used, in a visually rich, story-telling style. The roadmap document was analogous to a high-level statement of intent, the stated purpose of which was to describe the overall intended direction and proposed future state for the business. The general manager presented the roadmap to staff soon after the restructuring activity was started. An internal project name was selected, to engender buy-in amongst staff and to provide a sense of direction. The chief executive said that the emotional buy-in of the staff was "very important, even crucial" to the successful implementation of the roadmap, because the roadmap was presented to staff immediately following the restructuring event.

The roadmap was called "the company's strategy" when it was presented to the board. Presentation to the board occurred after presentation to staff—the strategy had not been presented to, nor discussed with, the board or even with the chairman before staff saw it. By definition it cannot have been approved by the board either. The questions asked by the chairman when the roadmap was first presented to the board demonstrated that the core messages and themes were neither obvious nor self-evident. On receiving the presentation, and learning that the strategy has already had been presented to staff, the chairman straightforwardly asked, "Can I have a copy please, so I can read it". This comment confirmed that he (at least) had not previously sighted a copy of either the proposed strategy or the associated presentation material. There was no further discussion following the chairman's request, except that the chairman made a passing comment—almost under his breath while moving on to the next agenda item, "It would have been preferable for the board to have seen the roadmap before it was presented to staff. Oh well."

None of the directors challenged the validity or suitability of the roadmap, and the chief executive was not challenged or admonished for presenting the roadmap (or describing it as being the approved company strategy) prior to any board-level approval process having been completed or, indeed, even being started. That the board did not act on becoming aware of the chief executive's actions indicates that the decision-making power and control of the company lay with the chief executive more so than the board.

The consequence of this interaction was, in effect, the provision of tacit approval of the roadmap by the board because the board did not intervene. Subsequently, the chief executive also presented similar material in offshore branch locations. Regardless of whether the roadmap provided a suitable or realistically achievable path forward or not, the chief executive and general manager had acted without reference to the board, on a matter that was strategically important to the long-term future of the business.

A second output from the work to re-position the business for the future was a more detailed three-year strategy. The Bravo general manager presented a draft strategy to the board at the last observed board meeting. No linkage between the proposed strategy and previously announced high-level roadmap was made, nor was any explicit reference made to the roadmap during the presentation of the proposed strategy. Curiously, several directors challenged the draft three-year strategy quite vigorously during the discussion that followed (the roadmap had been received with little comment when it was presented).

The chairman asked a question after other directors had made comments or asked questions. Then, the chairman challenged—quite vehemently at times—the accuracy of the financial forecast information included in the proposed strategy document. He had observed that some of the column tally and percentage calculations in the financial tables were incorrect. The Bravo chairman looked directly at the chief financial officer and asked, "What confidence should the board have in the validity or reliability of the proposed strategy, given the arithmetic errors in the projections?" After a brief pause, he added, "and others that I have not seen yet". The chairman challenged management's ability to successfully implement the strategy that had been proposed in the draft document. The chief financial officer's initial response was to acknowledge the errors. The chief financial officer then checked the table visually and accepted errors had been made. He apologised to the chairman personally (including using the chairman's forename) and then more generally apologised to the board. The chief financial officer committed to making the necessary corrections. The chairman acknowledged the comments and accepted the apology before going on to say that the strategy needed "considerably more work" before it could be adopted. The chief executive remained silent throughout the exchange between the chairman and the chief financial officer.

The exchange confirmed an earlier observation. The board had not had any involvement in the development of the strategy. The first time the board saw the strategy was when the draft was presented to the board. Contributions from the board had been limited to questions and comments at a single board meeting in response to what was purported to be a final draft of the strategy. Several but not all of the executive directors had, however, contributed to the strategy development process, albeit in their executive capacities.

Despite the reservations expressed by some of the directors, and the chairman's unambiguous statement (that the strategy as presented needed "considerably more work"), the chairman guided the discussion steadily towards a decision point. The chairman proposed that the board endorse the draft strategy that had been presented that meeting subject to several errors, gaps in the strategy and incomplete action items being remedied. There was no formal request or instruction issued for a revised draft to be presented to the board for its further consideration at a subsequent meeting—even though the chairman had expressed concern only minutes earlier.

The chief executive and chief financial officer provided the assurance sought by the chairman (that the conditions of the approval be satisfied). The chairman expressed satisfaction, and moved on without further reference to the strategy, the approval conditions, or the process. Directors nodded their heads when the chairman stated the conditions. In the absence of any dissent to the chairman's suggestion, the strategy was, in effect, approved. Despite the importance of this decision, no formal resolution to approve the draft strategy—with or without amendments—was put to the board. Further, no record made in the minutes of the additional work required, nor was a record of the approval recorded. Control of the development of the strategy lay firmly in the hands of the chief executive. The board's influence over strategy development had been one of rubber-stamping, at best.

5.2.4 Bravo: historical approaches

Historically, the Bravo chief executive has led—some directors suggested dominated—the strategy development process for many years. Strategic options, and the strategic decisions and action plans that ensued, were formulated and championed by the chief executive; a point confirmed during the interviews with the both chairman and the chief executive themselves. The board's involvement was almost trivial as a result. It was limited to monitoring implementation and firm performance, and then primarily against financial budgets and only in passing.

Significant initiatives or strategic options that were proposed by other executives or by staff were rarely developed beyond the initial idea or concept, unless the chief executive was demonstrably supportive of them. However, the chief executive did not seek to suppress ideas. Rather, staff perceived that the chief executive's support of the initial idea was necessary—that "they should not waste their time" developing an idea "unless <*name omitted*> supported it". The behaviour of the executives and staff was to seek support for ideas early, continuing with the development of any given idea only if the support or endorsement of the chief executive could be secured.

However, this changed a couple of years prior to the research period, with the employment of the abovementioned general manager. Bravo had grown to the point that the chief executive was too busy and tasks needed to be delegated to others. Strategy was one such task. When the leadership of the strategy development process was delegated, the chief executive asked the general manager to utilise a pragmatic approach. Despite this guidance, the resultant outputs were both voluminous and highly detailed. The general manager initially produced a draft containing over 100 strategic priorities—all of which the general manager considered to be strategically important. During the interview, the chief executive recalled that the initial draft was "disappointing" and that "<*name omitted*> failed to meet my expectations".

The chief executive said that he had provided clear guidance to the general manager—in the form of an instruction to identify up to six strategic priorities to guide the growth of the company over a three-year period. The chief executive also said that he asked instructed the general manager to review the long list of priorities and that detailed tasks "should link to one of the big six". Subsequently, the general manager produced a second draft that contained a shorter list of priorities—27 items—to be achieved over a three-year period.

According to the chief executive, the strategy team assumed that the production of a detailed plan was both what the chief executive wanted and was appropriate. He observed that each proposed priority was a defined task to be started and completed within one financial year. The chief executive said he provided additional guidance, stating that strategic priorities were to endure for the bulk of the three-year strategic horizon. Despite this, and the apparent miscommunication that precipitated the need to provide it (in the chief executive's mind at least), the chief executive and the board subsequently endorsed the 27 so-called 'strategic priorities' that were presented, because the strategic plan was adopted with the 27 priorities intact.

Notwithstanding this additional guidance and interaction, the process by which the plan was actually approved could not be discerned with confidence from the interview data or other data. No formal minute to indicate that the board had approved the strategy was recorded, and the chairman was unable to describe how the strategy was approved when he was asked about it. Despite this, the strategy received tacit approval, because actions were taken to commence implementation. However, the board did not monitor the implementation of the strategy as approved. No reports to demonstrate progress against strategy were presented to the board and the board did not request any.

5.3 Strategic decision sequences

Using the criteria established in Section 3.11, nine of the 358 decisions made by the Alpha and Bravo boards during the research period were classified as strategic decisions (see Table 4-6). The two 'approve corporate strategy' strategic decisions made (one by each board) were reported in Section 5.2. An analytical summary of the seven other strategic decisions made during the research period—including descriptions of decision sequences leading up to each decision; post-decision monitoring and engagement; and, other contextual factors—is presented in the following sub-sections. While the outcomes of some of the strategic decisions analysed here are no longer confidential, information that may lead to identification of Alpha or Bravo has been omitted. No alignment between specific strategic decisions and either Alpha or Bravo follows.

5.3.1 Acquisition of capital to expedite growth strategy

One board undertook a review of capital requirements during the research period, to fund growing business operations (working capital) and realise growth aspirations (growth capital). The board had previously set a goal, noted both verbally and in the minutes, of considering capital options "within the next 12 months". The review constituted the implementation of the previous decision made by the board. The purpose of the review was to determine the appropriate capital requirement to achieve company's strategy and purpose. As such, both the chief executive and the chairman deemed the decision to be of strategic importance. A summary of the decision sequence timeline, extracted from the LT framework[46] for this decision is shown in three parts in Figure 5-1, Figure 5-2 and Figure 5-3 below.

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[46] The LT framework (Lockhart–Taitoko framework) was introduced in Section 3.11.2.

Upon the completion of non-disclosure agreements, the data in this figure was made available to the examiners for the purposes of the PhD examination only. It has now been removed with the express intention of maintaining confidentiality and anonymity of the participants and companies that contributed to this research. Readers and fellow researchers can have confidence that the data supported the analysis. Therefore, read past these 'gaps' and progress to the analysis that follows.

Figure 5-1: LT framework (capital acquisition), Part One

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Figure 5-2: LT framework (capital acquisition), Part Two

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Figure 5-3: LT framework (capital acquisition), Part Three

After an initial discussion, the board asked the chief executive to prepare an options paper to identify the different types of capital that might be available including possible sources and instruments; the risks and benefits associated with each option; and, the potential impact of each option on the future performance of the business and the achievement of the company's strategy. The purpose of the required paper was to describe various options to the board, to inform a subsequent board discussion. An options paper, which contained both organic growth options and debt- and equity-based options, was prepared for the board's consideration. Concurrent with this review, a significant shareholder expressed a desire to sell their shareholding. While the motivation for the shareholder's desire to divest was not declared, and the divestment of a share parcel is not normally a strategic matter *per se*, the board considered it so given the scale and timing of the transactions.

The board discussed the options paper (which, in addition to the options initially identified, included information about the shareholder's wish to divest and the potential impact of the divestment on both the balance sheet and the company's ability to execute strategy). The board decided to investigate several options further, and requested a more detailed analysis including the parameters within which additional equity could be added and a transaction completed without undue risk. The board also asked that discussions be initiated with the shareholder intending to exit, to explore how a transaction might be structured and the commercial terms under which any divestment might occur. The board took a direct and active interest in the transaction throughout the process. It established a sub-committee comprised of two directors and an external advisor to work closely with the chief executive and the chief financial officer, on both the negotiation with the shareholder and to explore the form and structure that the addition of new capital should take.

Following a further discussion at a subsequent meeting, the board selected a preferred option from amongst those presented in the paper, and called for the preferred option to be refined. The discussions and decisions to this point were identified as lead-up decisions that, along with other discussions and decisions, formed a foundation for a subsequent strategic decision. The detailed analysis of the capital options, and discussion and negotiation with the shareholder, proceeded in parallel.

The board was kept fully appraised of progress at each subsequent board meeting. Directors asked questions and the board provided feedback to both the sub-committee and the chief executive. The board noted the progress of the sub-committee, asked probing questions, engaged in vigorous discussion, made suggestions and, finally, confirmed that the process should continue. Several months after the initial paper had been presented to the board and the intent from the shareholder had been received, agreement in principle on two main issues was reached. First, the board reached agreement with the divesting shareholder that the company would acquire the shares on certain terms. Second, a debt package—to fund the share acquisition and support increased working capital requirements—was negotiated with an external financier.

A resolution was put to the board: that the proposed share buyback and capital restructure be approved, subject to satisfactory legal and shareholder approvals being achieved; and, that the proposed debt package be established. After discussion, the board carried the resolution. The chief executive was charged with implementing the decision. The conditions on the resolution were satisfied in the following weeks and the decision was finalised for implementation. A debt package was established, and the company subsequently purchased and then cancelled the shares that the shareholder wished to divest, as planned. The strategic decision made by the board was material to the future prospects of the company: the acquisition of additional funding enabled the company to maintain its strong rate of revenue growth, and expedite the next stages of its strategy. The actions that followed the strategic decision included the recruitment of additional service delivery staff to satisfy increased demand expected to flow from increased sales and marketing activity.

The board took an active and on-going interest in the implementation process. It asked that management and financial reports provided a discussion of progress, to assist the board monitor the post-decision implementation and to verify that actual performance was tracking closely against budgeted growth expectations. Directors asked questions in subsequent meetings, primarily to satisfy themselves that the sales and revenue growth was occurring as expected. The flow-on effect of the strategic decision was the continued upward trajectory of the revenue line in the months following the implementation. The chief executive and chairman both independently and assertively attributed the continued growth being experienced to the additional funding that had been provided—to the extent that they were convinced that the growth experienced would not have been achieved had the strategic decisions not been made and, as a consequence, the funding not been available.

5.3.2 Expansion into international market: Soft entry

Encouraged by one of its business partners—who promised to provide an initial revenue stream—one company chose to investigate a possible expansion of its business operations into a new international market. The consideration was opportunistic: the company had no obvious or explicit strategy to enter the market and establish and office presence suggested by the business partner. This was confirmed during an interview. Despite this, the chief executive and senior managers decided to assess the opportunity and to proceed with what the chief executive termed a 'sponsored pilot' as a low-cost means of assessing the viability of entering the new market. A summary of the decision sequence timeline, extracted from the LT framework for this decision is shown in three parts in Figure 5-4, Figure 5-5 and Figure 5-6 below.

When told about the opportunity, the board agreed that the preliminary investigation should proceed using New Zealand based resources. Management justifications had included that the pilot would enable the revenue potential that had been indicated by the business partner to be validated, and to understand the type of resources required to realise the market potential. From the board's perspective, the stated intention of the pilot was to inform a future strategic decision (to commit to the market or not). However, events overtook the board's intentions.

After an initial period of low activity, a burgeoning revenue stream started to flow, creating unexpected demand for additional management focus and resource (people and funds). The chief executive realised that it would not be possible to continue to service the market effectively if customer servicing was limited to periodic visits by staff domiciled in New Zealand and frequent electronic communications of various forms. A decision was needed to determine whether the new revenue stream provided sufficient confidence to commit to a full-scale market entry and to pursue what appeared to be a significant business opportunity.

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Figure 5-4: LT framework (soft market entry), Part One

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Figure 5-5: LT framework (soft market entry), Part Two

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Figure 5-6: LT framework (soft market entry), Part Three

The chief executive presented a paper to the board for discussion and feedback at a subsequent meeting. The board reviewed the paper. The board did not discuss the fundamentals of anticipated strategic decision to establish an in-country presence. Rather, the discussion centred on the suitability of the staff and the logistics of the relocation (the chief executive said they had already committed staff, having identified a suitable candidate to relocate as team leader; and, that management was committed to the expansion). The discussion about the willingness and suitability of the team leader (who was rumoured to have suggested that they might resign if they were not appointed) took precedence over whether the board should make a decision to commit to the international market with an in-market office or not.

The opportunity was not explicitly tested against the company's growth strategy, other than a passing comment by the chief executive that "it is similar business and seems to be low risk". Several directors seemed to be supportive of the proposal during the discussion, even though the expansion had not been foreseen within the agreed strategy. After further discussion, the board seemed to become comfortable, if not convinced, that the establishment of an office was worth pursing "because of the opportunity it presented". This comment, by one of the director was quickly followed by a decision to act, even though the budgeted revenue and cost figures provided in the paper had not been reviewed nor any performance objectives discussed. The team leader was relocated and an in-country presence was established.

What became apparent during this discussion was the decision to commit to the market had been made, in the minds of management at least, many months earlier. Despite the strategic decision to enter a new market appearing to have been made by the board at that time, further enquiries revealed that the decision had actually been made twelve months earlier when the pilot was established. It was at that point that the chief executive became committed. The latter 'decision' was little more than a ratification to sanction earlier events. Management had, possibly unwittingly, controlled the decision-making process and the board's contribution was essentially one of rubber-stamping.

Subsequently, the board did not proactively monitor the new venture in the early months following the relocation of the staff member and the establishment of the office. Reports and updates were not explicitly requested so that the board could monitor the success or otherwise of the decision. The corporate strategy was not reviewed or adjusted to incorporate the new venture, nor were the budgets adjusted to account for the expected additional revenue and costs that had been forecast in the chief executive's paper. Initially, all of the revenues and the costs were consolidated within existing reports as well. However, this was subsequently changed after the chief financial officer received advice from the company's external tax and accounting advisers that reporting by market would be helpful to oversight, and that the establishment of a separate subsidiary company domiciled in the country was necessary for various legal and taxation purposes.

5.3.3 Commitment to international market: Acquisition

One company considered a proposal to acquire another company with complementary skills and expertise, to expedite the achievement of critical mass in a specific international market that had been identified as being strategically important. A summary of the decision sequence timeline, extracted from the LT framework for this decision is shown in three parts in Figure 5-7, Figure 5-8 and Figure 5-9 below.

While the company had traded internationally in several markets during the previous decade, sustained profitable growth in the offshore market had been difficult to achieve (despite the provision of considerable support from the head office and in-market assistance by several important suppliers and business partners). The achievement of growth in selected international markets was a stated priority within the approved corporate strategy, and acquisition-led growth had been identified as a viable option through which to pursue the strategy. However, the company had experienced difficulties in international markets in the past. The board was very aware to this: the possibility of withdrawing from the market under investigation was discussed on no less than four separate occasions prior to the observation period even though the market was considered to be "strategically important".

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Figure 5-7: LT framework (acquisition), Part One

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Figure 5-8: LT framework (acquisition), Part Two

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Figure 5-9: LT framework (acquisition), Part Three

On one occasion, the board requested financial and market information from the chief executive to enable the board to determine the viability to remaining in the market (the requirement being that the market would become self-funding in the near term). The information was provided at a subsequent meeting. When discussed, a variety of preferences were expressed. Some of the directors wanted to give the chief executive more time to grow the business towards profit. Others directors were less patient—one wanted the business to 'pay its way' in the near term and another director argued that the business either needed to become profitable immediately or the company should withdraw from the market so that resources could be redeployed more productively elsewhere.

Coincidentally, an important supplier approached the chief executive between two meetings when the matter was being debated. The supplier said that another of its representatives (another company already operating in the market) might be interested in receiving a merger or an acquisition proposal. The chief executive had an informal discussion with the chairman, who agreed the possibility was sufficiently significant to merit the full board's consideration. The chairman asked the chief executive to prepare a briefing paper to the board for comment.

The board received the paper at a subsequent meeting and discussed it. The chief executive said that the acquisition option had the potential to provide much-needed critical mass in the market and, therefore, was likely to accelerate the company towards its growth goal and address the board's previously stated concerns. The chief executive also said the acquisition would enhance the company's marketing 'story' by rounding out its product and services portfolio, and that this was likely to have benefits in all markets and, therefore, help accelerate the achievement of the company's overall growth strategy. Many questions were asked, mainly to challenge aspects of the paper and the assumptions therein.

After a long and wide-ranging discussion, the board agreed that further investigation was appropriate. The chief executive was asked to approach the other party to gather information. This information was subsequently collected, analysed and presented to the board. The board reviewed the information and decided to conduct due diligence to further assess the opportunity. The board also asked to see copies of documentation relevant to any formal acquisition proposal that might be prepared, for review, prior to it being released to what had then become the acquisition target. This was clarified to mean a business case, business integration plan and a draft sale and purchase agreement.

A business case to support the proposed acquisition was presented at a subsequent board meeting, for the board's consideration. The proposal included a recommendation to present a formal offer and to seek to execute a transaction. The board debated the business case for some time. Various risks and scenarios were explored. Ultimately, the board decided to proceed, on the basis the acquisition would expedite the achievement of the company's growth strategy; be profitable and that risks could be mitigated satisfactorily; and, that the people and the culture of the acquisition target were compatible with the company. Following the formal decision, the proposal was presented to the acquisition target. Following a brief negotiation, the proposal was accepted by both boards, subject to the approval of both company's shareholders (the acquisition triggered the 'major transaction' provisions).

