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Boardroom decision-making: Determinants of effectiveness

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Personal Acknowledgement

I feel privileged to have experienced the *Meridian Way*. There are not many boards like that of Meridian Energy Limited (Meridian Energy) who so willingly provided such a learning opportunity. In recognising the invaluable assistance and encouragement given to me by all at Meridian Energy, I would like to give special acknowledgement to Francis Small, Keith Turner, James Hay and Debby Butler and to say thank you for accommodating the research. Their openness, the trust they showed and the access and information they provided allowed me to begin an incredible journey, which has certainly provided me with a unique research opportunity.

The compilation of this thesis started with visits to Meridian Energy's various electricity schemes in the South Island and will reach its final milestone when the academic community acknowledges this reflective thesis. However, the journey will not stop there. Already those working in the field of corporate governance are seeking the contents of this work.

Without the continual support and motivation given by my husband, Charles, this thesis may never have been completed. To my two supervisors, Frank Sligo and Ralph Stablein; my PA, Janet Potter; and friends, Rachel Morley and Ngaire Wu who have traveled this five-year journey with me I can only say thank you for your valued words of wisdom and encouragement freely offered along the way.

Dedication

This thesis is dedicated to my daughter's partner, Kim Austin, who, as a result of an air accident was killed on 10 Jan 2004. His life demonstrated that despite personal inabilities (in his case literacy) a single-purpose approach to business, connectiveness with marketplaces, interaction with others and a strong desire to achieve – whether on the farm, running restaurants, operating a successful commercial fishing excursion firm or winning cross-country motor rallies – called for sound judgement and preparation in readiness for the task ahead. Completing a doctorate or being a member of a board relies on such personal attributes for it is the combined outcome of these that turns visions into reality.

Abstract

Corporate boards in New Zealand like their international counterparts, continue to fail even though a plethora of legislation and best practice have been put in place in an attempt to halt ineffective forms of governance. To consider regulation and legislation as the ultimate cure negates the ability of a board to effectively make decisions. By identifying characteristics of boardroom decision-making as being either independent process or behaviour variables this thesis provides fresh insight into what determines effective governance.

Two alternative governance models emerge from this study. The intrinsically-focused model which encapsulates behaviour and process associated with control and accountability and turns attention to the adoption of corporate best practice. On the other hand, a board that takes a more extrinsically-focused view of its board role not only monitors management behaviour but also sets the entity's strategic direction.

Although these models support the notion that responsibility of corporate rectitude rests with the board each embraces differing decision-making behaviour and process. By not addressing strategic issues an intrinsically-focused board debates less rigorously and intensively with intellective responses bringing either agreement without debate or conflict. Conversely boards that embrace the extrinsically-focussed model demonstrate more rigorous and intensive debate on a wider spectrum of issues to the greater benefit of shareholders.

By showing that decision-making effectiveness at board level is embedded in the concept of unfettered decision-making, as opposed to control over management this thesis advocates that agency-based theories of governance align closely with ineffective or dysfunctional decision-making. In postulating that conduct associated with effective decision-making reflects the role a board decides to play, this thesis advocates knowledge maximization, as opposed to profit maximization, lies at the heart of a successful corporate governance function. As information symmetry has the ability to transcend opportunism, conflict and agreement it is therefore viewed as the most likely theoretical premise on which an all-encompassing theory of corporate governance should be advanced.

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Part One: Thesis Introduction

Chapter One: Intent of this Thesis

1.1 Changing Shape of a Board's Role

Issues associated with corporate failure and its cyclical nature continue to attract the attention of both the academic community and regulators around the world (Roe, 2004). Undoubtedly it was Enron, the US-based company, that has recently focused worldwide attention back onto the impact of major corporate collapses (Hill & Albrecht, 2004; Roe, 2004). Yet we know little about why or how such failures occur, including how key decisions are made (Leblanc, 2001).

Attempts to halt corporate failure have seen the introduction of a wide range of compliance obligations (Jaffe & Hinton, 2004; Lockhart, 2004; Matheson, 2004). In spite of these, the repetitive nature of failures suggests that the theoretical debate and economic reforms, introduced since the 1929 Wall Street Crash, have not been able to halt periodic, serious concerns raised publicly about how boards govern (Anderson & Anthony, 1986; Dalton & Kesner, 1983; Eisenhardt & Schoonhoven, 1990; Hambrick & Mason, 1984; Meindl & Ehrlich, 1987; Norburn, 1986; Thomas, 1988). Instead as Joseph Healy (2003) argues persuasively in his book ‘Corporate Governance and Wealth Creation in New Zealand’, most corporate boards focus overly on compliance and as a result pay insufficient attention to performance. Although not all organisations suffer failure, those that survive may demonstrate decision-making conduct, which has the potential to lead either to failure or success. As such conduct appears to remain unresearched it follows that determinants of success are not well understood.

