

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

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

---

A thesis presented in partial fulfilment of the requirements for the degree of

Doctor of Philosophy

in

Management

at Massey University, Manawatu, New Zealand.

Peter Ross Crow (08109559)

2016

## 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

<b>Abstract .....</b>	<b>ii</b>
<b>Table of contents .....</b>	<b>iii</b>
<b>Tables .....</b>	<b>ix</b>
<b>Figures .....</b>	<b>xi</b>
<b>Acknowledgements .....</b>	<b>xii</b>
<b>Copyright and disclaimer .....</b>	<b>xv</b>
<b>Chapter 1: Introduction .....</b>	<b>1</b>
1.1 Background .....	1
1.2 Research context.....	3
1.2.1 Companies, boards and corporate governance.....	3
1.2.2 Strategy, strategic management and firm performance.....	5
1.2.3 Boards of high-growth companies.....	7
1.2.4 The New Zealand context .....	7
1.3 The research question.....	10
1.4 The apparent importance of access and role of the researcher .....	11
1.5 Thesis outline .....	12
<b>Chapter 2: Literature review .....</b>	<b>17</b>
2.1 Introduction.....	17
2.2 Corporate governance .....	19

2.3	Theories of board–management interactions .....	26
2.3.1	Agency theory.....	26
2.3.2	Stewardship theory.....	30
2.3.3	Resource dependency theory .....	31
2.3.4	Emerging perspectives .....	32
2.3.5	The theoretical landscape .....	36
2.4	Board structure and composition studies .....	37
2.4.1	Board size .....	37
2.4.2	Chief executive duality .....	38
2.4.3	Diversity .....	39
2.4.4	Outside directors .....	40
2.4.5	Beyond structure and composition .....	42
2.5	Qualitative board activity and director behaviour studies.....	45
2.5.1	Director cognition, emotion and behavioural dynamics .....	46
2.5.2	Board tasks, performance and effectiveness .....	49
2.5.3	Board decision-making effectiveness .....	53
2.5.4	Towards a more complete understanding.....	55
2.6	The measurement of firm performance .....	56
2.7	Strategy and strategic management .....	59
2.8	Theories of company growth .....	71
2.9	High-growth companies .....	74
2.10	A pathway forward .....	76
	<b>Chapter 3: Research methodology and design .....</b>	<b>80</b>
3.1	Introduction.....	80
3.2	Ontological and epistemological considerations .....	80
3.2.1	Objectivist and constructionist perspectives .....	80

3.2.2	Mechanisms.....	83
3.2.3	Critical realism: an alternative approach to knowledge .....	85
3.3	Responses to identified challenges .....	87
3.3.1	Access to observe boards in session.....	87
3.3.2	The conduct of observing boards in session .....	89
3.3.3	Interviewing governance actors.....	90
3.3.4	The collection of authentic data .....	91
3.3.5	The status of the observer and the discernment of relevant data .....	93
3.3.6	The relevance of time .....	96
3.4	Case study research.....	97
3.5	The unit of analysis.....	99
3.6	Research ethics .....	100
3.7	Overview of research method .....	101
3.8	Participant selection.....	102
3.9	Data collection.....	108
3.9.1	Board meetings .....	109
3.9.2	Chairman and chief executive interviews .....	109
3.9.3	Audio recording data and handwritten notes.....	110
3.9.4	Confidential and published documents, and public material.....	111
3.9.5	Informal sources .....	112
3.10	Data storage.....	114
3.11	Data collation .....	114
3.11.1	Decision table .....	115
3.11.2	Lockhart–Taitoko synthetic timeline framework .....	117
3.12	Data analysis .....	118
3.13	Summary .....	122