The chief executive began the integration process to assimilate the acquired business into the company almost immediately after the acquisition date. The board also sought to engage (via the chief executive) in-market experts in an advisory capacity, both to collect further market information and to assist with the development of an in-country market development strategy. The tidy integration of the acquired business was considered to be crucial to the achievement of the expected benefits and, ultimately, the company's aspirations in the international market. The board also wanted to minimise disruption within the balance of the company and amongst the executive team while the integration proceeded.

The strategic decision was made in the context of the company's approved growth strategy, even though the strategy made no explicit mention of growth by acquisition. While the company had an international growth strategy, the board was concerned to ensure that any international market presence would achieve and sustain operating profits within a defined period or be divested. The board monitored the post-acquisition performance of the market closely for some months after the acquisition was made.

The board's interest included a request to meet, and receive a presentation from, the head of the acquired business (who was appointed as the executive (henceforth, 'Executive A') in charge of the new in-market entity). This occurred several months after the acquisition date. The board scrutinised the capability of Executive A closely, and asked probing questions—both while Executive A was present in the board meeting and afterwards—to assess whether, in the words of one director, Executive A "had the capability to deliver the results we need". After Executive A left the meeting, one director asked the chief executive two questions directly, "Is <*name omitted*> up to it?" and "If not, what do you to do about it?" Without hesitation, the chief executive confirmed the Executive A had their support. The question demonstrated that the board, or the director who asked the question at least, planned to hold the chief executive accountable for both successful integration of the acquired business, and the future performance of Executive A and profitable performance of the market.

Notwithstanding the close scrutiny by the board prior to the strategic decision and its continued monitoring of post-acquisition performance, the integration process took more time, effort and cost than was anticipated in the approved proposal. A lower level of performance than what was forecast in the business case was achieved in the six to 12 months following the acquisition. This variance was acknowledged, including with a direct statement in the company's annual report to shareholders. The board continued to monitor financial and operational performance closely; and, to challenge the validity of the market strategy, sales tactics and the leadership capability of Executive A. The board wanted to be assured that resources were being appropriately, and that the expected performance objectives (profitable operation and contribution to operating profits) were actually achieved. However, the expected improvements in sales, revenue trends and monthly operating performance started to become apparent towards the end of the first financial year following the acquisition transaction, suggesting that progress was being made towards the achievement of the business case that was approved in order to make the acquisition. The chief executive confirmed this.

5.3.4 Strategic reorganisation

During the observation period, one of the boards began to express concerns that the chief executive had become too busy with operational matters and that they were not giving enough attention to strategic priorities. In the board's (stated) opinion the chief executive had too many direct reports and this was limiting the amount of time they had available to focus on strategy. The board suggested to the chief executive that the company might be outgrowing the current organisational structure. The board asked for a review, the outcome of which was expected to be a decision to make adjustments to expedite the implementation of the growth strategy that the company was seeking to achieve. Whether any change should be a minor adjustment to the existing structure, or a major restructure, remained to be determined.

The board recognised that decisions relating to specific changes in organisational structure were the responsibility of the chief executive. Though important, such decisions are usually operational. However, the board wanted to be satisfied that the chief executive was using available resources as productively as possible. Therefore, the board considered the matter had strategic importance. Thus, the decision was considered to be a strategic decision within this research. A summary of the decision sequence timeline, extracted from the LT framework for this decision is shown in three parts in Figure 5-10, Figure 5-11 and Figure 5-12 below.

The board also impressed on the chief executive that the review should be conducted expeditiously, and any changes should be made promptly because, in the board's view, the chief executive was simply too busy—hence inhibiting the chief executive's effectiveness and, as a consequence management decision-making and, ultimately, company growth. The board discussed the situation with the chief executive. The chief executive was asked to prepare a paper demonstrating how to enhance the efficiency and effectiveness of the company's people resources.

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Figure 5-10: LT framework (strategic reorganisation), Part One

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Figure 5-11: LT framework (strategic reorganisation), Part Two

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Figure 5-12: LT framework (strategic reorganisation), Part Three

A paper, which included a range of structural and operational options, was subsequently presented to the board for comment and feedback. Upon consideration, the board suggested that a restructure was a pressing priority. Several of the directors with direct experience leading larger companies, optimising structures and implementing structural changes provided feedback and made suggestions. Some weaknesses in the initial proposal were exposed. Two directors offered to meet with the chief executive before the following board meeting to provide advice and assistance, if required. The chief executive thanked the directors and accepted the offer: an ad hoc board committee had been formed.

The chief executive adjusted the proposal with the assistance of the two directors after the board meeting. An amended proposal was presented to and discussed with the board at a subsequent meeting. The board offered both support for the amended proposal (in effect, ratifying it) and strong encouragement to the chief executive to implement the proposed restructure as quickly and as smoothly as possible. Throughout this interaction, the board made clear to the chief executive that the final decision regarding the organisational structure remained with the chief executive.

The board's close interest in the restructure including its request to see and comment on the preferred structure had the effect of splitting the decision into two parts. The first part was the 'decision' that a new structure was necessary. The board, in effect, imposed on the chief executive the requirement to make changes. The second part was the selection of a preferred structure. While the board stated that the final decision lay with the chief executive, the board's behaviour—of asking to see the proposal at each stage and suggesting changes—had the effect of shifting power away from the chief executive. In effect, the chief executive had the final decision, but that decision needed to concur with the preferences of the board.

The decision has been included as a strategic decision because of its strategic importance and the close involvement of the board. Once implemented, the changes that flowed from the decision had the prospect of making a considerable difference to the future operational performance of the company and the company's ability to execute the growth strategy. Two directors stated that the decision and subsequent restructure was strategically important to both the achievement of strategy and company's achievement of performance goals, thus the board's close interest. Once the preferred structure was selected and the board endorsed it, the chief executive was free to act.

The board asked about the implementation of the reorganisation project at the next meeting. Two directors expressed surprise and one expressed disappointment when they learned that the new organisational structure had not been implemented. Several of the directors encouraged the chief executive to act quickly. The chief executive confirmed their commitment to implement the changes as quickly as possible, but defended the state of the implementation. They highlighted the need to follow due process, particularly in relation to employment law. The exchange of views that followed was tense: expectations were misaligned.

The exchange provided insight into board dynamics. It demonstrated that the board had the ability to assume multiple personae. Prior to the formal decision when the options were being considered and the organisational structure crafted, directors had worked closely with the chief executive, almost as colleagues. At the first meeting after the formal decision was made, directors were somewhat aloof. While probing questions were asked, thus enabling the board to exert control as it saw fit. The chief executive responded to the encouragement of the board by accelerating the reorganisation project as much as possible given the statutory requirements and processes associated with changes to employee terms and conditions.

Within two months the implementation of the new structure had been completed, with the exception of the recruitment of a new (external) staff member for an important new role that reported directly to the chief executive. One of the directors offered to assist the chief executive with the appointment by meeting the preferred candidate once one was identified. This offer was also gratefully accepted. While the chief executive would make the appointment decision, they said they appreciated having access to another opinion before the final decision was made.

The board continued to ask questions, make suggestions and offer support at subsequent board meetings, both to hold the chief executive accountable for business performance and to ensure the recently implemented organisational change was delivering the expected productivity benefits. In the months following the implementation of the new organisational structure, several senior staff left the business, including some that had failed to secure executive roles that they had applied for within the new structure.

Two decisions are apparent in the data: one made by the board (to assert that a new organisational structure was needed) and one made by the chief executive (to select their preferred organisational structure). While neither decision was inherently strategic, the additional capability and experience introduced through the reorganisation project and the removal of, at times, less capable and less focussed staff, was deemed to be crucial to the future performance of the company. The chief executive reported this directly to the board, and the board was observed to offer its explicit agreement. Concerns expressed by the board over the chief executive's ability to lead and achieve the growth strategy were subsequently allayed.

5.3.5 Equity event

During the observation period, one of the boards discussed the need for additional funding to both support the strong growth the company was experiencing and to fund important priorities that were material to the achievement of longer-term goals identified in the company's strategy. The company had been experiencing strong growth and had been trading profitably. However, working capital resources were becoming constrained. The board had to make a significant decision. Two options were identified: to seek additional funding to support the current strategy (by way of debt or additional capital), or to moderate the company's growth (and associated strategic goals) within its ability to self-fund. The chairman encouraged the discussion—he was keen to ensure the company was appropriately funded to meet both operational requirements and growth aspirations, and also that the board did not allow the company to trade recklessly. A summary of the decision sequence timeline, extracted from the LT framework for this decision is shown in three parts in Figure 5-13, Figure 5-14 and Figure 5-15 below.

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Figure 5-13: LT framework (equity event), Part One

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Figure 5-14: LT framework (equity event), Part Two

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Figure 5-15: LT framework (equity event), Part Three

When the company has previously considered funding options to support growth, the preference of the board had been to proceed with debt-based funding. However, a different preference became apparent during the discussion with one director saying, "Share capital is crucial to accelerate growth towards our strategic goals". Others, including the chief executive, shared their initial thoughts. The directors responded enthusiastically during the preliminary discussion. None of the directors expressed much interest in either tempering the company's growth or extending debt-based options. The introduction of a significant amount of new capital (equity) became the preferred option. Several sources were identified and briefly discussed including additional capital from current shareholders; from external investors such as private equity, high net-worth individuals or a large (cornerstone) investor; and, an initial public offering (IPO).

A resolution to pursue additional equity was recorded. Having made this decision, the board established a sub-committee comprised of two directors (both of whom possessed immediate experience of similar equity processes), the chief executive and the chief financial officer to investigate options. The sub-committee sought specialist advice from an external equity expert who was known to, and trusted by, several of the directors. The board received presentations and briefings from the sub-committee over a period of several months. A capital options paper containing two preferred options was presented to the board: a new cornerstone investor to join the share register and an IPO. The specialist advisor joined the meeting and the paper was discussed at length. Many questions were asked and answered. After the chairman was satisfied that all of the directors had contributed to the discussion he asked whether the board was ready to make a decision. The board was ready and so the strategic decision to pursue the IPO option was made.

Following the strategic decision, the board remained engaged. The sub-committee that had been charged with preparing the options paper was charged with refining the IPO option taking factors relating to market timing and interest in an IPO, the company's strategy, shareholder aspirations and current and expected firm performance into account. Interestingly, the board revisited the strategic decision a few months later. One of the directors had become concerned that market conditions had changed sufficiently that the decision to proceed with the IPO should be rescinded. After discussion, the board decided to continue, albeit with continued caution. The chairman noting that, “a final decision to activate the IPO is the point of no return. Until then, the board and shareholders have options.” Preparations for the IPO even were ongoing at the conclusion of the observation period. A final decision to formally activate the IPO had yet been made, although the board was demonstrably working towards the point of making the decision.

5.3.6 Portfolio diversification

During the research period, an opportunity emerged from within one company to develop a new and innovative product. If developed, the product idea would expand the company’s product and services portfolio into a new area and lead to significant new revenue to the company. However, investment funding was required to develop the idea. Management prepared a briefing paper to seek approval from the board to investigate the idea, with a view to developing a prototype, both to test the viability of the idea and to estimate the scale of the perceived opportunity. A summary of the decision sequence timeline, extracted from the LT framework for this decision is shown in three parts in Figure 5-16, Figure 5-17 and Figure 5-18 below.

The board discussed the opportunity described in the paper. While the company had a history of introducing innovative products and service offerings, the board was immediately convinced of the opportunity. However, further investigation was sanctioned. The board became more interested at the next meeting once it heard that the idea had the potential to grow into a large revenue stream and, therefore, make a significant contribution to the company’s growth imperative. That a prospective pilot customer had been identified was of particular interest to the board—it seemed to have been the catalyst that piqued the interest. The chairman confirmed this when interviewed, and that the opportunity was assessed on merit and that consideration did not extend to any explicit consideration of whether (or how) the proposal fitted into the company’s growth strategy (beyond any purely revenue-based contribution). The chief executive confirmed the opportunity was unexpected. Notwithstanding this, the board agreed to make an initial investment on the basis of a preliminary assessment (of “huge revenue potential”) and that the pilot customer would make a pre-payment in addition the company’s own investment.

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Figure 5-16: LT framework (portfolio diversification), Part One

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Figure 5-17: LT framework (portfolio diversification), Part Two

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Figure 5-18: LT framework (portfolio diversification), Part Three

The board asked to be kept informed of progress as a prototype was developed and the pilot got underway. The chief executive provided progress reports within each board pack at subsequent board meetings. Periodically, more substantive update papers were provided for discussion with the board. The board noted progress and asked questions, but only in response to potentially contentious matters mentioned in the substantive updates. The board did not initiate any enquiries itself. The two aspects of the proposal that were of most interest to the board were the revenue opportunity and the technical specifications of the product to be developed. (Several of the directors had relevant and highly technical backgrounds, thus detailed specifications were of inherent interest.) The strategic fit of the opportunity was rarely mentioned, and the validity or size of the market opportunity was never discussed during board meetings.

Approximately 10 months after the idea was first introduced to the board, the chief executive tabled another discussion paper. The scale of the business opportunity had been assessed to be very significant (although no market data or information was provided in the paper to support the claim). However, considerable additional investment was required to commercialise and promote the product. The board accepted that the business opportunity could be strategically significant and that it ought to be pursued. The motivation to support the opportunity was based on the revenue potential and the prevailing culture of innovation, rather than any inherent alignment with company strategy.

The board did note that further investment would be required to pursue and realise the opportunity and secure the revenue potential therein because the company had insufficient financial resources available to commit the necessary funds itself. The possibility of a joint venture (with a third party, not the pilot customer) or some other investment instrument was mooted, as a vehicle to introduce funds needed for the commercialisation of the product concept, with the suggestion that a subsidiary company or some other commercial structure would be required if this was pursued. The board responded positively to the suggestion. A strategic decision to commit to the project was made on the basis of the discussion paper because of the opportunity it presented, although the decision was conditional on external funding (most probably some form of joint venture) being secured. No formal business case or performance objectives were presented.

The pilot continued for another twelve months, during which time the chief executive provided updates to the board. Then, the chief executive prepared an information memorandum (henceforth, IM) for distribution to selected parties that the company thought might have an interest in making an investment and the ability to do so. The proposed IM was not provided to the board for its approval—an indication perhaps that the board had either delegated the implementation of the strategic decision and had moved into a monitoring mode following the strategic decision that it had made earlier, or the chief executive simply acted on the decision.

The company was successful in attracting new external investment. The proposal to establish a subsidiary company was well received. After discussion, including confirming that the company and the external investors would hold equal shares in the new company, the board moved, straightforwardly to ratify its earlier decision. The sentiment of the board was reflected in one director's statement, "Isn't it great to see a big decision we made ages ago finally come to pass?" Other directors agreed. Whether the strategic decision was made early (when the board decided to commit to the product development) or later (when the investment was secured and the new company was to be formed) is not entirely clear. However, the sentiment expressed during the board meeting suggests that, in the board's mind at least, their earlier decision was the strategic decision. Notwithstanding this, management then took responsibility to ensure the new company was formally established, after which intellectual property, staff and resources were transferred. With these actions, the board divested its formal oversight of the project. The chief executive continued to report the development of the fledgling company to the board. However, the board displayed little interest—other much more pressing priorities had come to the fore.

5.3.7 Strategic market development

During the research period, the sales team of one of the companies became aware of what appeared to be a strategically significant business opportunity. Several organisations within a market sector were exploring the possibility of deploying a set of standard systems, processes and practices to enhance collaboration and information sharing between related organisations. The goal was to reduce operating costs and improve customer service via a shared services model. Through a sales qualification process, the sales team investigated the opportunity. It was assessed as being “significant, winnable and strategically important” according to the chief executive. A summary of the decision sequence timeline, extracted from the LT framework for this decision is shown in three parts in Figure 5-19, Figure 5-20 and Figure 5-21 below.

The company had customers in the sector, which suggested the opportunity to provide an integrated solution was an incremental expansion rather than a new market entry. If selected as a supplier, the company could look forward to a greatly increased revenue stream from organisations within the market sector over several years. However, if another company were to become the preferred supplier, the negative impact on revenues would be similarly significant. Despite the significance of the opportunity and potential impact on the company, the board was not briefed. The opportunity was pursued within the day-to-day operation of the company.

The first time the opportunity was mentioned to the board was when a comment was made in the chief executive’s report. The company had been short-listed as a supplier and the sales team was committed to winning to the opportunity. The note indicated that the opportunity was “very significant” in scale, and that considerable capital would be required to establish an ‘integrated service offer’ to realise the opportunity. Several major risks were identified including the speed of uptake amongst the organisations within the industry sector, and the negative impact on the business if the opportunity was lost. However, no mitigations were suggested. The board continued to discuss the opportunity at subsequent meetings. The board appeared to be very interested in hearing about the opportunity but relatively few questions were asked.

After some twelve months of regular briefings (a long sales cycle being typical in the industry) and periodic decision by the board to continue to support the investment to pursuing the strategic opportunity, the level of board engagement changed. The catalyst was a comment made by one director, who asked in a frustrated tone, “Is this opportunity core to the company’s business strategy or is it simply a major deal with risks”. The chief executive responded promptly by stating that, “the opportunity is of a scale that it is inherently strategic”. Silence followed. This point was not pursued any further, perhaps an indication that the director accepted the response or that the chief executive had exerted power and authority.

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Figure 5-19: LT framework (strategic market development), Part One

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Figure 5-20: LT framework (strategic market development), Part Two

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Figure 5-21: LT framework (strategic market development), Part Three

However, a long and at times vigorous debate did ensue as the board considered the opportunity more closely than before. Directors became much more engaged than they had been to date. They asked questions and responses were provided. After a pause, the chairman suggested that risks be identified and discussed. The board responded as requested. When the discussion reached a natural break, the chairman asked the board to decide whether this was an opportunity that seemed to be worth pursuing. After a few more comments, the board decided it was. A decision was made to authorise the chief executive to enter contract negotiations should the company be selected as a preferred supplier.

A progress note was provided within the chief executive's report at the following meeting. The company had been invited to enter contract negotiations. Directors were visibly excited by the favourable decision. When asked by the chairman, the chief executive said that management was confident of being awarded the business on favourable terms. Directors promptly offered their support (informally, via verbal statements and three directors both nodded and displayed thumbs-up signals) to encourage the chief executive to complete the negotiation.

Two months later, the chief executive reported the company had been successful in winning the business. A contract to deliver the products and services had been successfully negotiated, together with a commitment in the form of customer orders and corresponding pre-payments to support the first stage of service development. The approval of the board was not sought to sign the contract, nor was a copy of the contract provided for the board's information after it was signed. Despite the chief executive reporting that the contract was the largest that the company had ever signed (annualised revenue was estimated to be at least 10% of the company's then total annual revenue), the proposed contract was not presented to the board for review before it was signed. This was surprising given the scale of the transaction and the material effect of any penalties for non-performance. A straightforward comment was provided in the following board pack, to confirm the contract had been signed.

With hindsight, the strategic decision, to commit the company and considerable resources had been made by management. No further reporting was provided to the board after the contract was signed. No questions about the project or the implementation were asked by any of the directors at any subsequent meeting either. The board had moved onto other significantly more pressing priority that had the potential to threaten the future of the company.

5.4 Summary of first-order analysis

A summary of the first-order analysis of the data collected for this research was presented in this chapter. Primary and secondary data were reviewed, screened and collated onto decision tables and LT frameworks to develop a holistic overview of board structure, composition and activity; the board's involvement in strategic management (especially, strategy development, strategic decision-making and the monitoring of strategy implementation); strategic decisions and strategic decision sequences; and, firm performance.

Current and historical approaches to strategy development revealed different approaches and different levels of board involvement therein, both between the two boards and over time. The analysis also revealed that the two companies made 358 decisions during the research period, nine of which met the 'strategic decision' criteria. The sequence of events leading up to and following each strategic decision was described. While the board made most of the strategic decisions, management made some—an indication perhaps that 'power' (Peebles, 2010) lay with management on occasions because in each case the board's response was to ratify the decision that had already been made.

Despite these variations, both chairmen stated, emphatically, that the respective boards sought to influence the achievement of agreed performance objectives through their interventions, actions and decisions, and to create value as a consequence of the decisions in the boardroom. The phrases 'seeking to influence' and 'actively pursuing business goals (or a close variant) were used in no less than four of the chairman's reports published in the company's annual reports. Further analysis, to understand the board's contributions to strategic management in more detail is presented in Chapter 6.