Concern at corporate failure and the increase in regulatory measures has come at a time when corporate governance exhibits an instability: the definition of its role (Roe, 2004). Ownership of the strategic function, absent prior to the Cadbury Report (Pye, 2000), is effectively extending the role of boards from being viewed as a mechanism for merely overseers and controllers of managerial action for the betterment of owners to being strategic leaders responsible for adhering to the compliance regime as well as for the organisation’s performance; both current and future (Hambrick, 1987, 1989). Achievement of both these dominant yet diverse activities is a challenge facing boards.

If as Lockhart (2004) points out ameliorating compliance can be detrimental to strategic governance the role a board adopts and the determinants of effective decision-making are ripe for exploration.

In the light of reports that have since followed, the Cadbury Report (1992), emerging from the work of a committee led by Sir Adrian Cadbury, has established itself as an authoritative text on corporate governance (Vinten, 1998), (although following reports also deserve and receive recognition in this thesis). The guidelines incorporated within the Cadbury Report, often referred to as the Cadbury Code, turned attention onto transparency and accountability at board level and subsequently transparency through compliance and governance best practice. A less promoted recommendation within the Cadbury Report “that no one individual should have unfettered powers of decision-making” (The Cadbury Report, 1992, clause 4.9), places emphasis on collective decision-making. This raises the issue of conduct and the behaviour and process associated within it.

The theoretical proposition offered in this thesis is that, in order to advance corporate governance, it is important to identify the critical determinants of effective decision-making. Such an investigation has been built on two strands. The first is drawn from the Johnson, Daily and Ellstrand (1996) model which identifies three dominant board tasks: (1) agency and control, (2) resource acquisition, and (3) strategy setting and policy support, providing a basis for investigating types of decisions. The second is from human cognitive behaviour (Forbes & Milliken, 1999) reflecting social-psychological processes. In turn both contribute to academic debate aimed at investigating variables that could decrease corporate failure by improving the decision-making processes. Support is drawn from Finkelstein and Mooney’s work (2003) in which they say:

The insight that boards are groups and hence that such group processes as conflict, teamwork and comprehensiveness are critical determinants of board effectiveness opens up a new tack on how to improve board effectiveness. Rather than simple counts of insiders and outsiders, a focus on board process suggests that the nature of the interactions among board members influences their effectiveness in fulfilling the key roles of advice and counsel for, and monitoring of the CEO.

Finkelstein, S. and Mooney, A.C. (2003). Not the usual suspects: How to use board process to make boards better. *Academy of Management Executive* 17(2), 103.

The State-Owned Enterprise (SOE) model operating in New Zealand, where the main shareholder is the government and the organisation has both financial and non-financial goals and accountabilities, has received little attention from governance researchers. However, it lends itself to a study of decision-making of this nature, in that it captures the notion of the invisible hand of perfect and complete markets, symmetric information and perfect competition, while acknowledging the broader role a board has to society.

1.2 Thesis Organisation

Following on from the introductory *Intent of this Thesis* this chapter defines the contextual nature of the research problem, presents the motivation behind the research and outlines the relevance the research findings make to both academic and practical knowledge. Furthermore it shows that the research acknowledges the way scholars of corporate governance now advocate the direction research into board activity should take.

Chapter Two: The Theoretical Framework

This chapter outlines the three disciplines upon which this thesis is developed on. Grounded in scholarly and practitioner insights into corporate governance, it captures academic theory relative to decision-making concepts that intervene and shape the compliance, acquisition and strategic decision-making arenas.

Chapter Three: Theoretical Perspective of a Board's Role

With no single corporate governance theory each of the corporate governance theories is viewed from three perspectives: economic versus operational, extrinsic and intrinsic, and trust.

Chapter Four: Contextual Nature of Corporate Governance

Work in this and following chapters takes a more micro-focus view of corporate governance by outlining its emergence and how it has been shaped by marketplace reforms. Presenting an historical review of corporate governance illuminates the cyclical transformation brought about by shareholder concerns relating to corporate collapses. The chapter also outlines how ownership of strategy is being transferred from management to boards of directors.