<b>Chapter 4: Data .....</b>	<b>123</b>
4.1 Introduction.....	123
4.2 The participant companies .....	124
4.2.1 Alpha, the company .....	124
4.2.2 The Alpha board .....	126
4.2.3 Bravo, the company .....	127
4.2.4 The Bravo board .....	129
4.3 Board practice data .....	129
4.3.1 Board calendar and agenda.....	130
4.3.2 The board pack .....	133
4.3.3 Minutes and action register.....	137
4.3.4 Chairmanship and flow of meetings.....	138
4.3.5 Boardroom interactions .....	141
4.3.6 Interaction between board meetings .....	144
4.4 Boardroom decision data.....	146
4.5 Summary of data.....	150
<b>Chapter 5: First-order analysis.....</b>	<b>152</b>
5.1 Introduction.....	152
5.2 Board involvement in the strategy development .....	152
5.2.1 Alpha: current approach.....	153
5.2.2 Alpha: historical approaches.....	158
5.2.3 Bravo: current approach .....	161
5.2.4 Bravo: historical approaches .....	165
5.3 Strategic decision sequences .....	167
5.3.1 Acquisition of capital to expedite growth strategy.....	167
5.3.2 Expansion into international market: Soft entry .....	173

5.3.3	Commitment to international market: Acquisition .....	178
5.3.4	Strategic reorganisation .....	185
5.3.5	Equity event.....	191
5.3.6	Portfolio diversification .....	196
5.3.7	Strategic market development.....	201
5.4	Summary of first-order analysis .....	207
<b>Chapter 6: Second-order analysis and findings .....</b>		<b>208</b>
6.1	Introduction.....	208
6.2	Board engagement in strategic management.....	209
6.3	Synthesising board engagement, decision-making and performance inflections .....	215
6.3.1	Alpha .....	216
6.3.2	Bravo.....	218
6.3.3	Associating board contributions and performance inflections.....	219
6.4	The division of labour .....	223
6.5	Director interaction, behaviour and competency .....	227
6.6	Boardroom passivity and ineffectual contributions .....	232
6.7	Towards a conceptual model.....	236
<b>Chapter 7: Discussion.....</b>		<b>241</b>
7.1	Introduction.....	241
7.2	Boards and strategic management.....	242
7.2.1	Strategic management at the nexus of board–management interaction .....	242
7.2.2	Degrees of board involvement in strategic management.....	245
7.3	The governance–performance relationship .....	247
7.3.1	The mechanism-based conception of corporate governance .....	247
7.3.2	Influence from and beyond the boardroom.....	252

7.4	Positioning this research within the body of knowledge .....	255
7.5	Metaphysical elaboration .....	259
<b>Chapter 8: Conclusion .....</b>		<b>263</b>
8.1	Research aims .....	263
8.1.1	Basis for research .....	263
8.1.2	The research question, restated .....	264
8.1.3	Research approach .....	264
8.1.4	Research findings: the research question answered .....	265
8.2	Contributions to knowledge.....	266
8.2.1	Contribution to the theoretical understanding .....	267
8.2.2	Contribution to method.....	268
8.3	Limitations of the research .....	270
8.4	Opportunities for future research .....	272
8.5	Implications for practice .....	273
8.6	Closing remarks .....	275
<b>References .....</b>		<b>280</b>
<b>Appendix A: Massey University human ethics approval.....</b>		<b>335</b>
<b>Appendix B: Research information sheet .....</b>		<b>336</b>
<b>Appendix C: Consent forms .....</b>		<b>339</b>
<b>Appendix D: Semi-structured interview guide .....</b>		<b>341</b>
<b>Appendix E: Lockhart–Taitoko frameworks .....</b>		<b>343</b>

## Tables

Table 1-1: Companies Act 1993 (major responsibilities of New Zealand company directors).....	8
Table 2-1: Summary of performance effect for selected board structural characteristics .....	44
Table 3-1: Criteria used to select participant companies for research .....	103
Table 3-2: Primary and secondary data sources .....	108
Table 3-3: Categories used to classify boardroom decisions for analysis.....	116
Table 3-4: ‘Themes of interest’ to inform thematic analysis of strategic decision sequences .....	121
Table 4-1: Contextual characteristics of board meetings during observation period .....	130
Table 4-2: Decisions made by Alpha board during research period .....	148
Table 4-3: Decisions made by Alpha board, annual summary .....	148
Table 4-4: Decisions made by Bravo board during research period.....	149
Table 4-5: Decisions made by Bravo board, annual summary .....	149
Table 4-6: Strategic decision (sequences) made during research period .....	150
Table 6-1: Performance inflections in Alpha data: Possible contributing factors .....	217
Table 6-2: Performance inflections in Bravo data: Possible contributing factors .....	219
Table 6-3: Board involvement in strategic management, by strategic decision sequence .....	220
Table 6-4: Observed divisions of labour of strategic management tasks .....	224
Table 6-5: Evident themes, as observed in strategic decision sequence data .....	228
Table 6-6: Observed themes, and suggested underlying attributes and classifications .....	231