Chapter 6: Second-order analysis and findings

Science is a journey, and the existing theory is not its destination.

Gummesson, 2000, p. 90.

6.1 Introduction

The purpose of this chapter is to gain a deeper understanding of how the two boards worked; the impact (if any) of the strategic decisions made by the board; and, how the boards sought to exert influence from the boardroom by building on the first-order analysis reported in Chapter 5. The analysis of the approaches to strategy development (see Section 5.2) and strategic decision-making (see Section 5.3) by the two boards revealed a variety of contributions. Variations in the level and style of engagement (especially the boards' involvement in strategy development, strategic decision-making and post-decision monitoring tasks) were evident both in the data and the subsequent analysis.

Building on the descriptions of how strategy was developed in the participant companies and the strategic decision sequences noted in the first-order analysis, the respective board's involvement in strategic management tasks is now analysed. A synthesis of the board's involvement in strategic management, strategic decisions made by the board and performance inflections noted in the financial data is then presented. The division of labour (of strategic management tasks) between the board and management is then analysed. Four different divisions are identified, including a collaborative model of board–management interaction. This analysis provides another perspective of board engagement, one that has similarities to but extends those suggested by Wheelen and Hunger (2006) and Nadler (2004a). Underlying director qualities, behaviours and interactions that appear to be material to effective board contributions are identified, leading to the development of a mechanism-based understanding of corporate governance and the governance–performance relationship. The findings that emerge from this analysis are discussed in the context of the extant literature in Chapter 7.

6.2 Board engagement in strategic management

The Alpha board was actively engaged in the strategic management process throughout the research period, including the development of strategy, strategic decision-making and the monitoring of strategy implementation. All of the Alpha directors were involved in the process of identifying and determining future priorities (e.g., through their active participation in both strategy days and strategy discussions in board meetings). Directors remained alert, asking relevant questions and debating options to determine how proposals might assist the company expedite the achievement of agreed purpose and strategy. Vigorous debate occurred frequently (Kerr & Werther, 2008)—often spontaneously, though always with professional courtesy. It was normal practice. Through its active involvement, the board sought to identify and select strategic options, and make strategic decisions, the implementation of which were expected to lead to the creation of additional shareholder value. The board expected to influence the future performance of the company through its active engagement and decision–making. The observed level of involvement was generally consistent with the 'Total' mode described by Zahra and Schulte (1992).

Following each discussion in the Alpha boardroom, decisions were made and actions were assigned. The board was observed to maintain an active interest in the implementation of its decisions at subsequent meetings. Directors expected progress reports to be provided at subsequent meetings, and these were subsequently provided. They also asked questions and made enquiries, either in response to matters raised in the chief executive report or in general discussion. The board expected to be required to endorse major work streams; check alignment with strategy; and, to support the chief executive in the implementation of agreed strategy.

Despite the observed high level of engagement, the shareholding Alpha NEDs were noticeably 'conflicted' between acting in the best interests of the company (as required by the Act) and pursuing their own interests as shareholders. This tension resulted in some frustration amongst directors and impeded decision-making at times. The NEDs' reluctance to support proposals relating to the reinvestment of profits into growth activities (they thought such decisions might limit dividend payments, and said so during an observed meeting) led to the chairman saying on one occasion that, "speed in decision-making is crucial to the realisation of this time-limited growth opportunity. It could lead to significant revenue growth and new market penetration, if we act quickly". Even with this encouragement to act, some significant decisions were delayed (one, for several months) while opposing views and motivations were debated and, finally, overcome. This exchange was observed in board meetings, and discussed briefly in the interviews. However, no indication of this or any other delay was reported in the minutes or board reports.

By comparison, the active engagement of directors and energetic style of interaction observed in the Alpha boardroom was rarely evident in the Bravo boardroom. Strong superior–subordinate relations between the chief executive director and the other executive directors seemed to have had the effect of moderating director behaviours and interactions. While the chairman said when interviewed that he expected the board and management "to work together on strategy", the board's actual contribution was rather more limited because Bravo management principally performed the task. During observed board meetings, probing questions were rarely asked. The Bravo directors did not display advanced levels of strategic or critical thinking (Moon, 2008) thought to be conducive (Yaniv, 2011) to robust, wide-ranging debate. The Bravo board engaged in normative board practices but there was often little active engagement (through probing questions and enquiry, for example) to explore strategy or future business options.

While the Bravo board responded to questions asked by the chief executive, any board decision that was likely to oppose the actions already taken or to be taken by management was perceived as being contentious and potentially damaging to relationships amongst directors and with the chief executive. The board acquiesced on each occasion, deciding instead to ratify decisions already made by management. The board did not actively test proposals, nor did it explore alternatives thoroughly. Therefore, it could not have shaped strategic decisions (Barroso et al., 2009). The observed behaviour (of acquiescence and subordination to the chief executive) was repeated on several occasions throughout the observation period—until the cash crisis occurred, at which point the board intervened more strongly.

Despite this observation, the Bravo chairman claimed that a strong commitment to innovation was a highly valued aspect of the corporate culture (Turró, Urbano, & Peris-Ortiz, 2014). The Bravo chief executive also supported the culture of innovation. He said that it "provided an additional means of increasing revenues and, in time, returns to shareholders". However, the board's stated interest and support of innovation tended towards ambivalence. When large-scale ideas (so-called 'ideas with potential') were recognised by management or staff, a briefing paper was prepared to introduce the idea to the board and seek the board's support to develop the idea. Briefing papers were rarely discussed beyond cursory enquiries. That executive directors dominated the Bravo board was probably a contributory factor—executive directors seemingly seeing little additional value in 'replaying' discussions for the benefit of the single (latter two) NED's benefit, even though one of the chairman's stated goals was to "lift the board above the detail". Consequently, the board's influence over product and service innovation was muted—at times even ceremonial.

The somewhat genteel style of interaction between the Bravo directors and the chief executive was consistent with reasonable behavioural norms and interactions between agreeable adults. However, this style of interaction may have been counterproductive to growth and value creation aspirations of the board and, presumably, the shareholders. For example, the [near] achievement of revenue targets at Bravo—both historically and during the first three-quarters of the research period—provided the board with a degree of confidence even though considerably less profit was being achieved than had been forecast. The information in the chief executive's report was the primary source of confidence amongst the directors to suggest that the business was performing as expected, in revenue terms anyway. The Bravo chief executive indicated (both verbally during board meetings and in his written report) that the situation "would come right". The board did not challenge the commentary. That few if any probing questions were asked constituted tacit acceptance of the chief executive's position on the matter, thus reinforcing the earlier observation that 'power' actually rested with the chief executive not the board, along the lines that Peebles (2010) reported in his study. Curiously, the same chief executive expressed frustration when he was interviewed, saying that “things were not coming right”, and that “lack of ownership” by both the management and board was a problem.

Notwithstanding the different board practices adopted by Alpha and Bravo, and different levels of engagement by individual directors and the boards as a whole, both boards made sequences of decisions (see Section 5.3) culminating in a strategic decision in most instances and an instruction to implement the decision. The two chairmen confirmed that the incremental approach to decision-making by each board (as was observed in board meetings) was intentional. They both indicated that risk management was the primary consideration—especially for strategic decisions, which were expected to have a major effect on the company’s finances, trading position, public reputation or future valuation. One added that, “the incremental approach to decision-making provided the board with the confidence that the final decision had been properly considered, and that it was well-informed and that relevant risks had been both identified and mitigated appropriately”. Both chief executives volunteered a similar perspective when asked (during the interviews) to describe how strategic decisions were considered and made by the board.

Some of the strategic decisions made by the boards during the research period were made with explicit reference to the respective company’s approved strategy. Others decisions (P. D. Olson, 1986) were made ‘on merit’ and without any explicit reference to strategy. Also, the chief executive made some strategic decisions, even though the board had visibility and, in other circumstances, would have expected to make the decision. The strategic decision to formally establish and commit to an international market (see Section 5.3.2) is an example of management controlling the decision-making process, even though the board was aware of the pending business opportunity and technically made the decision. When the board discussed the situation, no reference was made to the company’s strategy or purpose. Consequently, any demonstrable alignment between the establishment of the international office and approved strategy was intuitive, at best. Further, the board’s primary concern related to the relocation of the staff member: questions were limited to exploring this aspect of the proposal only. Notably, the strategic decision to establish the office appears to have been made (in principle at least) quite some time before the board discussion[47]. Notwithstanding the actual sequence of events, the decision to establish an in-country office has been successful. A steady stream of new business started flowing in the months following the decision. However, the revenue growth probably occurred as a consequence of a favourable business partner relationship (which actively introduced business opportunities). The board's involvement in the decision-making had been limited to a decision to approve the 'sponsored pilot' and, subsequently, rubber-stamping of management's action to commit to the market entry. No resolution was recorded in the minutes.

In contrast, the establishment of an appropriate organisational structure (see Section 5.3.4) was an example of high influence by the board, even though the decision to be made was not intrinsically strategic. The board initiated the discussion with the chief executive because, in the board's opinion, the chief executive was too busy and at risk of losing effectiveness. The establishment of an appropriate organisational structure to support the implementation of the company's strategy has been discussed in the literature (Drucker, 1974). That the board recognised that a new structure might be required to expedite the continued growth of the firm (Penrose, 1959), and that it offered resources to provide advice and assist where required (including to critique various options and to comment on preferred candidates during the recruitment process) demonstrated that it was attempting to exert influence from the boardroom.

However, the board's decision to offer assistance introduced a new risk: that directors might step across reasonably well-recognised divisions of labour and delegations as they provided assistance of various kinds. This risk was discussed at two subsequent board meetings, and both the chairman and the chief executive made reference during interviews to the need to distinguish roles and allocate tasks carefully. The chairman was clear with the statement that, "directors should not and would not become involved in any detailed decision-making activity or selection process that fell within the defined role and responsibility of the chief executive". With this *modus operandi* to the fore, the board continued to closely monitor progress towards the new structure; ask questions; make suggestions; and, to encourage the chief executive to act promptly.

[47] The staff member who had been identified by management as the team leader had already agreed to the relocation, and was in the process of making arrangements to move their family at the time.

Two different chairmen have chaired the Alpha board since the near failure of the company (see Section 5.2.2). The incoming board made the decision to become actively involved in strategic management. The first chairman preferred the board to lead the strategy formulation process and the second preferred leadership of the process to be held by the chief executive. Despite these preferences, both chairmen considered strategy development to be a process (Mintzberg, 1987), and they expected the board (i.e., all of the directors) to be fully involved in the entire strategy development process, together with the chief executive and appropriate members of their executive team, as was apparent in the preceding analysis. While 'process leadership' passed from the board to the chief executive when the new chairman was appointed, the company continued to experience strong revenue growth. This suggests that the board's continued active engagement in the process of developing strategy; the elicitation of contributions from the board and selected managers, customers, suppliers, staff and other parties; a collaborative approach to strategy development (board and management, together); and, joint ownership of the resultant strategy by the board and management are of greater significance to the achievement of desired performance outcomes than any deterministic assignment of the strategy development process to board or management; the structure of the board; task ownership; or, the source of the strategy itself.

A highly collegial relationship before, during and after each observed board meeting was apparent amongst Bravo directors. This had existed for many years—unsurprisingly so, as most of the directors were also managers who worked together on a daily basis. The collegial environment and 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 company when the board met every second week (albeit with a management orientation). However, probing questions were rarely asked during observed board meetings, and management did not heed calls to action on several occasions during the research period. Also, demarcations between the role of a director and of a manager were blurred. While the board was a legal reality, the conduct of the practices of corporate governance and strategic management was often perfunctory, because the board was, essentially, 'ceremonial'.

The Bravo board did not hold management to account (in the manner envisaged by agency theory at least) on any consistent or on-going basis. The board was aware of the financial performance shortfalls (see Figure 4-3, EBIT performance in the latter years especially) through the board reports provided by the chief executive and the chief financial officer. The board was also aware of the risks associated with the weakening financial position and threats to the company's strategy some months before the serious financial difficulties were encountered. However, no action was taken by the board on the information provided to it, despite multiple conversations about risks, scenarios and mitigations taking place on several occasions during the research period, including an extended discussion during one observed board meeting.

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 initiate any mitigating or corrective actions itself. That management did not take any direct action itself either—for many months—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 continued to highlight the discrepancy between actual performance[48] and expected performance—board pack after board pack—yet no action was taken. This vignette demonstrates that the board exerted little if any influence over the chief executive[49]—until critical and urgent remedial actions were necessary to protect the viability of the company.

6.3 Synthesising board engagement, decision-making and performance inflections

Further to the preceding analysis of board engagement in strategic management, a synthesis of board observation, interview and financial data of collected for this research revealed additional insights into board involvement in strategic management. Associations between board

[48] Measured variously as revenue, margin, operating profit, delivery of client projects and client satisfaction.

[49] The exertion of power by the board over the chief executive is reportedly difficult to achieve when executive directors dominate the board (Combs, Ketchen, Perryman, & Donahue, 2007).

engagement, strategic decisions and performance inflections became apparent as the synthesis proceeded. These are presented in the following sub-sections.

6.3.1 Alpha

A synthesis of Alpha financial (revenue and EBIT), strategic decision, historical decision and board engagement data is shown[50] in Figure 6-1 below. Several performance inflections are apparent. Possible contributing factors are summarised in Table 6-1 that follows.

Upon the completion of non-disclosure agreements, the data in this figure was made available to the examiners for the purposes of the PhD examination only. It has now been removed with the express intention of maintaining confidentiality and anonymity of the participants and companies that contributed to this research. Readers and fellow researchers can have confidence that the data supported the analysis. Therefore, read past these 'gaps' and progress to the analysis that follows.

Figure 6-1: Financial, strategic decision and degree of board involvement data (Alpha)

Over time, the level of the Alpha board's involvement in strategic management has varied along the full length of the continuum described by Wheelen and Hunger (2006). During the period from FY2003 to the latter part of FY2008, for example, board involvement in strategic management was consistent with 'minimal review' characteristics, even to the point of the board rubber-stamping the chief executive's proposals on occasions. However, board involvement moved almost immediately to the position described by Wheelen and Hunger as 'catalyst' once the extent of the trading difficulties (described in Section 5.2.2) became apparent. Then the board intervened, strongly. Decisions were made, and revenue declined following the board's decision

[50] Strategic decisions are marked 'D'. The two decisions marked 'HD' are historical decisions that were recounted during the interviews, relating to the arrival and departure of the professional manager.

to release the chief executive and to divest business capability. The explicit goal was to contain and then reverse the operating losses being experienced.

Table 6-1: Performance inflections in Alpha data: Possible contributing factors

Period	Inflection	Possible contributing factor(s)
FY2008	EBIT decline	New chief executive, new strategy (developed by chief executive), cost increases without revenue increases
FY2009	Sharp revenue decline; partial EBIT recovery	Board actively engaged (dominant) in response to near failure of company; cost cutting.
FY2010	Revenue & EBIT decline	Further cost cutting; non-core business lines divested or wound up. Board remains strongly engaged.
FY2011	Revenue & EBIT increase	Business recovery, new strategy, new chief executive. Board actively engaged but not dominant. Strong market demand for products and services.
FY2014	Revenue growth slowed; EBIT declined	Emergent capital constraints, latent board tensions, leadership capability, softening market demand

The operating losses were arrested through the decisions made by the board and consequent actions of the acting chief executive. Revenues recovered the next year and the operating losses were reversed as a result of decisions taken by the board to refocus the company and re-align resources with a new strategy that it had taken a leading role in developing. The board monitored the chief executive’s implementation of its decisions closely, to ensure action was being taken and expected outcomes were being achieved. The board moved into ‘active participation’ as the crisis situation was stabilised and the board’s confidence in the new chief executive grew. While the board has continued to actively participate in strategic management in the years since (including throughout the research period) the manner in which this is enacted has changed over time, as was reported in Section 5.2.

6.3.2 Bravo

A synthesis of financial (revenue and EBIT), strategic decision and board engagement data is shown in Figure 6-2 below. Though less dramatic than in the Alpha data, several performance inflections are apparent. Possible contributing factors are summarised in Table 6-2 that follows.

Upon the completion of non-disclosure agreements, the data in this figure was made available to the examiners for the purposes of the PhD examination only. It has now been removed with the express intention of maintaining confidentiality and anonymity of the participants and companies that contributed to this research. Readers and fellow researchers can have confidence that the data supported the analysis. Therefore, read past these 'gaps' and progress to the analysis that follows.

Figure 6-2: Financial, strategic decision and degree of board involvement data (Bravo)

In contrast to the Alpha board (where various degrees of involvement were observed), the Bravo board operated more or less consistently at the ‘minimal review’ and ‘normal participation’ degrees of involvement (see Figure 2-7). The board responded to management requests, made decisions when required and discharged its legal duties. However, it did not initiate enquiries (beyond cursory questioning), even in the manner of a ‘certifying board’ (see Figure 2-8). Despite this, Bravo experienced strong revenue growth throughout the 13-year period to FY2014. Minor upward revenue inflections in FY2007, FY2011 and FY2013 were the result of strong customer demand. The growth experienced by Bravo throughout the 13-year period occurred seemingly in spite of any influence of the board.

Table 6-2: Performance inflections in Bravo data: Possible contributing factors

Period	**Inflection**	**Contributing factor(s)**
FY2007	Revenue growth rate increased	Acquisition of complementary business; strong customer demand
FY2010	Revenue growth rate slowed	(Residual) GFC recessionary effects; intense competition;
FY2011	Revenue growth rate increased	Revenue from new international offices; strong local demand arising from industry awards and recognition
FY2012	Revenue growth slowed; EBIT declined	Working capital pressures; leadership capability; margin erosion
FY2014	Revenue growth slowed; EBIT declined	Working capital pressures; outgrown operating structure; project delivery difficulties

While Bravo experienced strong and relatively consistent revenue growth over an extended period, EBIT remained flat throughout most of the period for which company data was collected. However, EBIT declined during the research period and an operating loss was reported. Management reported the situation and the board noted the continued challenge of growing EBIT in line with forecast and expectations during board meetings. Significantly, no long-term trend analysis was provided (or requested) and probing questions about the continued divergence of revenue and EBIT were not asked, indicative perhaps of the ‘power’ that management held over the board—a pattern of interaction not dissimilar to that described in the Solid Energy case study (Lockhart & Cousins, 2015).

6.3.3 Associating board contributions and performance inflections

The data relating to strategic decision sequences was reinspected, to discover who was performing strategic managements tasks and to search for associations between the strategic decisions and subsequent performance inflections. Several associations were noted in the analysis. These are shown in Table 6-3 below.

Table 6-3: Board involvement in strategic management, by strategic decision sequence

Decision	Develop strategy	Approve	Implement	Monitor	Goal set and agreed?	Performance inflection?
D1: Acquire capital	Board	Board	Mgt + board cmtee	Board, active	✓	✓
D2: Int. market (soft)	Management	Board (notionally)	Management	Board, cursory	✗	N/O
D3: Int. market (acq)	Mgt + board support	Board	Management	Board, active	✓	✓
D4: Strategic re-org	Board + mgt	Mgt + board ratify	Management	Board, active	✓	✓
D5: Equity event	Board + mgt	Board	Mgt + board cmtee	Board, active	✓	N/O
D6: Portfolio diversify	Management	Board	Management	Board, minimal	✗	N/O
D7: Market devpt	Management	Board (notionally)	Management	Reporting only	✗	N/O
D8: Corp.strat (Alpha)	Board + mgt	Board	Management	Active, by board	✓	✓
D9: Corp.strat (Bravo)	Management	Mgt + board ratify	Management	Board, cursory	✓	N/O

✓ = inflection associated with decision or performance goal achieved
N/O = not observed

Associations were indicated between four of the identified strategic decisions (and associated sequences), and either subsequent performance inflections or performance goals. No associations were detected for the other strategic decisions and interventions by the board. At least two strategic decisions were made outside of the boardroom by the chief executive and other executive managers (although the board subsequently ratified the decision in each instance). This had the effect of shifting the possibility of any association away from the board. Finally, three of the strategic decisions were made late in the observation period and no associations were apparent by the end of the observation period. However, this does not mean that any of these strategic decisions necessarily had any effect.