To place this thesis into a New Zealand context, an overview of the regulatory framework is provided. In addition to private, not-for-profit and publicly listed companies this framework includes State-Owned Enterprises (SOEs). In outlining the regulatory framework the chapter explains how an SOE differs from other forms of companies.

Chapter Five: Structural Influencers

Many of the structural constructs offered in theoretical literature to improve board effectiveness have coalesced around composition, size of the board, influence of the chief executive and independence and tenure of directorships. These themes are outlined in the early part of this chapter. Less commonly discussed structural aspects such as the skills, knowledge and competencies possessed by directors, individually and collectively, and the provision of or access to information are further themes outlined within the latter section of this chapter. This chapter introduces the notion that as the role of a board widens differing skill sets are needed.

Chapter Six: Decisional Framework

Implicit in the theoretical propositions of corporate governance are differing decision-making frameworks. In this chapter decisions are classified into three types: agency and control, acquisition of resources, and strategy setting and policy support, as prescribed by Johnson, Daily and Ellstrand's (1996) role proposition. This chapter also turns to group decision-making literature to distinguish two categories of decisions: *intellectual* and *judgemental*, and begins to align these with the decision-making framework. The outcome forms a basis of classifying decisions for research purposes.

Chapter Seven: Behavioural Influencers

One perspective, drawn from literature on social-psychological processes, dominates discussion in this chapter. Forbes and Milliken (1999), referring to the work of Wageman (1995), call these 'effort norms'. Conflicting and positional behaviours displayed by individuals are discussed in alignment with the work of Sundaramurthy and Lewis (2003), Milliken and Forbes (1999) and Innami (1994) to elaborate on two constructs: *consensus* and *cognitive conflict*.

Chapter Eight: Emerging Model and Research Propositions

With reference to past chapters, a model drawn from the literature review is constructed and eleven research propositions presented.

Chapter Nine: Methodology and Method

The ethnographic introduction to the corporate studied sets the scene for this chapter, before the rationale for adopting a qualitatively constructed methodology is given. How the two sets of data were obtained is explained in this chapter as is the eight-phased approach adopted.

Chapter Ten: Research Findings

The first set of findings addresses structural and compositional matters and places emphasis on the role of the board by referring to board member comments. From the findings structural characteristics of effective and ineffective boards are identified.

Chapter Eleven: Effort Contribution

From the same data sets behaviours relative to five differing roles interacting within the boardroom are acknowledged. The chapter also illuminates how each makes a unique contribution to the decision-making process.

Chapter Twelve: Interaction and Process in a Boardroom

Conflict and agreement are often referred to in decision-making literature as contributors to sound decision-making. Findings provided in this chapter and derived from the second set of data suggest there is little value in conflict and agreement, and instead the notion put forward is that effective decision-making is built around information sharing (information pooling) and information gathering brought together in a climate devoid of conflict.

Chapter Thirteen: Interpretation of the Research Findings

From the analysis in the previous chapters conclusions are drawn to illustrate the importance of having sound and acknowledged board processes, a complementary relationship between the chair and chief executive and a mix of appropriate competencies that reflect the strategic intent of the corporation. This chapter concludes by proposing a decision-making model.

Chapter Fourteen: Limitations, Research Implications and Conclusions

In acknowledging the limitation of a single case study this thesis draws two conclusions from the constructive and participative interaction and the social-psychological processes observed in a boardroom. These are: (1) the determinants of decision-making effectiveness are correlated with the role the board adopts and, (2) effective decision-making emerges when four tensions are in balance: teamwork with the retention of individual judgement; information sharing and information testing; continuity of business with strategic change; and consensus with conflict.

1.3 The Contextual Nature of the Research Problem

Eleven years of general management experience and attendance at board meetings had provided the researcher with an appreciation of how the culture of an organisation and its strategic direction can, but not always, be shaped by the board. Experience has shown that such decisions flow throughout the company, impacting on industry as well as shareholder returns and stakeholder interests.

For many years, scholars have discussed the importance of decision-making (e.g. Ocasio, 1995; Chia, 1994; Tversky & Kahneman, 1974; Simon, 1947; Bernoulli, 1738). Convincing concepts (i.e., deterministic principles such as the law of probability, utility measurements, and theoretical propositions) have been advanced to support the utility of, and commitment to, the decision-making process. However, the effectiveness of decision-making processes has, until recently, been a long-neglected issue (Cutting & Kouzmin, 2002), particularly at board level. Although scholars such as Forbes and Milliken (1999) and Sundaramurthy and Lewis (2003) have posed normative models of effective decision-making in a boardroom, little descriptive research of boardroom behaviour and process can be evidenced prior to 2004.