## Figures

Figure 1-1: The emergence of corporate governance in companies .....	2
Figure 2-1: Tricker's framework of board activities .....	24
Figure 2-2: Illustrating the multiple conceptual understandings of corporate governance .....	25
Figure 2-3: Christopher's multi-theoretical framework .....	34
Figure 2-4: Charreaux' meta-model of governance, updated by Wirtz .....	46
Figure 2-5: A cognitive map of board strategic capability .....	48
Figure 2-6: A hierarchical view of the activities of governance and management .....	60
Figure 2-7: Board of directors' involvement continuum, as proposed by Wheelen and Hunger ..	65
Figure 2-8: Five models of board engagement, as proposed by Nadler.....	66
Figure 4-1: Total revenue and EBIT data from FY2003 to FY2014 (Alpha) .....	125
Figure 4-2: Total revenue percentage change from FY2003 to FY2014 (Alpha).....	126
Figure 4-3: Total revenue and EBIT data from FY2002 to FY2014 (Bravo).....	128
Figure 4-4: Total revenue percentage change from FY2003 to FY2014 (Bravo) .....	128
Figure 5-1: LT framework (capital acquisition), Part One .....	168
Figure 5-2: LT framework (capital acquisition), Part Two .....	169
Figure 5-3: LT framework (capital acquisition), Part Three.....	170
Figure 5-4: LT framework (soft market entry), Part One .....	174
Figure 5-5: LT framework (soft market entry), Part Two .....	175
Figure 5-6: LT framework (soft market entry), Part Three .....	176

Figure 5-7: LT framework (acquisition), Part One .....	179
Figure 5-8: LT framework (acquisition), Part Two .....	180
Figure 5-9: LT framework (acquisition), Part Three.....	181
Figure 5-10: LT framework (strategic reorganisation), Part One.....	186
Figure 5-11: LT framework (strategic reorganisation), Part Two .....	187
Figure 5-12: LT framework (strategic reorganisation), Part Three .....	188
Figure 5-13: LT framework (equity event), Part One .....	192
Figure 5-14: LT framework (equity event), Part Two.....	193
Figure 5-15: LT framework (equity event), Part Three .....	194
Figure 5-16: LT framework (portfolio diversification), Part One .....	197
Figure 5-17: LT framework (portfolio diversification), Part Two.....	198
Figure 5-18: LT framework (portfolio diversification), Part Three .....	199
Figure 5-19: LT framework (strategic market development), Part One .....	203
Figure 5-20: LT framework (strategic market development), Part Two.....	204
Figure 5-21: LT framework (strategic market development), Part Three .....	205
Figure 6-1: Financial, strategic decision and degree of board involvement data (Alpha).....	216
Figure 6-2: Financial, strategic decision and degree of board involvement data (Bravo) .....	218
Figure 6-3: Collaborative model of board engagement in strategic management tasks .....	226
Figure 6-4: A suggested mechanism-based model of governance–performance relationship ....	237
Figure 7-1: Tricker's model of board–management interaction .....	242
Figure 7-2: Three variants of Tricker's 'double triangle' model.....	243

Figure 7-3: Conceptualising the governance–performance relationship..... 247

## Acknowledgements

The list of people that supported me in this research journey—my quest—over the last three and a half years is long. As with Christian’s journey in *Pilgrim’s Progress* (Bunyan, 1953), some played significant roles along the journey; some appeared fleetingly, with a single but valuable comment or suggestion; some provided invaluable support or orchestration from the shadows; others spoke into the research from afar; and, yet others—including the authors of over 1000 papers, articles and books—contributed mostly without realising they did so.