Stronger associations seemed to be more apparent during periods when the board was actively engaged in all of strategic management practices of strategy formulation, strategic decision–making and performance monitoring[51]. The current Alpha chairman, his predecessor and the chief executive all stated, strongly, that the close and collegial engagement of the board and management together in strategy formulation and the consideration of strategic options was not only conducive to improved performance outcomes, but it was actually crucial. This verbal assessment, provided during interviews was consistent with the insight from the analysis of observation and board pack data. The board's strong and dominant response to the company viability crisis (see Section 5.2.2) was also considered by both the board and the chief executive to have been crucially important, primarily because the decisions made by the board and subsequent actions of the acting chief executive (including implementation of board decisions) contained and then reversed the operating losses (even though the revenue declined by 20 per cent). The two vignettes demonstrated that strong interventions by the board led to different outcomes (one revenue growth, the other revenue decline) at different times—reinforcing the irregularity of any association between board interventions and firm performance outcomes.

The directors of the participating companies did not immediately (or even always) agree with each other during meetings (many proposals initially received less than unanimous support).

[51] Performance monitoring is interpreted in this context to include ensuring the board's decisions were being implemented as expected, and that the company is operating within statutory and regulatory boundaries.

However, both boards were observed to make decisions more quickly, with a greater level confidence, during periods when high levels of teamwork (Reagans, Argote, & Brooks, 2005) and effective collaboration (Ansell & Gash, 2008) were observed between directors and with the chief executive. The joint and universal commitment of the directors to a common understanding of the company purpose, corporate strategy and performance objective(s) (as was apparent throughout the research period at Alpha, and in earlier years at Bravo) also appears to have been important. In addition, if the board continued to be engaged after a strategic decision was made (by holding management accountable for the implementation of decisions; verifying whether expected performance goals were actually being achieved; and, ensuring the company complied with necessary statutory requirements), then the likelihood of the board's decisions being implemented by the chief executive as expected was greater than if monitoring did not occur, or if performance was not verified, or if either were ineffective.

Conversely, when the company's purpose, strategy and performance goals were not clearly defined or were poorly communicated, decision-making in the boardroom was impaired. Decisions were still made, but only on the merits of the material presented to the board and, presumably, any tacit knowledge (Guzak & Rasheed, 2014) possessed by the directors. Influence from within the boardroom was noticeably slight whenever the directors were passive or disengaged (Kahn, 1990) during board meetings. As a consequence, performance inflections (up or down) and outcomes (successful or not) occurred in the absence of any effective contribution or influence of the board.

Decisions made by the board were implemented by and through the chief executive, in the manner conceptualised in Tricker's (2012a) framework (see Figure 2-1) and Mintzberg's (1983) assessment (that the board does not control the operation of the company, the chief executive does). Consequently, the analysis summarised here should not be interpreted as implying that the active engagement of the board necessarily led directly, predictably or even consistently to any of the observed performance inflections and performance outcomes—despite the current and previous Alpha chairmen both suggesting the strong and close engagement of the board was crucial. The close proximity of the Alpha board and management (as indicated by resource dependency and/or stewardship theory), and a high level of trust-based collaboration (Mowbray

& Ingley, 2013) between the board and management—the chairman and chief executive in particular—does, however, appear to have led to a more balanced relationship (Bailey & Peck, 2013), and have been a more important and more reliable indicator of board effectiveness than structural separation (as indicated by agency theory).

6.4 The division of labour

In addition to the associations identified in the data, four different divisions of labour (of strategic management tasks) were observed at different times throughout the research period (see Table 6-4 below). These included periods when management dominated most of the strategic management tasks, almost to the exclusion of the board; periods when management led most tasks but the board made significant decisions; periods when the board's active involvement in strategic management was dominant; and, periods of strong collaboration between the entire board and management (see Figure 6-1 and Figure 6-2. Wheelen and Hunger's (2006) terminology is used).

Notwithstanding these observations, a fine but discernible balance—between the boards being actively engaged in the development of strategy together with management on one hand, and the board being perceived to impinge on tasks that the chief executive considered to be within their delegated responsibility on the other—was also apparent. Both chief executives said that the board's involvement in the task of strategy development (the activities of strategic thinking, refinement and consideration of strategic options, selection of preferences were all mentioned) had the potential to lead to interference in implementation. That the board was more emotionally involved (Brundin & Nordqvist, 2008) and seemingly more committed to ensuring that the strategy it had helped develop was implemented well was noted. A loss of objectivity in oversight (D. W. Anderson et al., 2007) was a voiced concern: the chief executives perceived that close involvement in strategy development introduced a bias that could limit the board's ability to objectively assess both other strategic options and risks; and, the effectiveness of strategy implementation.

Table 6-4: Observed divisions of labour of strategic management tasks

	Division of labour			
Strategic management task	**'Management dominant'**	**'Management led'**	**'Collaborative'**	**'Board dominant'**
Develop strategy	Management	Management	Board and management, together	Board
Approve strategy	Management, alone or with board ratification	Board	Board	Board
Implement strategy	Management	Management	Management	Management, with very close board supervision
Monitor implementation and verify performance	Board receives reports (perfunctory monitoring)	Board receives reports (perfunctory monitoring)	Active scrutiny by board (accountability and corrective action)	Active scrutiny by board (highly detailed and frequent)

The Alpha chairman offered a contrasting opinion. While acknowledging that proximity may result in some loss of objectivity by the board, he indicated that a mature and experienced board should be able offset these concerns by maintaining a balance between being sufficiently 'close' to enable trust and empathy to develop, and remaining sufficiently distanced to effect control. However, the chairman then said, "balancing the relationship dynamics can be difficult", before musing that this challenge was no different from the dynamics and interactions between an effective chief executive and their direct reporting staff.

Both chief executives indicated that the contributions to strategy development provided by their respective boards were helpful. One chief executive said that they appreciated and encouraged the proposal of ideas by directors in the form of strategic thinking, and the ability to test their own ideas and strategic options with the board. However, the selection of preferred options and any associated detailed analysis were tasks that the chief executives preferred to undertake with their management teams without direct board involvement, to avoid the board crossing a perceived board–management demarcation line (that existed in the chief executive's mind).

Both chairmen stated that proximity was helpful to decision quality and buy-in. They said that the benefits of close proximity between the board and management when strategy was being formulated far outweighed the risk of poor strategic decisions or ineffective monitoring—both of which can occur if objectivity is compromised or lost. Despite this recognition, one of the boards made little if any contribution to strategy development during the research period. This commentary raises questions of power and integrity, and whether the chairman's comments were an example of respondent bias. The comment implied that the chairmen knew (or believed, at least) that the board needed to be engaged and that proximity is beneficial, yet it did not actually occur with any regularity, on one of the boards at least.

The divisions of labour and board–management interactions described here may be conceptualised as a set of relationships and exchanges between strategic management tasks. The characteristics of three of these divisions correspond well with three of the degrees of involvement described by Wheelen and Hunger (2006) and Nadler (2004a) (see Figure 2-7 and Figure 2-8 respectively). However, the 'collaborative' division of labour, conceptualised in diagrammatic form (Crow & Lockhart, 2016) and subsequently refined as shown in Figure 6-3 below is an additional variant not explicitly mentioned in either Wheelen and Hunger's[52], or Nadler's continuum. This division of labour was observed when board was functional (Leblanc & Gillies, 2005) and intent on creating value (Huse, 2007) within the context of a defined and agreed long-term purpose of the company. The important difference between this model and the descriptions provided by Wheelen and Hunger (2006) and Nadler (2004a) is that the task of formulating strategy is explicitly performed by both the entire board and management together, in a highly collaborative manner. This subtle difference is discussed further in Chapter 7.

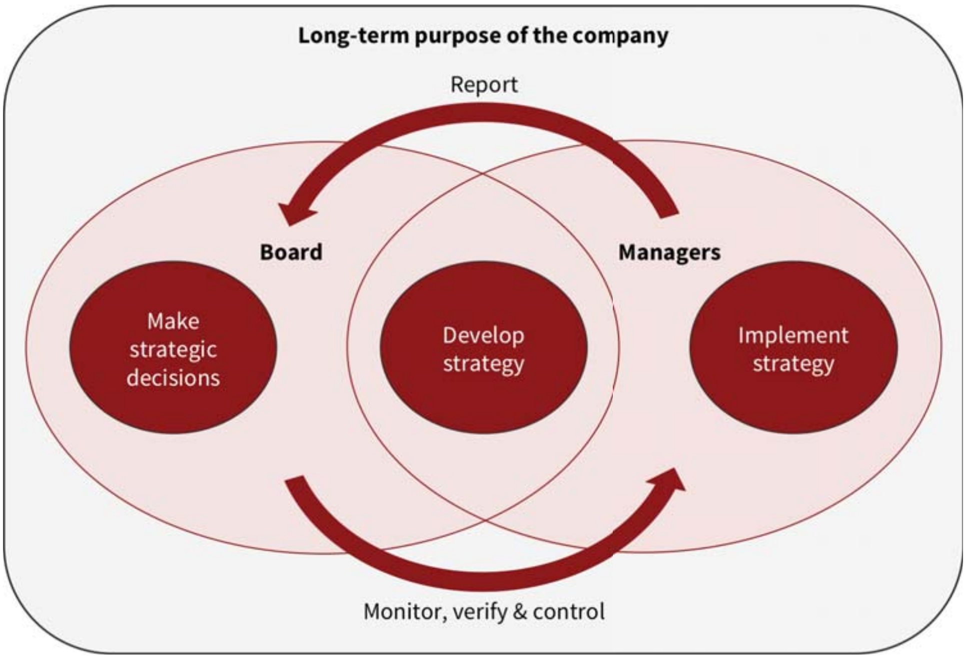

Figure 6-3: Collaborative model of board engagement in strategic management tasks

[52] Wheelen and Hunger (2006) do mention "very active strategy committee" (see Figure 2-7), indicating the involvement of some directors in strategy development, probably along the lines of 'Committee' mode described by Zahra and Schulte (1992).

6.5 Director interaction, behaviour and competency

The preceding analysis revealed that effective contributions by boards intent on exerting influence from the boardroom are dependent on the active engagement of the board in several strategic management tasks, but not exclusively so. Consistent with a realist understanding of social phenomena (Danermark et al., 2002), the exercise of underlying mechanisms by boards while in session also appears to have been important. 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 (see Table 3-4) 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 results of this analysis are reported in Table 6-5 below. For each of the decision sequences, cells marked 'observed' (✔) indicate that anticipated antecedent factors were observed multiple times during the decision sequence, to the extent that the associated emergent theme could be described as forming a 'normal' part of director contribution or board interaction. Cells marked 'not observed (N/O) indicate that evidence to indicate the theme was either not observed or only very rarely so.

The themes of interest conjectured from the literature as being potentially significant to effective board contributions were all evident in the decision sequence data, but to varying degrees. Throughout five of the observed decision sequences (D1, D3, D4, D5 and D8), all five themes were repeatedly evident. Performance inflections were associated with four of these sequences (D1, D3, D4 and D8) (see Table 6-3), implying that the collective exercise of these five themes *may* have been material to effective contributions and the board exerting influence from the boardroom. Examples of the interactions and behaviours that were apparent during these five decision sequences are provided in the following paragraphs.

Table 6-5: Evident themes, as observed in strategic decision sequence data

		Observed within decision sequences								
Evident theme	**Reference**	**D1**	**D2**	**D3**	**D4**	**D5**	**D6**	**D7**	**D8**	**D9**
Skill and expertise	(Rindova, 1999)	✓	✓	✓	✓	✓	✓	✓	✓	N/O
Engagement in strategic management tasks	(Zahra & Schulte Jr, 1992)	✓	N/O	✓	✓	✓	N/O	N/O	✓	N/O
Future focus	(Lorsch, 1995)	✓	✓	✓	✓	✓	N/O	N/O	✓	N/O
Collaboration & cooperation	(Mowbray & Ingley, 2013)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Decisions & adjustments	(Sharpe, 2012)	✓	N/O	✓	✓	✓	N/O	N/O	✓	N/O

✓ = apparent | N/O = not observed

Individual directors were observed to be skilful, drawing on prior experience to provide relevant insight including making references to historical events. Directors typically provided examples to support their assertions or suggestions. They also participated actively in boardroom discussions, having prepared themselves before the meeting by reading and becoming familiar with the contents of board packs. Evidence to support this observation included 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. All of the directors attended 'strategy day' meetings as well, expecting to contribute ideas, debate options and identify preferences—and they did 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. They also displayed a commitment to make decisions together, exerting control and making adjustments as deemed appropriate.

The high degree of collaboration that was apparent 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. Decisions 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 and recorded, and the chairman moved on. 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). Directors used open, probing and, at times, direct questions to challenge 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 five themes observed in the data—skill, engagement, focus on future, collaboration and adjustments—are conjectured[53] to be the empirical expression (i.e., proxies, or effects) of underlying attributes (Archer, 1998) that are imperceptible directly (Bunge, 2004). The underlying attributes that are suggested to coincide with these empirical expressions are competence; engagement; sense of purpose; efficacy; and, control, as shown in Table 6-6 below. A brief description of each underlying attribute follows below the table. Although listed and described separately, these underlying attributes do not appear to be independent—their collective and harmonious exercise appears to have been important when the board was seeking to exert influence from the boardroom.

[53] Informed leaps and conjectures are considered to be an acceptable bridge to new knowledge (see discussion in Section 2.10).

Table 6-6: Observed themes, and suggested underlying attributes and classifications

Observed themes	Suggested underlying attribute	Suggested classification
Demonstrable skill and expertise	Strategic competence	Quality of director
Engagement in strategic management	Active engagement	Social mechanism
Focus on future	Sense of purpose	Quality of director
Collaboration and cooperation	Collective efficacy	Social mechanism
Decisions and adjustments	Constructive control	Social mechanism

'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; engagement in strategic management; 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; discussion; debate; and, when appropriate, strategic decision-making during meetings.

The term 'sense of purpose' (Waddington, 2010) has been selected to describe the director's 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 and verification of performance; and, application of controls) with the agreed long-term purpose of the company as the guiding principle.

Collective efficacy (Chou et al., 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 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 attributes (active engagement, collective efficacy and constructive control) proposed here 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 to the work of the board.

6.6 Boardroom passivity and ineffectual contributions

In contrast to the functional board interactions (Leblanc & Gillies, 2005) observed in the data and described in the preceding sections, directors were drawn towards passivity at times, leading to ineffectual contributions. Various cognitive biases including anchoring bias and consensus thinking were also apparent in the data. This was particularly evident in the Bravo data but also emerged in the Alpha data to a lesser extent—the deference of individual directors to the apparent or perceived group preference.

A natural inclination towards group acceptance (Joardar & Matthews, 2010) seemed to have been a greater moderator of behaviour and decision-making practice on occasions (than the director's commitment to explore a wide range of options, engage in robust debate and contribute to high-quality decision-making in an efficacious manner). Also, the merit of defending a viewpoint or standing firm with an alternative perspective was outweighed by the unstated expectation to make a decision and to move on at times.

A significant lack of comprehension by the board on two occasions had close to terminal consequences for the company. On both occasions, the board did not seem to understand the impact, risks or consequences of the strategy it was being asked to approve. A cursory discussion occurred in the boardroom on both occasions. However, no probing questions were asked before the chairman called on the board to make a decision. Had the directors engaged more fully by asking probing questions and requesting more information, and had the approval decision been deferred until the board understood the proposed strategy, the inherent weaknesses of the proposal *may* have been exposed leading to corrections and adjustments, or the proposal could have been rejected.

The near failure of Alpha has been associated with the combination of 'power' (perceived or real) held by the chief executive and the ineffective monitoring and verification of actual performance by the board. Possible reasons for the board's ineffectiveness include that the board may not have understood the reports provided to it; reports may not have been read; directors may have glossed over them; or, some combination of these and other reasons may have occurred—all of which we observed. Another contributing factor was the power relationship (Forsyth, 2014) between a dominant though sanguine chief executive and an acquiescent board. This created an environment in which the chief executive could act in an almost unbridled manner. The propensity of a board to make decisions (or ratify decisions made by management) and then to 'move on' with little if any explicit monitoring of strategic decisions or verification that performance goals (if set) was noted in the analysis.

The observed power relationship between the Bravo chief executive (who was also a director) and the other executive directors had an effect on teamwork and engagement in the Bravo boardroom, leading to behaviour consistent with consensus building (Wodak, Kwon, & Clarke, 2011). While the Bravo 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, whether they explicitly agreed with a proposed course of action or not (J. B. Harvey, 1974). This was observed through the actions of directors during board meetings (choosing to defer to the chief executive), and was reinforced by several unsolicited informal comments between directors overheard following board meetings. The chairman and chief executive both corroborated this observation. As a consequence, the board meeting was not a meeting of peers working and making decisions together, as envisaged by the Act and various governance codes (such as (Arcus, 2012)).

The preservation of executive and personal relationships amongst Bravo directors (the chief executive said that some directors were friends) appeared to be an important moderator of behaviour—although relationships did become strained following a vigorous debate (Eisenhardt, Kahwajy, & Bourgeois, 1997) at least once during the observation period. The chief executive admitted it did (that preservation of relationship was a moderator). Managerial reporting relationships were respected during meetings, to the extent that they took precedence over the peer relationship between directors envisaged in the Act. As a consequence, the executive directors may have, through their inaction, been unknowingly and unwittingly at odds with the requirements of the Act. Other contributing factors included ambiguous spans of control, decision-making delegations and divisions of labour between board tasks and executive duties (especially responsibility for strategy development and strategy approval); and, a desire to protect reputation or avoid risks—both of which were observed through verbal statements and the decision preferences of the directors. Rather than adopt an agreed division of labour, directors made (a variety of) assumptions on occasions. The chairman made unsolicited comments during the interview that corroborated this assessment.

However, when one of the Bravo executive directors became a NED, the observed behaviours (of that NED) and interactions with other directors in board meetings changed noticeably. The NED was noticeably more engaged, animated and vocal in the discussions. He also asked more probing and, on several occasions, he asked increasingly demanding questions (within the boundaries of professional behaviour), and appeared to be more thoughtful. The NED interjected with opposing comments on several occasions. He directly challenged the chief executive by asking "Really? Are you sure?" The NED did not display this type of behaviour at any earlier board meeting when they held the position of executive director.

The Bravo NED's previously passive behaviour appears to have been an example of the Abilene paradox[54] (J. B. Harvey, 1974). 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*>".

The Alpha board was not immune to power relations. Interactions between directors were more tentative and decisions were made more slowly when directors were not united in their commitment to an agreed strategy or were not aligned in their contributions. While the generally highly engaged and constructive debate was a characteristic of Alpha board meetings, an observed tension between the NEDs and the independent directors affected 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) than that of the independent directors. Frustration levels increased noticeably (evidenced by raised voices, dismissive comments, side conversations and silence) from time to time.

The commitment of the Alpha directors to remain engaged became strained at times. Decision-making process was hindered as directors displayed a range of behaviours and interactions.

[54] The Abilene paradox refers to situations 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" (J. B. Harvey, 1974, p. 66). Harvey noted that a major corollary also holds: the inability to manage disagreement is a major source of dysfunction in organisations.

These included reinforcing preferred or entrenched positions through their comments; the exploration of different points of view or options in search of a solution; seeking to negotiate a compromise that was acceptable to the parties (but not necessarily in the best interests of the company); and, simply, sitting quietly. This insight was observed through statements and behaviours during observed board meetings, and corroborated by both the chief executive and chairman who made unsolicited comments during interviews. Underlying motivations of these NEDs influenced their objectivity during discussions, a consequence of which was dysfunctional interaction (see Leblanc & Gillies, 2005, pp. 185–198) amongst the Alpha directors from time to time.

Notwithstanding the boardroom passivity explored here, the findings that emerged from the analysis start to move the understanding of boards and board activity beyond the conceptualisation of corporate governance as being a structure (Adams et al., 2010); a repeatable process (Finkelstein & Mooney, 2003); or, a policy framework (Carver, 2010b), or some combination thereof. That is not to say the contemporary conceptualisations are wrong or inappropriate, but rather that this research extends the former understandings by suggesting that a redescription of corporate governance, as some sort of mechanism (see Section 3.2) that is activated by boards when in session (i.e., in board meetings) may be more appropriate. This proposal is explored in Section 6.7 below.