The Oxford Dictionary defines ‘effective’ as “having an effect; powerful in effect; striking, remarkable, coming into operation” and ‘effectiveness’ as being “fit for work or service” (The Concise Oxford Dictionary, 1976 p.330). The criteria of effectiveness proposed in a normative model of a board, put forward by Forbes and Milliken (1999), encapsulate two key considerations: (1) the board’s capability to perform its functions effectively, and (2) the board’s ability to continue to work together in a cohesive manner. Lorsch (2003) believes what makes boards effective is the behaviour the

directors demonstrate inside the boardroom. Effective decision-making therefore reflects individual and collective behaviours and the decision-making process's design.

In this vein understanding what constitutes board conduct opens the way to identifying effective decision-making. In accepting that decision-making at board level is, first and foremost, about human cognitive behaviour (Forbes & Milliken, 1999) it must be acknowledged that behaviour is heavily dependent on value-driven interactions that when added together constitute the 'micro-political culture' of a board.

Although expressed in different terms, corporations can be prescribed as things or social actors (Whetton, 2005) therefore as a noun, or as processes in which case can be described as a verb (Tsoukas, 2005, cited by Van de Ven & Poole, 2005). Rather than making a judgement and foreclosing an alternative epistemology Van de Ven and Scott (2005) propose adopting the view that a corporation is always something in some particular state or phase of a process. In this way explaining process may incorporate several different types of effects, including critical events and turning points, contextual influences, formative patterns that impact on the direction the change takes, and causal factors that influence how of events occur (Van de Ven & Poole, 2005).

Such interactive and moderating constructs can be confined or constrained by situational factors. For instance, board members serving on boards of other organisations spread their time and intellectual ability across a number of business entities. They can also be influenced by the socio-political environment (Manev & Stevenson, 2001; Pava & Krausz, 1997; Wood & Jones, 1995) in which they work.

Contextual dimensions are naturally present. Whether it is compliance or strategy at the heart of group decision-making is the way individuals exchange information and how critical debate evolves (Butler, 1981; Jackson, 1992; Milliken & Vollrath, 1991, cited by Forbes & Milliken, 1999). To be "powerful in effect" the normative perspective suggests the manner in which a board exchange of information and debate would ensure the corporation survives as well as prospers. In this vein a board making effective decisions would be able to balance its human cognitive behaviour with the situational and contextual aspects of business.

A review of governance literature shows that little research has been undertaken while a board actually carries out its decision-making duties. As a result normative views of boardroom behaviour mainly dominate corporate governance literature (e.g., Cutting & Kouzin, 2002; Forbes & Milliken 1999; Sundaramurthy & Lewis 2003). Thus little reference is available to allow comparisons to be made between normative and descriptive research into boardroom behaviour, so what actually constitutes effective boardroom decision-making remains unclear.

Zahra and Pearce (1989), Clarke (1998), and Forbes and Milliken (1999) remind us that such boardroom observation is nearly impossible to achieve – because of restricted access, legal aspects and confidentiality. Yet these researchers stress it is the only way of studying relationships: where group dynamics are observed and the decision-making processes analysed. It is this access to the intricacies of human behaviour and the possibility of fine-tuned studies, according to Clarke (*ibid*), that is absent in the corporate governance field. In his critical evaluation, Stanley Vance (1968) describes the uncertainty, confusion, and contradiction that surrounds a board, regarding it as shrouded in a veil of mystique. Sensitivity and defensiveness of directors relative to their decisions could be a reason for the mystification. Another reason could be the commercial sensitivity of discussions that occur in meetings. In the words of Kahl (1957:10), “those who sit amongst the mighty do not invite sociologists to watch them make the decisions about how to control the behaviour of others”. As Hoskisson and Hitt (1990) point out, this could be because (1) decision-makers are unlikely to admit that governance motives are part of the decision-making, and (2) unambiguous indicators are difficult to isolate. Whatever the reason, the difficulty of access for researchers to observe a board operating naturally has, at least in part, prevented study of the subject matter to the degree necessary to gain a greater understanding of the practical application and implication of it.