While many of the contributions were technical, some of the most valuable were social and personal for they provided much needed encouragement to keep walking. The extent of the contribution does not exclude anyone who has yielded assistance from being acknowledged and thanked. So, to all who provided a contribution: Thank you. Any attempt to name everyone who contributed would end in abject failure. However, the contributions of several people and groups of people merit named applause, for this research and the findings that emerged from it would not have been possible without them and, crucially, their contribution to it.

First, and most paradoxically, a public thank you to two groups of people that cannot be identified: The directors and chief executives of the two unnamed companies that agreed to participate in this research. Thank you for your openness, your candour and, above all, your trust. You allowed me to enter your boardrooms to observe your board meetings, interview key people and inspect confidential documents, all for no direct benefit to yourselves. You took a risk. However, you saw the greater cause. Without your agreement to participate in this research, the insight and new knowledge that has emerged from it would have continued to remain hidden. Your identity has been shielded in this thesis and in all related papers and presentations, as we agreed. Every attempt has been made to preserve your anonymity, both now and into the future. Despite this, the value of your contribution was immense. The effects may well ripple through boardrooms for years to come. Thank you.

To my supervision panel, Dr James Lockhart and Dr Kate Lewis, of Massey University, thank you. Your feedback and suggestions helped frame the research, guide me through it and, ultimately, arrive at this point. To navigate through an unfamiliar and, at times, faceless system with which I was not naturally familiar—the postgraduate academic research environment—was made easier by your support. Thank you.

Massey University is my alma mater. I studied there in the early 1980s, albeit in the Technology School. To be drawn back to familiar surrounds to undertake this challenging research project was unexpected, especially as other arguably more prestigious institutions may have provided a perhaps more obvious base from which to work. However, research of this type requires a world-class authority to guide and supervise the student and their efforts. Such a supervisor was to be found at Massey, making the choice straightforward.

Many unnamed researchers, academics, company directors and business people domiciled in New Zealand; Australia; the United Kingdom; Ireland; Western and Central Europe; the United States; Canada; South-east Asia; and, the Gulf states deserve much praise. The encouragement to engage in debates and symposia, post blog entries, write papers and attend international conferences—all with the intention of testing rough and ready (and sometimes rather outrageous) ideas, and of refining them to become, finally, those presented in this research—is deeply appreciated. Drs. Morton Huse, Richard Leblanc, Silke Machold and Gavin Nicholson in particular made themselves available to explore and debate ideas. Your contributions helped shape and mould this research into what follows. Thank you.

Three people deserve special mention and thanks.

My friend, the late Dr. William Whittaker, formerly chief executive of the Institute of Directors in New Zealand, had my back. He walked much of the journey but sadly did not make it to the end. Tragically, and quite unexpectedly, William succumbed to a fatal heart attack in November 2014. Consequently, he will never see the fruits of his considered thoughts and provocation, insightful commentary and dry wit—most commonly exercised over a glass or two of his beloved Pinot Noir. His unfulfilled ambition to see all corporate boards operating consistently and

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

My lead supervisor, Dr. James Lockhart, had my side. James stood sufficiently close to be available, yet sufficiently distant to provide space for the work to continue without the suffocating oversight that can occur when supervisors become so involved as to almost ‘own’ the research themselves. He provided a solid sounding point, from which robust debate, encouragement, onward navigation and progress could occur. James, your encouragement towards excellence in all we do kept the research focused on what actually matters: that the goal is achieved and that practical knowledge of how boards can influence firm performance is created. The journey has seen us become friends.

Above all, my rock, my wife of 29 years, Robyn, simply held me. Robyn, you gave me to courage to believe in the first place; the audacity to embark on the journey; the freedom to explore; and, the strength to press on when the going was tough and the option of quitting was available and even tempting. You also bore the heavy burden of providing income as I sat, thought and pondered the meaning of it all. I am forever indebted to you. I love you.

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

Copyright in the text of this doctoral thesis rests with the author, and is governed by the Copyright Act 1994. The author's moral right to be identified as the author is asserted.

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.