6.7 Towards a conceptual model

The iterative analysis of board data collected from multiple sources including longitudinal observations within the boardroom has enabled an understanding of how the boards of Alpha and Bravo governed their respective companies over an extended period to be developed. A variety of board–management interactions, board contributions to strategic management and divisions of labour were apparent through the analysis, as has been described in the preceding sections.

Consistent with the understanding that emerged during the review of the literature, the analysis showed that the interaction between the board and management, and any relationship between corporate governance and subsequent firm performance were both too complex and contextual to be described in straightforward structural, process or policy terms—or even as some combination of these options. This finding provides empirical support to the conclusions of other contributors—Kiel and Nicholson (2003); Leblanc and Gillies (2005); Huse et al. (2011); Larcker and Tayan (2011); and, Lockhart (2015) in particular.

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 such involvement and the underlying mechanisms identified in Section 6.5 are synthesised, a stratified mechanism-based understanding of corporate governance can be described—as shown in Figure 6-4 below.

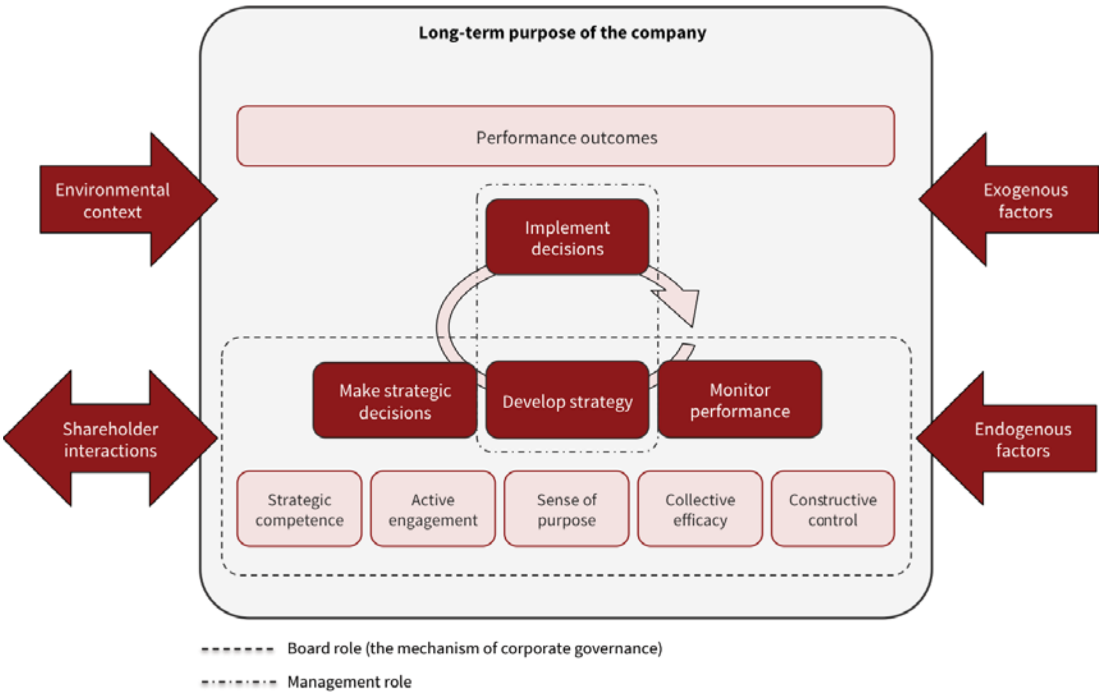

Figure 6-4: A suggested mechanism-based model of governance–performance relationship

The mechanism-based model 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, but the board's role in strategic management was not explicitly described. Charreaux and Wirtz both associated the concepts of 'mechanism', 'board' and 'corporate governance'[55]. However, they described the board of directors as a mechanism within a broader 'system of governance' (see Section 2.9).

In contrast, the analysis suggests that corporate governance is itself a mechanism—one that is activated by functional boards as they seek to contribute effectively, with the intention of exerting influence from the boardroom. The main elements of the mechanism-based model are described in the following paragraphs. The similarities and distinctions between the suggested mechanism-based model and the models previously proposed by Tricker (1984), Charreaux (2008), Wirtz (2011) and others are discussed in Chapter 7.

The long-term purpose[56] of the company provides the contextual and motivational 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 the observed collaborative model of board involvement in strategic management (see Table 6-4). 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

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

[56] 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 necessarily operates within a wider context of the market and business ecosystem.

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 understandings of board–management interaction, the task of reporting of firm 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 by management, firm performance and the achievement of desired performance goals; remedial decision-making deemed necessary to correct variances between desired and actual performance; and, ensuring that both statutory and regulatory compliance requirements and shareholder reporting requirements are satisfied in full.

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 firm; desired performance goals; or, even performance inflections occurring in any predictable or repeatable manner, as was discussed in preceding sections. 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. These 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.

The effectiveness of the board's involvement in the strategic management process is suggested to be dependent on the harmonious activation of the five underlying attributes (mechanisms) identified in Section 6.5. If any one or more of these underlying mechanisms is not activated, the effectiveness of the board's 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 activation' of the underlying mechanisms should not be interpreted as implying any particular activation or interaction between underlying mechanisms in a formulaic sense, nor any formal association in a hierarchical sense. Director' actions and behaviours are expressions of social agency, choice and bias as they attempt to make sense (Mattsson, Corsaro, & Ramos, 2015) of a complex array of information. Consistent with this understanding, the observed actions and behaviours of individual directors were both idiosyncratic and inconsistent, depending on that director's responses to 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 long-term purpose of the company, the strategy and the 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. This observation is consistent with Collins and Porras' (2002) commentary. Notwithstanding this, the consequential impact of board interventions and decisions made by the board remained dependent on management's implementation of decisions (as Mintzberg (1983), Leblanc (2003) and Tricker (2012a) all asserted) and the variable effects of external factors (indicated by the large arrows in Figure 7-3 above).

The conceptualisation of corporate governance as a stratified mechanism through which functional boards act and seek to exert influence builds on previous understandings provided in the literature. It also provides alternative understanding from that frequently cited for practice. That the effects of board contributions are contingent and inconsistent was confirmed during the analysis and, as a consequence, the findings are provisional as well. The findings will now be examined in the context of extant literature—social research being theory-laden and subject to human agency, notably, the *a priori* biases of both the research participants and the researcher. These considerations are discussed further in the Chapter 7.

Chapter 7: Discussion

A mind that is stretched to a new idea never returns to its original dimension.

Oliver Wendell Holmes

7.1 Introduction

The objective of this research was to examine whether a relationship between the board's involvement in strategic management (Nadler, 2004b; Tricker, 1984) and subsequent firm performance is apparent in high-growth companies, and in so doing respond to calls for more research of boards, corporate governance and strategic management. This research sought to contribute to the corporate governance literature by observing boards in session (the point at which corporate governance—the "means by which companies are directed and controlled" (Cadbury, 1992, p. 15)—is understood to occur); studying board involvement in strategic management; and, in so doing, describing how boards intent on exerting influence from the boardroom actually worked. The findings that emerged from this longitudinal study add to the knowledge and understanding of corporate governance and strategic management by providing insights into board involvement in strategic management, from the perspective of two high-growth companies.

Two major findings emerged from this study. First, a collaborative model of board–management interaction was developed, to describe an observed division of labour that appeared to be conducive to seemingly effective board contributions in the boardrooms of the two participating high-growth companies. Second, corporate governance emerged as being a stratified mechanism activated by boards of directors intent on exerting influence from and beyond the boardroom.

Strategic management was re-established as being at the nexus of both these models, and these major findings are contingent on one another.

The findings add to the corporate governance literature by revealing new empirical knowledge about board involvement in strategic management; board–management interaction; and, the relationship between corporate governance and firm performance, as evidenced from the boardroom. The purpose of this chapter is to discuss the findings that emerged from this research, especially the two models, in the context of both relevant board and corporate governance literature and the wider body of knowledge.

7.2 Boards and strategic management

7.2.1 Strategic management at the nexus of board–management interaction

Tricker (1984) suggested that strategic management was appropriately placed at the nexus of board–management interactions (see Figure 7-1 below). Subsequently, several researchers have suggested that an involvement in strategy in some form is an important task of boards (e.g., Bonn & Pettigrew, 2009; D. C. Hambrick & Fredrickson, 2005; Huse, 2009b; Parnell, 2014), in effect providing support for Tricker's proposal although without directly referencing it.

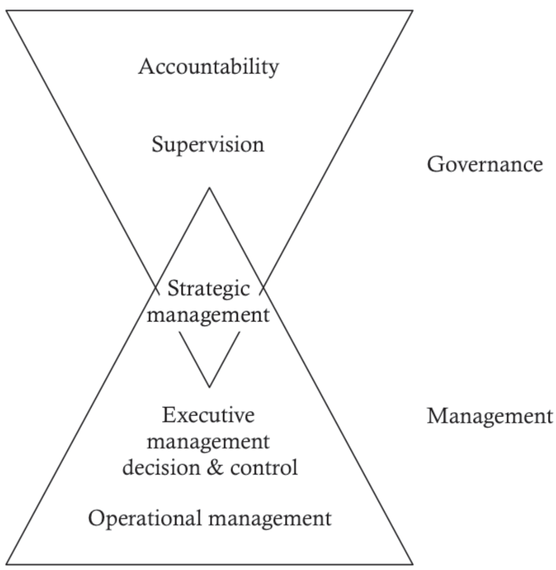

Figure 7-1: Tricker's model of board–management interaction

However, Tricker (1984) described three variants of board–management interaction (see Figure 7-2 below), implying that different assignments of tasks (to the board or management or both) are appropriate in the instances of three different types of board compositions—a board comprised exclusively of executive directors; one with a mix of executive directors and non-executive directors; and, a board comprised exclusively of non-executive directors.

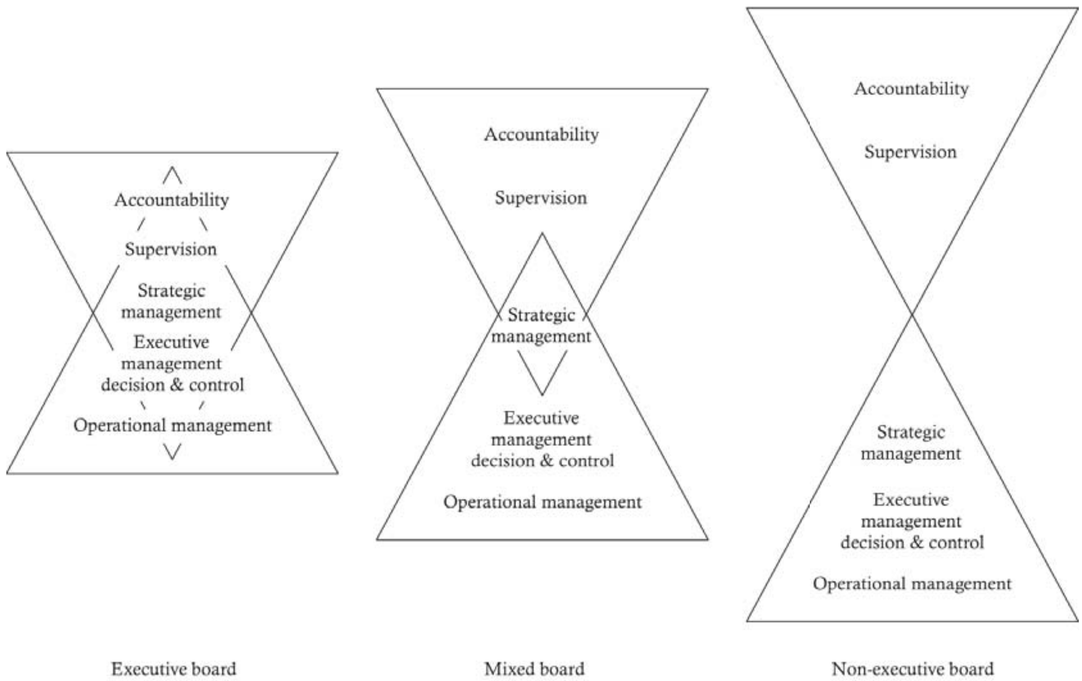

Figure 7-2: Three variants of Tricker's 'double triangle' model

The findings from this research revealed an additional perspective: that the boards of the high-growth companies utilised different divisions of labour at different times (see Table 6-4) within the context of the *same* board structure and composition. The Alpha board in particular (knowingly or otherwise) embraced all of the divisions of labour implied in Tricker's (1984) variants at different times, in response to prevailing and perceived circumstances and the board's response to these, despite the board being comprised of non-executive directors only. Thus, Nadler's (2004a) summary, that "real-world boards slide back and forth across the [this] scale, their levels of engagement changing as issues and circumstances do" (p. 104), provides a more accurate reflection of reality.

That there is fluidity surrounding the role that an ‘active’ board may pursue at any time—a deliberate choice (a decision) or an implicit choice that the board makes—extends Tricker’s (1984) earlier observation. It also suggests that the structure of the board; the division of labour in place at any time; and, the conduct of corporate governance in the boardroom may not necessarily be related—an argument not dissimilar to Modigliani and Miller’s (1958) commentary (that a firm’s value is independent of its capital structure and dividend policy).

Notwithstanding this, the findings provide support for Hilmer’s (1994) commentary, suggesting that the active and on-going engagement of the board in strategic management in the form of contributions to strategy development (Huse, 2007); and, the making of strategic decisions (Zahra, 1990); and, effective and on-going monitoring of both strategy implementation and firm performance outcomes (Johanson, 2008) is material to effective board contributions.

Consequently, the strategic management process (and the board’s active involvement therein) seems to provide an appropriate framework to guide decision-making in boardrooms and thus enable the board to fulfil its legal and moral responsibilities as the senior-most decision-making authority in a company. However, the findings also showed that the active engagement of the board in agreed strategic management tasks (or any other non-strategic activities) was insufficient to assure any specific outcome or overall change in firm performance (up or down). The variety of responses that were observed to follow seemingly effective board contributions adds support to Leblanc and Gillies’ (2005) conclusion: a direct relationship between board activity and firm performance is unlikely to exist.

Tacit support was also provided for Larcker and Tayan’s (2011) assertion that firm performance was unlikely to be dependent on the structure or composition of the board either (see Table 2-1). The complex socially dynamic nature of both board activity and corporate governance; the board’s reliance on management to implement its decisions (Mintzberg, 1983); and, the unpredictable and indeterminate effect of endogenous and exogenous factors beyond the boardroom (that may or may not be active at any given time), both on the decision-making process within the boardroom and the subsequent implementation of decisions provide supporting arguments for this conclusion. However, this does not absolve the board from fulfilling its duties and attempting to achieve such an outcome (i.e., have a positive influence on desired firm performance—however performance might be defined).

7.2.2 Degrees of board involvement in strategic management

Despite the indirect and irregular association between board interventions and subsequent performance outcomes, and the indeterminate effect of any particular board intervention, the findings indicate that a valuable contribution can be made by boards, as Zahra and Schulte (1992) and Hendry et al. (2010) noted in their studies (see Section 6.4). The observed boards also employed different levels of involvement in strategic management at different times, depending on the prevailing circumstances to the fore and the board's response to these—a finding that is generally consistent with models established elsewhere (e.g., Hendry & Kiel, 2004; McNulty & Pettigrew, 1999; Nadler, 2004a; Wheelen & Hunger, 2006). However, a subtle but potentially significant variation from the continua-based models was identified.

The analysis revealed that the board and management performed the entire task of strategy development together on occasions. When this occurred, they acted *as one* (they identified, considered and debated strategic options; assessed, refined and selected preferred options; and, formulated the high-level strategy together). This observed variant, which was evident in the Alpha data but not the Bravo data, provides empirical support for the 'total' mode of board involvement in strategy proposed by Zahra and Schulte (1992); and, the interactive strategising perspective conceptualised by Jarzabkowski (2005) and subsequently refined and applied to board involvement in strategy development by Hendry et al. (2010). In contrast, the role of the board in McNulty and Pettigrew's (1999) model is to develop the context for strategic debate, establish a methodology for strategy development, monitor strategy content; and, to seek to alter the conduct of the executive in relation to strategy. However, management performs the actual task of strategy development.

Each strategy development task is generally assigned to the board *or* management in the extant continua-based models. Responsibility for strategy development is also explicitly assigned to management in the model proposed by Nadler (2004a), and the board is conceptualised as a resource in service to management as strategy is developed. Nadler (2004b) assigns responsibility for decision-making primarily to management as well[57] (not the board), noting that the board's role was one of "adding value but not infringing on the CEO's and executive team's fundamental responsibilities" (p. 27)—a recommendation that seems to contradict another contribution by the same author (Nadler, 2004a). The model with the greatest similarity to the findings was that provided by Wheelen and Hunger (2006). In referring to a Korn/Ferry International survey, Wheelen and Hunger identified board involvement together with management in the strategy development process, noting "a very active strategy committee" (p. 28).

The variety of board involvements in strategic management observed in this research provides further support for the observation that the operating and research context are important considerations in corporate governance research. The models of board involvement proposed by McNulty and Pettigrew (1999), Nadler (2004b) and Wheelen and Hunger (2006) were all informed by data collected from large, Anglo-American publicly-listed companies with chief executive duality in place. Decision control in such configurations of board, management and board–management interaction lie, primarily, with management—often as a consequence of powerful chief executives limiting board involvement in strategy (Hendry et al., 2010) and a prevailing agency-based conception of the board–management relationship. In contrast, this research investigated two smaller companies, neither of which was a publicly-listed firm. Decision control lay, substantively, with the board, and two separate people held the roles of chairman and chief executive.

Further, and importantly, the power relationship between the board and chief executive in the participant companies was observed to be balanced (Bailey & Peck, 2013)—neither the chief executive nor the board attempted to exert dominant power over the other. Of importance to this discussion is that the findings that emerged from the observation of boards in this research, while perhaps being contextually dependent, confirm the claims made by Wheelen and Hunger (2006).

[57] While Nadler assigned responsibility for strategic decision-making to management, he also (and somewhat confusingly) assigned overall responsibility to the board. This may be a typographical error in the thesis, or it may be a flaw in logic.

7.3 The governance–performance relationship

7.3.1 The mechanism-based conception of corporate governance

The pursuit of a more holistic understanding (Machold & Farquhar, 2013) of corporate governance was a core aim of this research. Support for the board's active involvement in several strategic management tasks was provided; and a mechanism-based conception of corporate governance and a model of the governance–performance relationship were developed (see Figure 6-4, replicated as Figure 7-3 below, for convenience). The model is comprised of several elements including the strategic management process; board and management roles in strategic management; relationships between board activity, management activity and performance outcomes; and, contextual factors that may have an unpredictable and indeterminate effect on board decisions, the implementation of board decisions, management actions and subsequent performance outcomes.

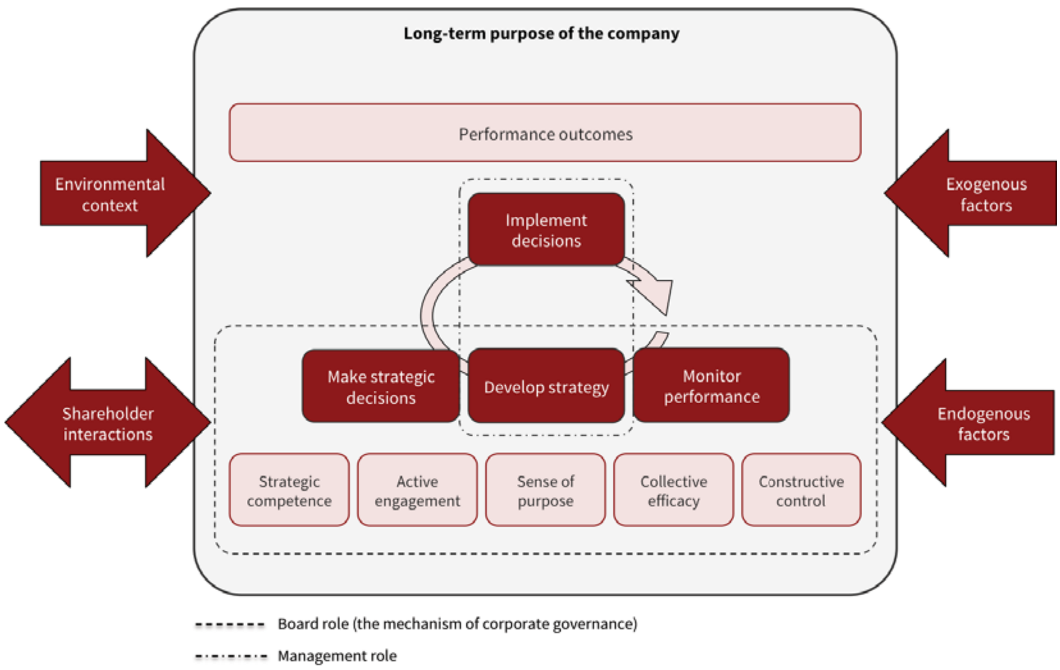

Figure 7-3: Conceptualising the governance–performance relationship

The understanding to emerge from this model suggests that corporate governance is a mechanism that is activated by engaged boards—an important addition to Wirtz (2011) who suggested that the board itself is a mechanism, operating within a broader 'system of governance'. The mechanism of corporate governance is suggested to comprise that group of strategic management tasks, relationships and underlying mechanisms that, when harmoniously activated by the board, enables the board to steer and guide[58] the company towards agreed performance goals, when it is in session. This understanding conceptualises corporate governance as being a phenomenon that is quite distinct from any external 'system of governance' (see Figure 2-4) or business ecosystem within which companies operate.