It is this lack of direct access explains why authors of the many studies into corporate governance have generally been obliged to express normative views about board behaviour and to limit their approaches to the subject by examining remotely the outcomes of decisions for which a board is directly or indirectly responsible. Most of this empirical work has focused on a number of critical governance matters (e.g. board composition and structure, structural independence, leadership, and financial performance). An extensive list is provided in Appendix A. Acknowledging that

research into boards and corporate governance to-date has in the main been somewhat remiss in the area of studying decision-making in action, there are a few exceptions. These are found mostly in the non-profit literature where studies of the board process (Bradshaw, Murray, & Wolpin, 1992, 1996; Green & Griesinger, 1996), looked at board structure, process, and effectiveness. More recently access into a boardroom has been achieved in which Samra-Fredricks (2000) gained access and conducted a significant ethnographic study. In observing and capturing linguistic skills, she demonstrated that a systematic and rigorous methodology can produce meaningful results, in spite of the claim that descriptive studies often did not live up to many of the normative descriptions (O'Neal & Thomas, 1996).

From a research perspective, one of several corporate governance theories could be applied to test a premise (Hoskisson, Hitt, Wan, & Yiu, 1999). Nevertheless, research built on such a theoretical base can encounter the problem of 'unobservables' (Godfrey & Hill, 1995) because as Godfrey and Hill contend, some variables relating to corporate governance, such as *opportunism* and *the degree of divergent interests*, suffer from measurement unobservability. A further concern is that, when considering solely one theory, support may be given to or a dispute arising in relation to that theory only. Daily, Dalton and Cannella (2003) assert this creates an empirical dogmatism.

In acknowledging such limitations, boardroom activity is theoretically and methodologically eclectic in that it spans the two disciplines: strategic leadership and decision-making, (outlined in Chapter Two) and a number of theoretical perspectives of corporate governance (described in Chapter Three of this thesis). Herein lies a further complexity in that a study of boardroom decision-making can be developed from a range of methods that extend across qualitative and quantitative paradigms.

Likewise, predictions about the implications of board decision-making performance have often been derived from demographic variables, based on the presumption that such variables operate through some set of intervening processes, and therefore can be deduced for considering outcomes, and are therefore essentially parsimonious in nature. For example, it has been purported that variables can successfully be predicted from demographic characteristics (Pfeffer, 1983), rather than from the study of the variables themselves.

Recent research findings suggest at least two reasons why, in the study of board demography, the argument for parsimony over precision, may no longer be convincing (Forbes & Milliken, 1999). Firstly, as Daily and Schwenk (1996), Johnson, Daily and Ellstrand (1996), and Zahra and Pearce's (1989) work suggests, the influence of board demography may not be as *simple and direct* as many past studies presume (Daily & Schwenk, 1996; Janis & Mann, 1977; Zahra & Pearce, 1989). Secondly, the presumptions underpinning the direct demography-performance links have been shown to be unreliable. Lawrence (1997) found in a majority of cases that explanations offered for demography-outcome relationships were not supported by studies in which researchers have actually examined the intermediary process phenomena (Lawrence, 1997). Similarly, Walsh (1988) and Melone (1994) disputed the notion that executive beliefs and behaviours can reliably be predicted from demographic variables alone (Melone, 1994; Walsh, 1988).

Despite a compelling argument against parsimony this thesis recognises the value of parsimony when considering the theoretical perspectives, particularly when appreciating the theoretical differences and behavioural tensions, and also when employing the perceptions and opinions provided by members who sit on the board. At the same time there is a compelling reason for precision, which in this topic area can be applied through quantifying the findings derived from direct and unbiased observations used to either support or dispute theoretical positions proposed.

Considering the above points and Pettigrew's (1992) call for more 'process studies' supports the notion that:

... by tilting the study of managerial elites in a process direction, new answers may be possible to previous baffling questions, new questions will emerge not posed by prevailing approaches and new forms of knowledge can arise to inform existing empirical patterns.

Pettigrew, A. (1992). On studying managerial elites.
Strategic Management Journal, 13 (Special Edition), 177.

Others, such as Lublin (1997) and Schine (1997) give support to Pettigrew's (1992) call. Likewise Leblanc (2001) and Samra-Fredricks (2000) deem that, in spite of a well-developed theoretical and legal framework, there is limited empirical study on how

boards actually function. In the same vein, Heracleous (1999) points out that a descriptive study of what a board actually does in practice may not fully correspond to the normative views that are presently held, but it nonetheless is necessary to advance the study of corporate governance. Limited access to boardroom activity, may have turned the attention of behavioural theorists to pay particular attention to the visible aspects of decision-making (also referred to as front-stage aspects), at the expense of the back-stage elements (Cutting & Kouzmin, 2002). Yet many decision-making variables can be identified through verbal communication that takes place within the boardroom. The work of Innami (1994) reinforces the importance of verbal communication by saying that the verbal behaviour associated with the decision-making group is an important determinant of the quality of group decisions, and can serve as a criterion against which the effectiveness of process inventions can be measured by observing their impact.