The mechanism of corporate governance described here is only meaningfully activated by engaged boards. Its activation is necessitated by the absence of direct shareholder involvement in decision-making. In contrast, the business ecosystem and associated elements including, for example, laws, codes, shareholders and competitors describe and define the wider context within which companies and boards operate. They indirectly affect the conduct of corporate governance by boards.

Strategic competence emerged as an important underlying mechanism within this model, providing further support for the findings reported by Leblanc and Gillies (2005) and, more recently, Ferkins and Shilbury (2012). Leblanc and Gillies suggested that directors should "collectively possess the specific competencies necessary to exercise sound judgement on the various issues the company faces" (p. 223). Ferkins and Shilbury identified that big picture, long-term and impartial inquisitive thinking is an important characteristic of a strategically capable board. To date, the term 'strategic competence' does not appear to have been previously used in reference to boards or corporate governance, even though good strategic competencies have been associated with good organisational performance (Russell, 2001).

The active engagement of directors in strategic management enabled them to gain insights to make informed decisions, expedite effective monitoring of decision implementation tasks and focus on the future performance of the firm (Lorsch, 1995). Attributes of active engagement that were observed to be material to seemingly effective contributions included adequate preparation by directors before board meetings; close and supportive interaction between directors during

[58] *Kybernetes* (governance): to steer, to guide to pilot

meetings (i.e., teamwork (Vandewaerde et al., 2011)); a strategic mindset (Yorks & Nicolaides, 2012) indicated by probing questions (Rabionet, 2011), the application of tacit knowledge (Guzak & Rasheed, 2014) and vigorous debate (Eisenhardt et al., 1997); and, a facilitative process and established framework of reference (Ferkins & Shilbury, 2012) within which to make strategic decisions (Vallaster & Koll, 2002).

The emergence of collective efficacy (Normore & Erbe, 2013) as an important underlying mechanism has not previously been explicitly reported in the context of boards, despite it being identified as an antecedent to team performance by Chou et al. (2012), and studies being completed in other fields including sport (Bruton, Mellalieu, & Shearer, 2016); local neighbourhoods (Gerell, 2015); and, workgroups (Salanova, Rodríguez-Sánchez, Schaufeli, & Cifre, 2014). Support for the appropriateness of collective efficacy as an underlying mechanism is provided in the psychology literature—specifically Bandura (2000) who, invoking social cognitive theory, suggested that a "group's attainments are the product not only of shared knowledge and skills of the different members, but also of the interactive, coordinative, and synergistic dynamics of their transactions" (pp. 75–76).

Bandura (2000) also observed that "it [collective efficacy] is an emergent group-level property" (p. 76). The observed propensity of the directors to display both situational awareness (Eflross, 2013) and emotional intelligence (Tuan, 2013) (characteristics indicating collective efficacy) as various alternative points of view were explored (Adame, 2016) also served to reduce the effects of various biases including anchoring (A. R. Smith & Windschitl, 2015) and groupthink (Hemphill & Laurence, 2014; Howard, 2011).

The harmonious activation of these underlying mechanisms is indicated as being important to effective contributions by the board to strategic management and, ultimately, the board's ability to exert influence beyond the boardroom. The attributes of strategic competency, sense of purpose and collective efficacy appear to be especially important if directors are to interact well and make forward looking (Tricker, 2012a), informed decisions in a timely and meaningful manner. Diversity of thought, critical thinking and the presence of non-executive directors also appear to be beneficial to effective contributions (even though technical independence is necessary or conducive to increased performance or better decision-making). Further, an unambiguous division of labour should assist resolve the inherent tension between serving one's self-interest (power, choice, control) in such a way as to engage the self-interest of others, in the pursuit of desired outcomes. Consequently, more sophisticated understandings of diversity and teamwork may be required, and of independence, as Kay and Goldspink (2015) recently argued.

The core elements of the mechanism-based model are not dissimilar to those of both the enabling conditions of effective teamwork (i.e., real team, compelling direction, enabling structure and supportive context) described by Hackman (2002), or the integrative model of mission achievement (i.e., purpose, strategy, values and behaviour standards) advanced by Campbell and Yeung (1991b). Consequently, it is not unreasonable to draw parallels between the findings to emerge from this research and Bandura's (2000) assessment. Strategic decisions made by the board and the effective influence of the board beyond the boardroom are suggested to be a product of effective teamwork (Hackman & Morris, 1975; Vandewaerde et al., 2011), synergistic interactions (Mowbray & Ingley, 2013) and a commitment to action (T. Boone, 2002) amongst directors acting with an agreed strategy and purpose in mind.

The findings also illuminated a contrasting perspective. The observed behaviours when directors did not interact with other directors and management during board meetings, and when they did not seek to actively contribute to any strategic management tasks (i.e., one or more of the underlying attributes were absent or not exercised) were consistent with those described by Kidwell Jr and Bennett (1993) as 'social loafing'. Directors were passive, responding only when asked a question or called on to speak. The effectiveness of the board as a governing and decision-making entity during these periods was greatly reduced as a consequence (regardless of whether the directors possessed identified competencies or not). Extending this observation to a more extreme case, corporate governance is likely to become ineffective during periods of complete inactivity and non-engagement (indicated by groups of directors remaining silent throughout entire meetings, or the board as a whole failing to engage in a meaningful, intentional and on-going manner).

While silence (or lack of interaction) *per se* is likely to be a good proxy, it is not necessarily a reliable indicator of the actual level of engagement of any individual director or the board as a whole, or of the level of influence exerted by the board from the boardroom. The analysis showed that on occasions several directors chose to remain silent even though they harboured concerns over or even disagreed with discussions or proposals—a behaviour pattern that was consistent with the Abilene Paradox (J. B. Harvey, 1974). Further, the chairman interpreted silence as agreement (tacit agreement, at least) on several occasions. Yet when the same directors left their executive positions and became non-executive directors, they asked more questions including probing questions and they challenged assumptions.

That some directors choose not to ask questions or express concerns on occasions highlights a difficulty faced by chairmen, especially those of executive-controlled boards where power relationships between the chief executive and other executive directors are often prevalent. Regardless of the actual motivations of individual directors, disengaged directors and directors that choose to remain silent may be deemed, if a strict interpretation of the relevant statute ("Companies Act," 1993) is to be applied, to be failing in their duties of care (Section 133) and to act in good faith and in the best interests of the company (Section 131).

That the board is a social entity and no single approach within the boardroom can be expected to consistently produce or lead to any particular or predictable outcome reinforces the idiosyncratic nature of board contributions. As a consequence, support for Zahra and Filatotchev's (2004) suggestion that different approaches to board–management interaction may be beneficial as companies move through different stages of growth (provided they are implemented effectively) is provided. However, the findings also extend Zahra and Filatotchev by showing that, in addition to different approaches at different stages of firm growth or firm size, and different approaches in different contexts (as Nadler, Behan, and Nadler (2006) and Wheelen, Hunger, Hoffman, and Bamford (2015) noted), a highly collaborative form of board–management engagement (see Figure 6-3) in strategic management (see Figure 6-4)—sustained on an on-going basis—may also be beneficial to effective contributions, as Hendry et al. (2010) postulated in their conceptual paper. Ultimately, the effectiveness of board interventions (i.e., decisions made by the board, especially strategic decisions) remains largely dependent on the effective implementation of board decisions by management (and other exogenous factors).

The mechanism-based conceptualisation provides a framework to suggest how functional boards can 'perform' corporate governance. It both refines and extends previous models by suggesting an integrative perspective—a synthesis of Wirtz's (2011) mechanism-based meta-model (see Figure 2-4); Tricker's (1984) suggestion that strategic management is appropriately placed at the nexus of board–management interaction (see Figure 7-1); and, Wheelen and Hunger's (2006) and Nadler's (2004a) continua-based models of board involvement in strategy and strategic management (see Figure 2-7 and Figure 2-8 respectively). Importantly, the mechanism-based conceptualisation that emerged from the iterative analysis of data collected from two high-growth companies is both contingent and contextual as noted above: it does not masquerade as anything approaching universality, in either all situations or all types of company.

Notwithstanding this caveat, the understanding of corporate governance to emerge through this research may signal a return (in part at least) to the definition originally proposed by Eells (1960) and subsequently refined by Cadbury (1992); and, the conceptualisation of board–management interaction proposed by Tricker (1984) and subsequently discussed by Hilmer (1994), Garratt (1996) and Tricker (2012a). If the dominant purpose of the profit-seeking company is the creation of value for shareholders (as G. D. Smith (1998), Finkelstein and Mooney (2003); Huse (2007); Kraus and Britzelmaier (2011); and, McCahery and Vermeulen (2014) all argued it should be), then a different and more intentional level of engagement by the board appears to be appropriate.

7.3.2 Influence from and beyond the boardroom

Consistent with other studies, no direct, regular or predictable associations between board interventions (i.e., decisions, and especially strategic decisions, made by the board when in session) and subsequent performance inflections were observed in this study. Different outputs were observed to occur in the data, despite observable inputs seemingly not changing. While strategy may have been developed, decided upon and implemented effectively in accordance with an agreed division of labour; strategy implementation may have been reported, monitored and verified; and, the board and management may have been actively engaged together, beneficial firm performance did not predictably or consistently follow. A high quality and well-intentioned decision made by the board may have a minimal impact on subsequent firm performance, even though the decision was implemented well by management. Conversely, performance inflections (up or down) were observed in the data seemingly without any specific prior board interventions at times.

Consequently, the findings provide empirical support for the conclusions of the authors of seven meta-analyses (Dalton et al., 1998; Finegold et al., 2007; Hermalin & Weisbach, 2003; Johnson et al., 1996; Lawal, 2012; Petrovic, 2008; Pugliese et al., 2009). While board–performance correlations have been reported in the literature, any relationship between the conduct of corporate governance by the board and subsequent firm performance outcomes is not due directly, predictably, explicitly or exclusively to the structure or composition of the board; any specific task or group of tasks performed by the board; any specific behaviour of directors; or, any set of policies and regulations.

The effect of the board, as a decision-making body, on both company operations (including strategy implementation) and subsequent firm performance is demonstrably indirect, as Mintzberg (1983), Leblanc (2003), Hendry and Kiel (2004) and Tricker (2012a) (see Figure 2-1) all suggested. This study adds to these prior contributions, providing an additional (high-growth company) perspective to the literature.

The indirect association between decisions made by the board as it seeks to activate corporate governance and any subsequent effect of decisions does not imply (and should not be read as implying) that the board is a disempowered entity. Rather, the findings showed that decisions made in the boardroom and the consequential actions of both management (implementation of decisions) and the board (monitoring the implementation of decisions and verification of performance) shaped (i.e., influenced) outcomes—but they did not guarantee them.

Contributing endogenous factors including naturally occurring information asymmetries (Nowak & McCabe, 2003); the quality of information provided to the board by management (Tian, 2014); the type of questions asked by the board; the level of engagement in the decision-making process; the commitment of the board to make a 'good' decision; and, the unpredictable effects of multiple exogenous factors were all observed in this study. Consistent with Al-Zoubi's (2015) analysis, the information asymmetry problem observed in this research was exacerbated if the chief executive withheld relevant information or manipulated information—whether they intended to do so or not. NEDs were particularly exposed in both companies, such was their reliance on the quality and completeness of the information provided in board packs and answers to questions asked during meetings.

Ultimately, the effects of decisions made by the board when it is in session are contingent on multiple factors, primarily beyond the boardroom. Contributing exogenous factors observed during the course of this research included the speed with which management implemented decisions; decisions by the bank to extend, limit or adjust credit lines or covenants; preferences of shareholders to both receive dividends and increase share value; deferred customer buying decisions (resulting in delayed revenue recognition); the effects of competitor activity; and, changes in company culture and staff morale and productivity.

While proximity between the board and management appeared to be an important antecedent of effective board–management interaction (of the companies studied in this research, at least), the findings also revealed that a level of separation between the board and the chief executive (a characteristic feature of agency-based understandings) was also important at times to both expedite effective critical thinking and objectivity in decision-making. As a result, a dilemma was exposed. On one hand, the board needs to be sufficiently close to be engaged collaboratively with management in appropriate aspects of strategic management (stewardship perspective), while on the other it needs to be sufficiently detached to expedite a more objective approach to decision-making (agency perspective) and not be beholden to the wishes or preferences management. This imposes relational demands on the board, not dissimilar to those between managers and reporting staff (Cardona & Morley, 2013). Further research is recommended to further understand how engaged boards intent on pursuing and achieving agreed strategy and associated performance goals might best interact with managers and so mitigate the effects of this dilemma.

Beyond the boardroom, the desire and ability of management to implement decisions was also a contributory factor to any association between decisions made by the board and subsequent performance inflections. The findings suggest that the potential consequences of any inaction by management are exacerbated if the board does not monitor the implementation of decisions effectively; verify reported performance and, exert control over the actions (or inactions) of management. Consequently, the board's control role (as espoused by agency theory) remains both relevant and important to monitor and (where possible) investigate and control the contingent effects of management action (or inaction).

The indeterminate effect of board interventions on subsequent firm performance outcomes raises yet further questions about how desired performance outcomes are actually achieved. Could firm performance be completely idiosyncratic for example, perhaps occurring as a result of 'good luck' (as Collins (2001) opined), regardless of whether the board is in place or not; whether the board is active in strategic management or not; and, whether the mechanism of corporate governance is being activated by the board or not? Though beyond the scope of this research, this question, of whether good luck can occur in business, and if so, its effect surely merits further consideration.

7.4 Positioning this research within the body of knowledge

The legal purpose ("Companies Act," 1993) of the board of directors of a company is to oversee business operations; make decisions; and, to assure business performance (however measured) in the best interests of the company (the legal person). In so doing, the board must ensure that management operates the company in compliance with relevant statutory and regulatory boundaries.

The term used to describe the functioning of the board (Eells, 1960)—the means by which the company is directed and controlled (Cadbury, 1992)—is 'corporate governance'. The derivation of this term from *kybernetes* (see Section 2.2) implies that boards need to both set the direction of the company (overall goals and strategy) and actively navigate towards the goal (monitor and make adjustments) in response to the immediate and perceived context at the time.

The theoretical understandings of corporate governance and the board's interaction with management have been dominated by three theories (agency, stewardship and resource dependency), each of which provides different theoretical explanations. The merits and applicability of these theories to different types of companies and different contests have been debated and challenged (Dulewicz & Herbert, 2004; Lan & Heracleous, 2010; Nicholson & Kiel, 2007). Modifications and extensions to the major theories (primarily in the format of integrative models and meta-theories) have been proposed by some scholars (e.g., Christopher, 2010; Elgharbawy & Abdel-Kader, 2013; Kaufman & Englander, 2005; Lan & Heracleous, 2010; Merendino & Sarens, 2015), implying that extant theory (especially but not only the most dominant—agency theory) may have limitations (Bordean et al., 2012; Lubatkin, 2007).

If corporate governance is conceptualised as a set of regulatory requirements and conformance tasks through which the actions of management are monitored and controlled by the board, and the primary responsibility for strategic management is assigned to management, then an agency-based understanding (separation, independence and control-based mechanisms) provides an adequate theoretical explanation of the board–management interaction. Boards that emphasise distance and independence (in the agency tradition) may be able to make decisions more objectively—theoretically at least—than what might otherwise be possible if the board and managers work hand-in-hand, perhaps in the manner envisaged by stewardship or resource dependency theory.

However, neither separation or independence (Gupta et al., 2013), nor any other agency-based mechanisms have demonstrated any consistent improvements in firm performance. Rather, they appear to have contributed materially (Walker, 2009) to corporate failures in the early 2000s (Soltani, 2014) and during the 2007–2009 period (Conyon et al., 2011). This suggests that agency-based provisions may actually be counter-productive to the achievement of firm performance outcomes. The findings from this research add to those concerns.

In contrast, the close interaction of the board and management, and the active engagement of the board in the strategic management tasks (especially of strategy development, strategic management and monitoring of strategy implementation)—both observed in this research—are suggested to provide a platform for more effective board contributions. These characteristics are more consistent with stewardship- and resource dependency-based understandings of board–management interaction (than agency-based understandings). However, 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, which provides support for the assertion that an explicit or deterministic relationship between the conduct of corporate governance and firm performance may not actually exist.

Support for this assessment is provided by the findings to emerge from this research. Individual Alpha directors were observed on several occasions to suggest names of external advisors (resource dependency); offer to attend important meetings with customers and advisors in support of the chief executive (stewardship); and, establish a sub-committee of directors and managers to work together on specific strategically important tasks (stewardship). Similarly, the Bravo directors (primarily but not exclusively the chairman) also suggested names of people with specialist expertise that may be able to render specialist assistance (resource dependency). The Bravo board also demonstrated considerable interest in the welfare of staff (stewardship) as various mitigation options (for the financial problems the company was experiencing) were being discussed.

As a consequence, stewardship theory or resource dependency theory (or, more probably, a theoretical understanding derived from an synthesis of these theories and potentially other theories neither individually provides a complete explanation for all instances of board–management interaction or corporate governance (Nicholson & Kiel, 2007)) may provide a more suitable theoretical basis from which to produce a satisfactory theory of corporate governance.

However, the close working proximity of the board and management espoused by these two theories can introduce other challenges. Complex group dynamics (Forsyth, 2014; Roberts et al., 2005) and the inherent difficulty of separating the shareholder and manager roles, especially in smaller shareholder-managed businesses (Audretsch, Lehmann, & Plummer, 2009) can have a negative impact on decision-making objectivity (Knapp et al., 2011; Masulis & Mobbs, 2014; Olsen & Morgan, 2005), for example.

Consequently, companies face a structural and operational dilemma. On one hand, a sufficiently collegial relationship between boards and managers is recommended whereby trust, empathy, cooperation (i.e., teamwork (Hackman & Morris, 1975)) pervades the working environment as strategy is determined and performance goals are agreed and pursued; while on the other hand a degree of distance and emotional detachment is appropriate, to enable the board to monitor and verify the performance of both management and the firm and make decisions 'more objectively'. This dilemma was evident in the Bravo data: the ability of the board to exert control over the chief executive's performance was compromised at times. An active challenge by an executive director towards another executive director, for example, could be interpreted as being a criticism of colleagues; themselves; their own work; or, importantly, their boss. However, this observation is both contextual and contingent—another board of executive directors have responded and interacted quite differently.

This research sought to understand board practices and corporate governance by providing a longitudinal perspective using data collected from within the boardroom and from other sources outside the boardroom. It adds to the body of corporate governance literature informed by primarily qualitative data and interpretative analysis and, in so doing, provides new insights. The collaborative form of board–management interaction and the mechanism-based model of corporate governance to emerge from the analysis attempt to describe how boards and managers can work together. Preliminary attempts to associate director qualities, board interactions (in the form of social mechanisms) and board tasks (board involvement in strategic management) have been made.