A study undertaken to ascertain the workings of and impacts on the back-stage – the area of activity where the decision-making actually takes place – will provide a step towards the development of a unified model. But when turning attention to the activity that occurs when decisions are being made, two difficulties present themselves. Firstly, “decisions emerge inadvertently” (Mintzberg & Waters, 1990:3) and secondly, the point where commitment to the decision actually begins becomes difficult to uncover. These create complexity because of “the intricacies related to gaining an insight into the conscious as well as the subconscious mind” (Mintzberg & Waters, 1990:4). However, even though it may be hard to trace the conscious or subconscious point of commitment, the point where the consensus emerges, referred to as “the real ‘point’ of decision” (Mintzberg & Waters, 1990:4), “the point of choice and intention” (March, 1988:1), or “decisionality of action” (Chia, 1994:789), can be traced or observed.

1.4 Research Question Hierarchy

Studying interactive behaviour and process relative to decision-making occurring at board level provides a basis for investigation allowing the question:
“What are the determinants of effective boardroom decision-making” to be answered.

Forbes and Milliken's (1999) work on effort norms and their criteria for effectiveness proposed in their normative model (as described on page 6) forms a basis for such a study.

From this four secondary research questions emerge.

1. What types of decisions does an effective board make?
 2. What decision-making characteristics does an effective, compared with an ineffective board, exhibit?
 3. How best can effective decision-making determinants be calibrated within a boardroom environment?
- 4(a). To what extent, if at all, do behavioural components align with current theory?
- 4(b). Which theoretical model(s) best explains how decision-making takes place in a boardroom?

1.5 Motivation Driving this Thesis

Four motivations act to drive this thesis. The research problem illuminates two. Firstly, corporate governance research has been somewhat deficient in studying decision-making in action yet a descriptive analysis could develop existing work on corporate governance. Secondly, the determinants of effective decision-making could be of value to both practitioners and academics. Thirdly, no single theoretical reference defines the role of a board. Instead much of the research on corporate governance selects theories to fit the construct under discussion. For example, Nowak and McCabe (2003) refer to the agency and transaction cost theories in search for an explanation of information costs and the role of independent directors; Pettigrew and McNulty (1998) discuss source and use of power in the boardroom by referencing agency, managerial theories in addition to the upper echelon theory, while Forbes and Milliken (1999) call on the resource dependency theory as a base to consider a board's strategic role. A single theory, by itself however, may not illuminate the whole spectrum of board endeavours (Stiles & Taylor, 2001). Fourthly, an awareness of the weakness of taking a narrow

conceptualization, or what Dalton and Cannella (2003) refer to as an *empirical dogmatism*, is that:

... researchers too often embrace a research paradigm that fits a rather narrow conceptualization of the entirety of corporate governance to the exclusion of alternative paradigms.

Daily, C.M., Dalton, D.R. & Cannella, A.A. (2003). Decades of dialogue and data. *Academy of Management Review*, 28(3), 379.

In a similar view Pettigrew (1992) suggests that:

The research agenda...need not be guided just by studies testing the explanatory power of the agency theory or theories of managerial hegemony. The task is perhaps a simpler one, to...provide some basic descriptive findings about boards and their directors.

Pettigrew, A. (1992). On studying managerial elites. *Strategic Management Journal*, 3 (Special Edition), 178.

In the view of Azevedo (1997), it is through the coordination of multiple models and perspectives that robust features of reality can be distinguished from those features of reality that are merely a function of a single model or framework. Thereby in taking a holistic perspective, by integrating current theoretical perspectives and examining a number of interrelated and intervening variables within the decision-making process, a multilevel model can be constructed.

Contemplating what constitutes the governance processes includes the issue of whether a board should be examined in isolation from management. A distinction that should be emphasised is that corporate governance is not management. Tricker (1994a) and Monks (2002) distinguish corporate governance from management by observing that, if management is about running the company, corporate governance is about ensuring that the company is properly run. Boards therefore create the framework in which management takes place: the work of the two parties is interwoven.

Westphal and Milton (2000) when stating the deficiencies of studying these groups separately point out:

Studies of management and board demographics that do not consider how the broader social structural context can link these two parties together, directly or indirectly, may overestimate the extent to which social barriers exist between members of the various demographic groups.

Westphal, J.D., & Milton, L.P. (2000). How influence and network ties affect the influence of demographic minorities on corporate boards. *Administrative Science Quarterly*, 45(2), 384.

Avoiding narrow conceptualisation therefore includes considering senior management's input and impact on board room decision-making.

1.6 Relevance and Contribution

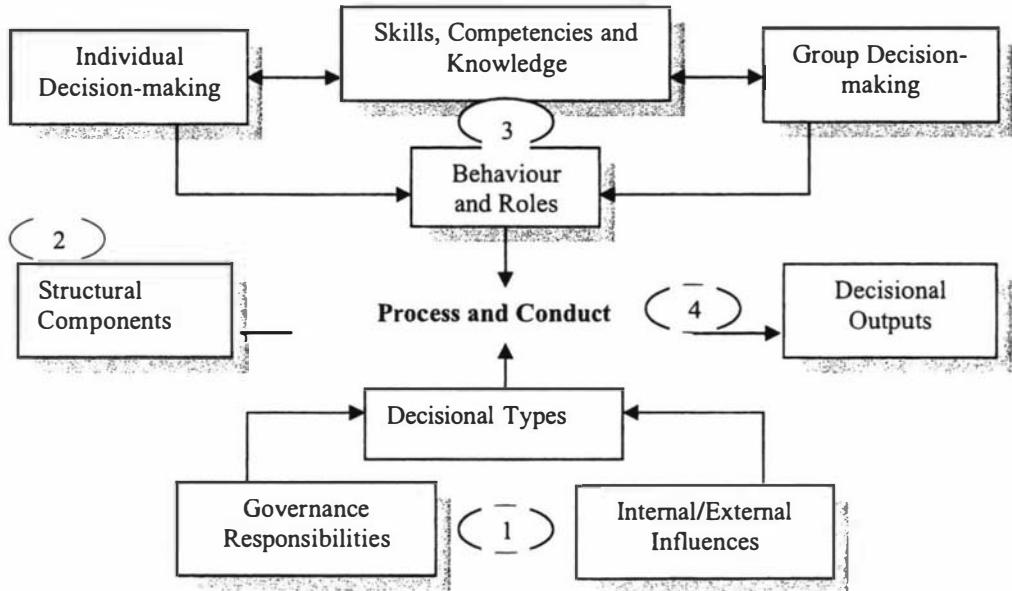
Literature indicates that most of the research in the area of corporate governance has been based on the limited liability company and, to a lesser extent, the not-for-profit models. Other forms of business model, such as co-operatives, charitable organisations, state-owned enterprises (SOEs) and crown entities, have not received much attention from governance researchers. The SOE model found in New Zealand, although its main shareholder is the government, is typical of models in Anglo-Saxon countries where the role of the board of directors is to maximise shareholder value. The SOE model is unique in that it captures the notion of shareholder returns in competitive markets while acknowledging the broader stakeholder role a board has to society. Thus drivers of an SOE reflect both financial and non-financial dimensions of the organisation's decision-making effectiveness.

1.7 Chapter Summary

Understanding the determinants of effective decision-making has both practical and academic value. Firstly it captures the direction many scholars have advocated such research should take. Secondly, when studying a board's decision-making framework the intervening behavioural and process variables exhibited could assist other boards to evaluate their practices and processes. Similarly, identifying the determinants of effective decision-making and how a board operates could make a contribution towards theory by recognising what practitioners actually do. This proposes that 'board process' as well as 'director behaviour' are independent variables contributing to 'effective decision-making': the dependent variable. In turn this calls for a descriptive view of

boardroom action. To create a research platform four principal constructs that shape process and behaviour within the black box of a boardroom: (1) governance responsibilities and decision types; (2) structural components; (3) decision-making processes and roles; and (4) interactive components, were identified in this study. These are illuminated in Figure 1.