The mechanism-based conceptualisation suggests that the active involvement of functional boards in specific strategic management activities is important if the board wishes to exert influence from and beyond the boardroom. A refined understanding of corporate governance has been proposed: a stratified mechanism that includes a set of strategic management tasks and underlying mechanisms that are harmoniously activated by boards intent on exerting influence from and beyond the boardroom. The integrative perspective proposed in this research builds on and extends the findings provided by other observation-based studies (e.g., Leblanc (2003) and Machold and Farquhar (2013)).

While the models to emerge from the analysis add to the understanding of how boards work and they describe how boards seek to exert influence from the boardroom, they should not be read as an attempt to propose a theoretical explanation of board–management interaction nor of the relationship between the conduct of corporate governance and firm performance. Rather, they provide an integrative perspective (albeit a contingent one) based, primarily, on the findings of an observation-based longitudinal multiple-case study and the synthesis of several disparate but seemingly significant models. As such, the merits and application of the findings should continue to be debated in the context of the three leading theories; other integrative models and meta-theories that have been derived from the leading theories and elsewhere; and, emergent understandings produced elsewhere, in search of increased understanding.

7.5 Metaphysical elaboration

The mechanism-based conceptualisation of corporate governance to emerge from this research adds to the extant understandings of both board–management interaction and the governance–performance relationship. Specifically, it builds on earlier contributions (of Tricker (1984), Nadler (2004a), Wheelen and Hunger (2006), Charreaux (2008) and Wirtz (2011) in particular) and important social constructs including collegiality, trust, teamwork and synergy (as identified in the qualitative literature, see Section 2.5 and Table 3-4), within the context of both a shared sense of purpose and agreed performance goals of the company. However, questions remain.

Given the 'need' for one or more directors to act together to direct and supervise the business and affairs of a company is universal (it is required by law ("Companies Act," 1993, Section 126)), might the 'need' for the mechanism of corporate governance also be universal? The law is silent on the need for such mechanism—in fact, neither of the terms 'governance' or 'corporate governance' is mentioned in the statute ("Companies Act," 1993).

Despite this, the practice of corporate governance (in some form) is widely regarded as being necessary for companies where a separation between ownership of shares (and associated rights) and control of decision-making and business operations exists. But what of closely-held companies where shareholders are also directors, or shareholder-managers who work within the business as executives? Is the mechanism of corporate governance required in the absence of separation between shareholders, directors and managers, for example (i.e., where complete unification (Lockhart, 2014b) exists)? If the shareholders of the company are all present as directors, then the nature and, probably, the motivations of the board and the interactions between shareholding directors who are also managers fundamentally change.

Another question that emerges from this research is whether a company can operate effectively over the long term if boards do not exercise the mechanism of corporate governance. That a company can continue to exist in spite of any meaningful contributions by the board is apparent in both the literature and in practice—including in the companies that participated in this research. A similar question, of whether the mechanism of corporate governance can or should exist or be activated in the absence of a board, either because the board is a legal fiction or because the legal structure of the entity is not that of a company also merits enquiry.

Managers, shareholders or other groups or individuals can perform strategic management tasks and compliance activities without doubt, but is this corporate governance? If the board is not setting direction and making adjustments effectively (stewardship); and, if it is not providing resources to management and defining operating boundaries (resource dependency); and, if the activities of management are not being monitored and controlled and incentives provided to ensure that performance objectives are achieved (agency), then it is unlikely that the board is fulfilling its legal duties and moral responsibilities.

Is corporate governance absent in such circumstances? Perhaps. Might this matter or be of concern? If the firm is a company, the directors are bound by statute to fulfil specified duties. Whether these tasks are delegated (e.g., to management to determine strategy, as Larcker and Tayan (2011) argue is appropriate)—knowingly or otherwise—or not, does not release the directors from their responsibilities and statutory duties.

Similarly, how might boards best be involved in strategic management in publicly-listed companies, where the total separation of shareholding and control has become normative and responsibility for strategy development is often assigned to management? Berle and Means' (1932) distinction between private corporations and quasi-public and public corporations implies that different treatments are required and, therefore, that the practice of corporate governance is contextual.

Board involvement in strategic management was both observed and described in this research. The board’s active involvement therein appeared to be associated with both effective contributions and subsequent performance inflections (albeit irregularly and with indeterminate effect). However, the ability of directors individually and the board collectively to think independently and critically with a strategic mindset (Yorks & Nicolaides, 2012) does not appear to be related to any notional physical, financial or task separation between the board and management—in this research or elsewhere. Also, the predictability of whether any combination of the underlying mechanisms proposed here might lead to any particular level of subsequent firm performance remains tenuous. Consequently, Cadbury’s (1997) “most difficult question” (p. 96) remains only partially answered.

Consequently, further research is vital (especially comparative research across a range of board, company, shareholding and sector contexts) if adequate answers to the preceding questions are to be discovered and, crucially, an adequate platform for a more widespread understanding of corporate governance is to be formed. The findings to emerge here provide some illumination in relation to high-growth non-public companies. If answers can be achieved, they should assist others determine whether a mechanism-centred conceptualisation of corporate governance is appropriate in a wider context including publicly-listed companies, quasi-public companies, private companies and non-company entities; and, whether or not corporate governance is required in all cases.

Finally, concerns over the viability of a universal theory remain. More sophisticated understandings and theoretical constructs that account for contextual eventualities are expected to be required if a universally applicable theoretical understanding of corporate governance is to emerge. While such a development may be dependent on a single definition of corporate governance being accepted, further observation-based research to collect data from different types of company, board and operating contexts is recommended. Even then, the adoption of a universal theory will be dependent on adequate explanations of observed complexities, anomalies and idiosyncrasies being presented. Though plausible, the likelihood of this is for the time being distant.

Chapter 8: Conclusion

What we know is not much. What we do not know is immense.

Pierre-Simon Laplace (1749–1827)

8.1 Research aims

8.1.1 Basis for research

Boards, directors and board activity have become the subject of much scholarly research and public interest in recent decades, especially since the succession of high-profile company failures of the early 2000s and since. Knowledge of how boards work and any relationship with firm performance has been argued to be important for numerous reasons including that high performing companies has been associated with, amongst other things, economic growth and improved societal wellbeing (Ahlstrom, 2010; Friedman, 2005; Schefold, 1979).

While board and governance researchers have studied many aspects of boards and board activity, and many outputs have now been reported, reliable knowledge of how boards actually work is far less common. The nature of the purported relationship between boards, corporate governance and firm performance has remained, largely, undetermined (Bozec & Bozec, 2012). However, the possibility of an association between the board's involvement in strategic activities (strategic management in particular) and subsequent firm performance has been suggested in the literature (Huse, 2009b). This possibility (that board may be able to influence firm performance—albeit indirectly—from the boardroom through its involvement in strategic management) and calls by Drew and Kaye (2007), Pugliese *et al.* (2009) and others for further research on the board's role in strategic management provided much of the motivation for this research.

8.1.2 The research question, restated

The purpose of this research was to learn if boards are able to exert influence from and beyond the boardroom by observing boards in session and exploring whether strategic management also lies at the core of effective governance contributions. This research was informed by several models previously proposed in the literature, including Garratt (1996); Nadler (2004b); Wheelen and Hunger (2006); Hendry et al. (2010); Wirtz (2011); and, notably, Tricker's (1984) proposal that strategic management appropriately lies at the nexus of board–management interaction (see Figure 2-6). Specifically, the research question investigated in this research (see Section 1.3) was expressed as follows.

> The question of whether a relationship between the board's involvement in strategic management and subsequent firm performance is apparent in high-growth companies was 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.

8.1.3 Research approach

The pursuit of knowledge about boards and corporate governance has been dominated by positivist research designs incorporating the multivariate analysis of typically quantitative data and hypothetico-deductive science, typically to identify relationships between isolated attributes of boards and firm performance variables. In contrast, a comparatively small number of researchers have pursued an alternative approach, collecting qualitative data and utilising interpretative designs to produce knowledge about what boards do and the behaviours of directors. Findings reported to date have included correlations, detailed descriptions, models, hypotheses, theories and meta-theories. However, almost all of the outputs that have been produced have been informed by data collected outside the boardroom, apart from the place where the phenomenon of interest—corporate governance—is understood to occur.

This research necessitated the observation of boards in session—specifically, longitudinal observations—thus creating an additional source of data. Several methods were used to collect data from primary and secondary sources for critical analysis. These included the first-hand observation of boards in session (i.e., board meetings) and the inspection of documentation used by boards (i.e., board packs and minutes of meetings), in addition to the more common collection methods of interviews and surveys of key actors (i.e., chairmen, directors and chief executives) and the inspection of publicly available data.

The synthetic timeline framework developed by Taitoko (2002) and successfully used by Lockhart and Taitoko (2005) was used to collate the data collected from multiple disparate sources. This provided a more holistic overview of board activity (especially in relation to board involvement in strategic management and decision-making sequences) and firm performance, from which analysis could proceed. An iterative approach to analysis was used to develop a deep understanding of corporate governance and the means by which it was expressed by the boards of the two high-growth companies that participated in this research.

8.1.4 Research findings: the research question answered

The analysis of data collected for this research revealed knowledge of how the participant boards worked including board involvement in strategic management tasks (especially strategy development and strategic decision-making, in addition to more conventional involvement in the monitoring of performance and management). An irregular relationship between board involvement in strategic management and subsequent firm performance was identified. However, the board's active and on-going involvement in strategic management appears to have been significant to both effective board contributions and the exertion of influence beyond the boardroom. Several qualities of directors and underlying mechanisms that appear to have affected the board's ability to exert influence were described, and a model was produced. Descriptions of ineffectual contributions were also produced from the analysis. Consequently, the research question has been answered.

More specifically, detailed descriptions of the board's involvement in strategy development were developed from the analysis, and nine strategic decision and related decision sequences were described. Associations between board involvement in several strategic decision sequences and subsequent performance inflections were detected in the data. However, these associations were both tenuous and irregular. Some of the strategic decisions identified in the data were followed by a discernible change beyond the boardroom whereas others had little if any discernible impact beyond the boardroom at all.

A mechanism-based model of corporate governance was developed from the analysis of the longitudinal data collected from the observations of the boards of the two participant companies. The model, which provides an integrative perspective of how effective contributions can occur, represents a further development from models and frameworks previously proposed by Tricker (1984), Leblanc (2003), Wheelen and Hunger (2006), Nadler et al. (2006), Wirtz (2011) and Tricker (2012a).

The research also found that the influence of the board beyond the boardroom was contingent on multiple factors including the board's own actions including the satisfactory completion of strategic management tasks and the directors' active engagement (or not) therein; the effective implementation of board decisions by management; the passage of time; and, the indeterminate impact of other endogenous and exogenous factors. While statistical analysis was not a priority of this research, the inconsistencies and irregularities observed in the findings add anecdotal support for the proposition that no single configuration of board structure, composition, activity or behaviour is universally applicable in all circumstances, even within one company let alone one category of company (high-growth) or all companies.

8.2 Contributions to knowledge

As Kuhn (1970) noted in *The Structure of Scientific Revolutions*, the creation of new knowledge is largely characterised by incremental developments and extensions of extant knowledge in the main, with the occasional leap forward, at which point a new paradigm is established. Furthermore, Merton (1968) noted that knowledge by incremental accumulation "implies that most new ideas are findings have been anticipated or adumbrated" (p. 13) elsewhere. Most of the board and governance research conducted to date has followed this well-established pattern (as Carver (2010a) observed).

Notwithstanding this, the research reported here makes theoretical and methodological contributions to the board and corporate governance literature. In so doing, it joins the small but burgeoning body of corporate governance research informed by qualitative data collected from direct observations of corporate boards in session. Examples of previous studies in this body of literature include Currall et al. (1999); Samra-Fredericks (2000a, 2000b); Leblanc (2003); Martyn (2006); Parker (2007); Edlin (2007); and, Machold and Farquhar (2013).

8.2.1 Contribution to the theoretical understanding

The findings from this research contribute to the understanding of boards and corporate governance by providing descriptions informed by data collected from direct longitudinal observations of boards and other sources; and, by proposing models of how boards intent on exerting influence from and beyond the boardroom can work. These contributions both refine and extend extant understandings.

Detailed first-hand descriptions of how the boards of two high-growth companies worked over a multi-year period were produced. Informed by the analysis of data collected from multiple sources including, especially, first-hand non-participant observations of the boards in session (i.e., board meetings), these descriptions provided new insights into board involvement in strategic management (especially strategy development and strategic decision-making) and the consequential impact of decisions made in the boardroom. The board's active and on-going involvement in the strategic management tasks of strategy development, strategic decision-making and the subsequent monitoring of strategy implementation was found to be significant to effective contributions. As a consequence, the descriptions add empirical support for Tricker's (1984) adumbration that strategic management is appropriately placed at the nexus of board–management interaction. However, the board's active and sustained involvement in these tasks did not predictably nor reliably lead to any particular change in firm performance being achieved.

The two conceptual models (of board–management interaction and the governance–performance relationship) developed from the analysis contribute new insights about the interactions between the board and management, and of corporate governance. A highly collaborative form of board–

management interaction was identified, adding a new variant to those identified in the models proposed Wheelen and Hunger (2006) and Nadler (2004a).

An insight to emerge from the mechanism-based model is that corporate governance may itself be a mechanism that is activated by engaged boards (cf. previous literature: Wirtz (2011) suggested that the board itself is a mechanism). The integrative perspective represented by this model synthesises and extends previous contributions (especially the models suggested by Tricker (1984), Charreaux (2008) and Wirtz (2011)) by describing how the mechanism of corporate governance is activated. The harmonious activation of several underlying mechanisms (five were identified in this research, namely, strategic competence, active engagement, sense of purpose, collective efficacy and constructive control) was found to be important as engaged boards performed strategic management tasks in accordance with an agreed division of labour.

While the two models provide insight, neither contribution purports to the status of theory *per se*, much less universal applicability. Rather, the models provide a representation—perhaps of a middle range (Merton, 1968) or an ideal type (Calhoun, 2010)—of how functional boards (Leblanc & Gillies, 2005) intent on influencing firm performance can do so, and were observed to do so from the boardroom.

Though contingent, the findings to emerge from this research are expected to have implications for both future research and practice. In particular, the analysis indicates that stewardship theory or resource dependency theory (or some synthesis of these) may provide a more suitable theoretical basis (than agency theory) from which to advance the understanding towards a satisfactory theory of corporate governance. Further research is recommended, both to test these findings and assess their applicability beyond the observed context. The nascent meta-theories described in Section 2.3.4 should not be overlooked in this pursuit.

8.2.2 Contribution to method

The use of a realist-inspired longitudinal multiple-case study design provided a seemingly legitimate means of studying boards in search of a more holistic understanding of what they actually do when in session and how they work. Such a design seems to provide a credible alternative to the more commonly reductivist approach that has been favoured by many board researchers. A fundamental assumption of reductivist research is that if the constituent parts of a phenomenon can be isolated, studied and explained, then the whole phenomenon can itself (eventually) be explained. If this assumption were valid, the sum of the individual board attribute and firm performance correlations and descriptions produced to date ought to have provided an adequate description of boards and corporate governance, leading to a satisfactory theoretical explanation of the phenomenon. However, explanatory 'answers' have remained elusive despite a plethora of published studies, suggesting perhaps that this might not be the case.

The importance of access both to observe boards in session and to collect data from the primary source (as recommended by Gummesson (2000); Leblanc (2007); and, Pugliese *et al.* (2009)) became evident during the conduct of this research. While survey and interview data and interpretative techniques have revealed much (because they enable researchers to get closer to the phenomenon of interest (i.e., corporate governance) than research limited to the use of publicly-available data to analyse observable attributes of boards from a distance), this research showed that data collected from direct observations *in addition to* data collected from more conventional sources can expedite a more accurate understanding of how boards actually work.

That anomalies between the data collected from primary and secondary sources became apparent during the course of the analysis provides support for this observation. Variations between comments made during semi-structured interviews and actual interactions observed during board meetings; and the omission (whether intentional or not) of some important interactions that were material to the flow and timing of decision sequences and board interactions (from the minutes of meetings) highlights the challenge. Had the research design not involved direct observation as one source of data, these anomalies, omissions and insights may have remained hidden. Consequently, researchers intent on discovering how directors interact and what boards actually do when in session should strive to gain access to observe board meetings directly—ideally silently and persistently—as an additional source of data.

However, the very presence of a researcher within the boardroom to observe the board in session has the potential to influence director behaviour. The extent to which board activities and behaviours are modified is very difficult if not impossible to tell if the research is limited to a single incursion, as Martyn (2006) and Edlin (2007) noted in their studies. A longitudinal design and complete-observer typology offers a means of mitigating these effects, as directors are understood to revert to authentic behaviours and interactions over time (Maitlis, 2004; Vissak, 2010)—as Machold and Farquhar (2013) demonstrated in their study.

Finally, the use of a synthetic timeline framework, such as the LT framework provided a means of synthesising and assembling seemingly disparate data from multiple sources to provide a more complete perspective. As the collation, synthesis and iterative process of analysis proceeded during this research, increasingly deep levels of understanding of board activity were revealed including decision sequences, board involvement in strategic management, anomalies between data from different sources and other relationships of interest.

8.3 Limitations of the research

The purpose of this research was to learn more about corporate governance, strategic management and board influence on firm performance, through the lens of a longitudinal multiple-case study. The goal of the research question was to explore whether a relationship between contributions in the boardroom and subsequent changes in firm performance might exist or not.

Data was collected from boardroom observations (audio recordings and handwritten observation notes), board records (board report packs and minutes of board meetings), semi-structured interviews (audio recordings and handwritten interview notes), confidential and published company documentation (internal reports and company annual reports) and informal conversations with directors and informants. The longitudinal multiple-case design used to conduct an intensive study of the boardroom practices of the Alpha and Bravo boards enabled the interactions between the board and management, and between corporate governance and strategic management to be described. While two models were produced including a mechanism-based model of corporate governance, the findings are bound by limitations, some of which are summarised in the following paragraphs.

The very design that enabled deep understandings to emerge also imposed a significant limitation—generalisability. The degree to which the data collected for analysis, or the findings that emerged from the analysis, are representative of any wider population of companies including other high-growth companies; New Zealand companies; international companies; profit-seeking companies in general; or, even, Alpha and Bravo at different times or in different contexts is not asserted and cannot be reliably determined without further comparative analysis of data collected from other companies and operating contexts.

The variety of activities and behaviours that were observed in board meetings were influenced by the *a priori* knowledge and experience of the participating directors (amongst other things). These experiences and biases can have an effect on both the discussions between directors and the decisions made by the board. Other factors beyond the boardroom may also have an unpredictable effect on the implementation of decisions made by the board. Consequently, the multiplicity of factors that may occur and interact with variable effect demonstrates the complexity of both the phenomenon and the operating context. Therefore, conceptual contributions emerging from corporate governance research including this research are, and should remain both contingent and tentative.

Another limitation of this research concerns bias. A credentialed company director familiar with normative board structures and generally accepted corporate governance practices completed the research. While *a priori* knowledge (of both the researcher and that reported in the literature) provided insight to inform the data reduction and analysis—especially in relation to managing the effects of the Rhoades Dilemma (see Section 3.3.5)—such knowledge is likely to have introduced biases. Other researchers have employed grounded theory designs to mitigate researcher bias—the QUT study reported in Section 3.3.4 is one such example. Grounded designs have considerable merit in exploratory research, however they place considerable demands on the research participants (as the QUT team members reported) and the researcher. One approach to mitigating the effects of informed researcher bias is to ensure data are collected as close to the source as possible (ideally, direct boardroom observations); audio recordings are made to provide a complete record of what was actually said; and, to employ a team-based approach to analysis (as Machold and Farquhar (2013) did with good effect in their study).

Finally, the research design was limited to an investigation of what boards do, as evidenced from the perspective of the boardroom. As a consequence, data collection was similarly limited—to the observation of board meetings, interviews with the chief executive and selected directors and the inspection of both board and published documentation. While the analysis provided insights, the contingent effects of board decisions and associations with subsequent performance inflections are tenuous and contextual. Future research intent on examining the effects of board decisions beyond the boardroom (including attempts to quantify the extent of associations) should consider more extensive data collection outside the boardroom. This should enable specific exogenous and endogenous factors to be identified and their indeterminate effect to be assessed both in the context of decision implementation and subsequent performance outcomes. Useful data sources may include, for example, the observation of management meetings; interviews with management, staff and (ideally) external stakeholders; and, the inspection of company records including management reports, sales reports and detailed financial data.

8.4 Opportunities for future research

While the insights gained from this research make contributions to the board and corporate governance literature, opportunities for future research abound. An important question alluded to in Section 7.5, for example, remains unanswered. Might a single mechanism-based conception of corporate governance be applicable to some, most or even all cases, sizes and configurations of company? As attractive as this proposition may be, the probability of a general theory of corporate governance emerging from this or any similar intensive research is far from likely, especially given the complex, socially dynamic nature of both the phenomenon (corporate governance); the context (the boardroom and company); and, the wider market environment within which boards and companies operate, the business ecosystem.

Considerable new knowledge about boards, board–management interaction, corporate governance and the relationship between the conduct of corporate governance and firm performance should be possible if further research is conducted under the rubric of realist-inspired longitudinal multiple-case study designs. Very long-term case studies—perhaps of a decade or more—may enable researchers to gain better understandings of both the decision-making practices of boards and the financial and social impact of decisions made by boards. Very long-term case studies should produce rich data sets, enabling alternative explanations of how boards might exert influence in various situations and contexts to be developed. The prospect of gaining a sufficiently complete perspective to enable more complete theories of corporate governance to emerge is enticing.

Researchers should also test the efficacy of the findings to emerge from this research in different company and board contexts (including small-medium enterprises, family-owned companies, publicly-listed companies, and state-owned enterprises; and, non-company entities such as charitable organisations, not-for-profit agencies and trusts). The underlying mechanisms within the mechanism-based model should also be studied in more detail (both individually and collectively) to further understand their characteristics and the limits of their contextual application; identify anomalies; propose alternatives; and, assess whether the underlying attributes are necessarily activated in a range of different company, board and market contexts. Knowledge gained from other literatures and disciplines including, for example, psychology, group dynamics and organisational development is also likely to provide a rich foundation for further enquiry.

8.5 Implications for practice

The findings to emerge from this research add to the growing body of research about boards and corporate governance by seeking to understand how boards exert influence from the boardroom. While no direct, predictable or regular associations between the conduct of corporate governance and subsequent firm performance outcomes were identified (firm performance being contingent on numerous factors, many of which occur outside the boardroom), several implications for boards in practice emerged from this research.

The mechanism-based model provides guidance to boards intent on exerting influence from and beyond the boardroom including over firm performance. Specifically, the mechanism-based conceptualisation of corporate governance should enable directors to understand the tasks, behaviours and interactions that are conducive to effective contributions. It should also enable shareholders, nominating committees and boards to begin to understand the types of directors needed in the boardroom to work together in pursuit of agreed performance goals. Once shareholders understand the qualities needed in their directors (and recruit accordingly), and boards understand and intentionally activate identified social mechanisms as they seek to perform agreed strategic management tasks effectively, increased influence from the boardroom is not only possible (as it was in the Alpha boardroom), it is potentially sustainable.

Shareholders and director nomination committees should give careful consideration to the role of the executive director. The deliberate and effective transition from executive (managerial work) to director (fulfilment of duties, independence of thought, necessary care and due diligence) contributions on a regular and on-going basis, and to do so effectively, presents a significant challenge for executive directors. Alpha directors were said to struggle with this transition in the early years when the board was comprised almost exclusively of executive directors. However, once the transition to a 'non-executive' board took place, many of the problems experienced earlier were reported to subside. Bravo directors remain constrained by the executive–director dilemma throughout the research period. Some important decisions (including some strategic decisions) were made outside the boardroom by executive directors and, therefore, not by the board. This had the effect of impairing the board's contribution and the value of any contribution that the board may have made. Nomination committees may wish to mitigate exposure to management capture and naturally occurring cognitive biases of executive directors by actively seeking evidence of independence of thought, critical analysis, a strategic mindset and informed decision-making as important selection criteria both initially during director recruitment and on an on-going basis through a formal independent board evaluation process.

Another implication of the research findings for practice concerns time. Busy directors (Andres, van den Bongard, & Lehmann, 2013) and chairs (Peni, 2014) have been associated with lower firm performance, as have boards with passive directors (Scherrer, 2003) and 'social loafers' (Kidwell Jr & Bennett, 1993). This research adds to these concerns. Directors should make enquiries and think critically about various options—on an ongoing basis—*before* they enter the boardroom if their contributions in the boardroom are to be effective. Directors should also ensure they thoroughly understand both the business they are charged with directing, and the wider operational and strategic context within which the firm operates, if their contributions in the boardroom are to expedite value creation.

Finally, the position of company director is a full-time commitment in law (even though the board operates as a decision-making body only when in session). Legally, directors are not directors solely when they are participating in board meetings and undertaking recognised or formal corporate governance practices. They carry the warrant at all times; from when they are appointed to the time of their resignation or retirement. As such, directors need to intentionally manage their contributions and demarcate their responsibilities—especially if they are charged with performing executive duties—to avoid conflicts of interest and to ensure they continue to fulfil their statutory duties to both the company and the shareholders.

In the company boardrooms observed for this research, the quality of director interactions and effectiveness of board interactions and contributions seemed to be higher when no executive directors sat on the board or when executive directors were in the minority. However, this guidance should not be read as a plea for independent directors or any other board composition or configuration *per se*. The challenge for directors and boards relates to their behaviours; their fulfilment of duties; and, especially, their ongoing commitment to active engagement, critical analysis and independence of thought—a much more sophisticated understanding of independence (Kay & Goldspink, 2016).

8.6 Closing 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 by understanding how boards work, especially in relation to board involvement in strategic management. A counter-factual approach to the study of corporate governance, strategic management and firm performance was embraced—the research brought commonly separated elements and tasks together in pursuit of a more holistic perspective and understanding.

The analysis suggests that the conduct of corporate governance and the value of board contributions is dependent on the board's active and ongoing involvement in the company's strategic thinking and strategic management practices (especially the consideration of strategic options; development of strategy; approval of strategy; making of strategic decisions in the context of approved strategy; and, monitoring and verification of both strategy implementation and subsequent firm performance).

The quality of the strategic decisions appears to be enhanced and the chance of selecting poor strategies reduced if *all* of the directors are actively engaged in the execution of specified strategic management tasks; an effective and unambiguous (though not necessarily static) division of labour between the board and managers is defined and efficiently implemented; and, the underlying mechanisms identified in this research are activated by the board when in it is in session. However, any association between board activity and subsequent firm performance remains indirect, at best. Firm performance goals may still occur in the absence of board contributions, and the impact of endogenous and exogenous factors may mean that board contributions have little impact on firm performance either, despite the board's best endeavours to exert influence.

The findings that emerged from this research mark a return to the conceptualisation of shareholder–board–management interaction described by Berle and Means (1932) in their original and now seminal thesis; Eells' (1960) and Cadbury's (1992) definitions of corporate governance; Tricker's (1984) suggestion that the nexus of board–management interaction is the appropriate location of strategic management; and, Campbell and Yeung's (1991b) suggestion that mission attainment (i.e., achievement of firm performance goals) is dependent on the close interaction of purpose, strategy, values and behaviours. That others—especially but by no means only Jensen and Meckling (1976) and Fama (1980)—moved the locus of board and governance research away from the absentee shareholder (the basis for a board in the first place) and the role of the board in directing and supervising management in the pursuit of performance outcomes is no fault of Berle and Means; Eells; Cadbury; Tricker; or, Campbell and Yeung.

However, the findings also challenge the widely-held conception: that corporate governance is a structure; process (i.e., a sequences of activities); policy framework (i.e., sets of rules and regulations); or, some combination of these, or even an all-encompassing system extending well beyond the company. Building on Wirtz's (2011) conception of a mechanism, the emergent findings demonstrated that it may be more useful to conceptualise corporate governance as a stratified mechanism that is activated by competent, engaged boards intent on exerting influence from and beyond the boardroom.

The research demonstrated that the practice of corporate governance occurs within the boardroom, when the board is in session. Consequently, researchers and practitioners should consider refraining from using the terms 'governance' or 'corporate governance' when describing elements or attributes of the wider business ecosystem within which companies exist and operate. Examples include statutes; codes of practice; recommendations of various sorts including board recruitment, diversity, remuneration principles; and, market and shareholder reporting requirements. These elements and attributes provide guidance to companies and their boards to either inform the practice of corporate governance and boundaries to limit malpractice. Though important, they are not corporate governance *per se*.

Though perhaps contentious, these suggestions might go some way to redressing the digression that appears to have occurred between 1932 and 1976. While it is crucial to proceed with great caution, it may now not be too bold to suggest that a significant breakthrough in both the conceptual and even theoretical understanding of corporate governance remains possible. A paradigmatic revolution (Kuhn, 1970) could be one step closer.

However, those in power often resist change, as Copernicus discovered, ultimately to his eternal detriment. The findings to emerge from this research and associated implications for practice may be resisted by some established high-profile directors and boards, especially of large publicly-listed companies. For example, informal discussions with nine 'senior' company directors that occurred during the writing of this thesis (all of whom are recognised Fellows of one of the Institute of Directors in New Zealand, the Australian Institute of Corporate Directors or the Institute of Directors (UK)) indicated that strategy is understood to be either primarily or exclusively within the domain of management; that the role of the board is to stand apart (from management) and to add value by holding management to account; and, that the directors do not have the time nor inclination to delve into matters of management. In response to a question about board involvement in strategy, one particularly well-known chairman replied, "For a start, directors don't get paid enough. Besides, strategy is the chief executive's job; that is what he gets the big bucks for. The board's job is to hold the chief executive accountable". This comment—not an isolated sentiment—highlights the strongly-held opinions of some senior directors.

Finally, this thesis does not signal, and it should not be interpreted as signalling, the arrival at any particular destination. Rather, the research described here provides a waypoint on a long, challenging and sometimes arduous journey of discovery to enhance the understanding of what boards actually do, what they should do, and how they can exert influence from and beyond the boardroom, in the pursuit of desired firm performance goals. The current rate of progress towards understanding corporate governance well and how boards exert influence beyond the boardroom including on firm performance suggests that the boardroom is likely to remain an interesting and viable site of research for many years to come.

To my mind there must be, at the bottom of it all, not an equation, but an utterly simple idea. And to me that idea, when we finally discover it, will be so compelling, so inevitable, that we will say to one another, 'Oh, how beautiful. How could it have been otherwise?'

John Archibald Wheeler

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Appendix A: MU Human research ethics approval

MASSEY UNIVERSITY
TE KUNENGA KI PŪREHUROA

28 March 2013

Mr Peter Crow
66 Samwell Drive
WHITBY 5024

Dear Peter

Re: HEC: Southern B Application – 13/18
The impact of governance on performance: Moving from relationships to causality

Thank you for your letter dated 26 March 2013.

On behalf of the Massey University Human Ethics Committee: Southern B I am pleased to advise you that the ethics of your application are now approved. Approval is for three years. If this project has not been completed within three years from the date of this letter, reapproval must be requested.

If the nature, content, location, procedures or personnel of your approved application change, please advise the Secretary of the Committee.

Yours sincerely

Dr Nathan Matthews, Chair
Massey University Human Ethics Committee: Southern B

cc Dr James Lockhart
School of Management
PN214

Dr Kate Lewis
School of Management
WELLINGTON

Prof Sarah Leberman, HoS
School of Management
PN214

Massey University Human Ethics Committee
Accredited by the Health Research Council
Research Ethics Office
Massey University, Private Bag 11222, Palmerston North 4442, New Zealand T +64 6 350 5573 +64 6 350 5575 F +64 6 350 5622
E humanethics@massey.ac.nz animalethics@massey.ac.nz gtc@massey.ac.nz www.massey.ac.nz

Appendix B: Research information sheet

MASSEY UNIVERSITY
COLLEGE OF BUSINESS
KAUPAPA WHAI PAKIHI

SCHOOL OF MANAGEMENT
Private Bag 11 222
Palmerston North
New Zealand

Telephone: 64 6 356 9099 x 2361
Facsimile: 64 6 350 5661
http://management.massey.ac.nz

The impact of governance on performance: evidence from inside the boardroom

INFORMATION SHEET for PhD RESEARCH

Researcher introduction

The purpose of this document is to introduce a doctoral research project being conducted by Peter Crow, PhD candidate, Massey University, and to request your company's participation in the project. Peter is an experienced company director and business advisor.

Project description

Research into the contribution that Boards make to company performance has proliferated in recent decades. Most of the research has focussed on governance structure and composition, and behavioural attributes of directors. To date, no conclusive results to explain how Boards contribute to company performance have been achieved. However, several leading scholars have postulated a relationship between governance and performance, and strategic decision-making appears to be a significant contributing factor.

The purpose of this research is to discover how governance (especially the Board of Directors) contributes to company performance. The discovery of a clear explanation of the effect that governance has on performance is crucial, because companies invest heavily in governance, and Boards carry the ultimate responsibility for maximising company performance. High company performance is an important contributor to economic development and societal wellbeing.

The making of strategic decisions, and their impact on company performance, is of primary interest to this research. The Researcher will investigate whether a relationship between governance and performance exists in the participating companies, and whether strategic decision-making is a significant factor. If so, a new conceptual model (theory) of governance—which incorporates strategic decision-making—will be proposed.

A longitudinal multiple-case study process, and strategic decision-making and performance data from three companies, will be used to conduct this research. The Researcher plans to gather data related to the strategy development process; the consideration of strategic options; the making of strategic decisions; and, subsequent company performance. Specifics of the company's strategies and commercial operations are outside the scope of the research. They will not be reported, and will remain confidential.

Participation

The Researcher seeks the permission of your Board and CEO to participate in this research. The unanimous agreement of the Board and the CEO to participate in the research, which involves the collection of data as specified below, is required. A consent form, signed by the Chair, will indicate that the Board has provided its unanimous agreement to participate. The CEO will be asked to sign a separate consent form, to indicate their agreement to participate.

Data collection

Data will be gathered from three sources within each participating company, as follows:

- Inspection of public and private archival information, including annual reports, media statements, shareholder updates, two previous years of Board reports and Board minutes.
- Interviews with CEO and Board Chair at commencement and completion of 12-month observation period.
- Observation of one annual cycle of Board meetings (up to 12 meetings), whereby the researcher is a silent observer (seated away from the Board table). The Researcher will not participate in the Board meeting in any way, nor will he interact with Board members or the CEO during the meetings.

Interviews and observed Board meetings will be audio recorded, to supplement written notes made by the Researcher. The audio recordings will not be formally transcribed. Rather, they will be used if required to confirm comments made during interviews, and confirm the origin and timing of decisions that are made during Board meetings. The Chair and CEO interviews are expected to require up to 75-90 minutes each.

A copy of the relevant draft research findings will be provided to the CEO and Chair for comment prior to the thesis being finalised. In addition, participating companies have the right to receive a summary of the final research findings after the thesis is completed. The Researcher proposes that this be by way of a presentation of the findings and insights to the Board. The Board may decline to receive the summary presentation if it wishes.

Data management

This research requires access to corporate boardrooms and confidential company information. Every effort will be made to to preserve the confidentiality of confidential information.

- The Researcher will sign your standard company confidentiality agreement.

- Confidential company information provided by the company during the course of this research will be stored securely, kept confidential to the researcher, and will remain confidential after the research project is completed.
- The names of participating companies and its officers will be kept confidential to the Researcher and his Supervisors. The names of the participating companies will not be disclosed with any other party.
- No identifiable references to participating companies, or company officers, will appear in the research thesis or any other published document.

The Researcher will store all raw data (audio recordings, written observation and interview notes, Board reports and minutes, other private company data that is provided) securely at the Researcher's office. If requested, raw data will be destroyed when the research is complete and the doctoral thesis is marked.

Participant's rights

Your company is under no obligation to accept this request to participate. However, if your company agrees to participate, the directors and the CEO have the right to:

- decline to answer any particular question;
- ask the Researcher to leave the Board meeting during "Board only" time (and remove the audio recorder);
- ask any questions about the study at any time during participation;
- provide information on the understanding that no individual's names will be used unless written permission is given by the individual to the researcher;
- be given access to a summary of the project findings when it is concluded; and,
- ask for the audio recorder to be turned off at any time during the Chair and CEO interviews.

Compulsory statement

This project has been reviewed and approved by the Massey University Human Ethics Committee: Southern B, Application 13/18. If you have any concerns about the conduct of this research, please contact Dr Nathan Matthews, Chair, Massey University Human Ethics Committee: Southern B, telephone 06 350 5799 x 80877, email humanethicsouthb@massey.ac.nz.

Appendix C: Consent forms

MASSEY UNIVERSITY
COLLEGE OF BUSINESS
KAUPAPA WHAI PAKIHI

SCHOOL OF MANAGEMENT
Private Bag 11 222
Palmerston North
New Zealand

Telephone: 64 6 356 9099 x 2361
Facsimile: 64 6 350 5661
http://management.massey.ac.nz

The impact of governance on performance: evidence from inside the boardroom

Participation Consent Form (Board)

The Board has received and read the Research Information Sheet, and the details of the study explained to us. Our questions have been answered to our satisfaction, and we understand that we may ask further questions at any time.

____ (company name) agrees to participate in the research described in and under the conditions set out in the Information Sheet. The Board members and CEO agree to allow the Researcher to conduct the research, including the silent observation of one annual cycle of Board meetings; interviews with the Chair and CEO; the sound recording of Board meetings and interviews; and, the inspection of historical company and Board information.

Signature: .... **Date:** ....

Full Name - printed ....

MASSEY UNIVERSITY
COLLEGE OF BUSINESS
KAUPAPA WHAI PAKIHI

SCHOOL OF MANAGEMENT
Private Bag 11 222
Palmerston North
New Zealand

Telephone: 64 6 356 9099 x 2361
Facsimile: 64 6 350 5661
http://management.massey.ac.nz

The impact of governance on performance: evidence from inside the boardroom

Participation Consent Form (CEO)

I have received and read the Research Information Sheet, and the details of the study have been explained to me. My questions have been answered to my satisfaction, and I understand that I may ask further questions at any time.

____ (CEO name, company name) agrees to participate in the research described in and under the conditions set out in the Information Sheet. I agree to allow the Researcher to conduct the research including interviews with me, and that a sound recording of the interviews be made.

Signature: .... **Date:** ....

Full Name - printed ....

Appendix D: Semi-structured interview guide

MASSEY UNIVERSITY
COLLEGE OF BUSINESS
KAUPAPA WHAI PAKIHI

SCHOOL OF MANAGEMENT
Private Bag 11 222
Palmerston North
New Zealand

Telephone: 64 6 356 9099 x 2361
Facsimile: 64 6 350 5661
http://management.massey.ac.nz

The impact of governance on performance: moving from relationships to causality

BASELINE QUESTIONS FOR SEMI-STRUCTURED INTERVIEWS

Category	Questions
Company history	Summarise your understanding of the company's history
Board structure & operations	Explain board structure, roles and responsibilities Board-CEO relationship (what, how et al)? Board committees—how many, what, who, purpose? How is agenda typically prepared? Who prepares the agenda, and when? What annual process/cycle/calendar does board follow (if any)? What involvement does board have with management (staff, customers, other) between meetings? Important skills and attributes of directors? Importance of 'team'? Explore vigorous debate vs. gentle discussion

Category	Questions
Strategy & decision-making	Please outline how strategy is developed (walk through the process) Who develops strategy? How are big decisions made? Challenges therein? Describe the process by which this occurs How are strategically important proposals developed (assessed, decided upon)? How does the board inform itself (in terms of market, ops, other)? Monitoring v. future outlook—where's the emphasis? How does this play out? Who *drives* strategy? Board-CEO alignment? How important is it that board members are fully engaged in discussions, strategy development and decision-making?
Monitoring	How is company performance monitored? How is strategy execution monitored? Value and contribution of non-exec directors to strategy process? Value and contribution of exec-directors (if any) to strategy process? How does the board 'know' the business is 'on-track'?
General	Anything else that you think might be material?

Appendix E: Lockhart–Taitoko frameworks

Upon the completion of non-disclosure agreements, the data in this Appendix was made available to the examiners for the purposes of the PhD examination only. It has now been removed with the express intention of maintaining confidentiality and anonymity of the participants and companies that contributed to this research. Readers and fellow researchers can have confidence that the data supported the analysis.