Figure 1. Conceptual Model of Board Influencers



Expanded in this Thesis

Governance Responsibilities	Chapter Two
Contextual Nature	Chapter Four
Structural Influencers	Chapter Five
Skill, Competencies and Knowledge	Chapter Five
Group Decision-making	Chapter Two
Individual Decision-making	Chapter Two
Behaviour and Roles	Chapter Seven
Decisional Outputs	Chapter Six
Process and Conduct	Chapter Eight

Chapter Two: The Theoretical Framework behind this Thesis

2.1 Introduction

In etymological terms ‘decision’ can be traced to the word(s) ‘incision’ or ‘to cut’ (Rwegasira, 2000), whereas decision-making in ontological terms implies “the making of an incision into the flow of our experiences, punctuating it to create an event and thereby making the latter significant in the process of reality construct” (Chia, 1994:789). Referring to its intent in this manner, Rwegasira (2000) and Chia (1994) view decision-making as changing the way a business is currently conducted. Decision-making also takes the form of a judgement, assessment or cognitive commitment in response to ‘a particular knowing’ (Cutting & Kouzmin, 2002) implying the application of knowledge to an outcome. Both are relative to decision-making in a boardroom.

Strategic leadership in governance literature has been dominated by power and influence motives (Pettigrew & McNulty, 1995) prescribing who is in control, how control is managed, and how compliance is met. As a collective decision-making entity the board is the corporation’s strategic leadership team (Hambrick & Mason, 1984) or the body in command of the organisation. Yet board decisions require boardmembers to share personally held knowledge and judgements on topics or matters with fellow board members (Hambrick & Mason, 1984). Therefore strategic leadership at board level does not stand alone, but rather it is set in the context of its decision-making behaviour. In developing a theoretical framework to explore boardroom decision-making two categories of the organisational behaviour discipline have been acknowledged: strategic leadership, a relatively new paradigm, and behavioural decision-making. Together, these two disciplines are transferable into the emerging discipline of corporate governance.

A major critique of strategic leadership and behavioural decision-making theories is that they are all still evolving.

2.2 Strategic Leadership

Strategic leadership differs from leadership on two premises. Firstly, leadership as opposed to strategic leadership is grounded in a generic and organisation-wide application as the term can be applied to leaders at any level in an organisation. Secondly, research into leadership focuses mainly on the relationships developed between a leader and followers (Hambrick & Pettigrew, 2001). In contrast, strategic leadership is both internally and externally focused, involving a range of constituents. Somewhat more limited in its scope, it refers mainly to the choices made by directors and senior management: people at the top of the organisation (Hambrick & Pettigrew, 2001). In adopting a similar view House and Aditya (1997) refer to strategic leadership theories as being leadership ‘of’ the organisation, as opposed to supervisory theories that relate to work carried out ‘in’ the organisation. Hence the notion of strategic leadership encapsulated in most scholarly work starting with Cyert and March (1963) involves a ‘leadership group’ or a dominant coalition comprising the titular head of the organisation and those who make up the top management team that oversee the evolution of the whole corporation (Selznick, 1984:5).

More recently strategic leadership has been defined by Ireland and Hitt (1999:43) “as being more about the competencies possessed by strategic leaders”. This description emphasises the importance of abilities possessed by individuals or “the ability to influence others to voluntarily make day-to-day decisions that enhance the long-term viability of the organisation, while maintaining its short-term financial stability” (Roe, 2004:81).

Researchers have looked at the effects of regulation (Cook, Shortell, Conrad, & Morrisey, 1983; Wholey & Sanchez, 1991) on organisation structure and adaptability, claiming that an organisation needs the capability to respond quickly to changing environmental and competitive forces. From the alternative views of strategic leadership a common theme emerges: strategic leaders have responsibility for ‘initiating change’ that ensures a viable future for the company. Thomas, Schermerhorn and Diehart (2004) purport such leaders should also create and sustain climates in which individuals act ethically as a matter of routine.

Clearly, many of the decisions made are complex and often require decision-makers to filter large amounts of information. Yet, what is sometimes missed in corporate governance literature is that the variability of issues can be debated and decided on under varying situations: business monitoring, resource acquirement, strategic formulation and varying forms of crisis. Chapter Six considers this aspect in more depth.

Such diversity of issues calls for a broad board-wide knowledge base to understand, interpret and integrate the information (Kogut & Zander, 1992; Leonard-Barton, 1995; Pisano, 1994). It may support, at least in part, Ireland and Hitt's (1999) definition of strategic leaders (given above). Yet as Boal (2000) advocates, the way strategic leadership takes place relates to absorption capacity, adaptive capacity, managerial wisdom and judgement applied when practical and strategic ramifications are considered. At the same time, empirical research has shown that adaptation to the environment is not a passive activity (Covaleski & Dirsmith, 1988; Power, 1987). Thus decisions made at a strategic level can have far-reaching consequences (Zahra & Pearce, 1989) and require considerable input. When these considerations are aligned with boardroom activities they suggest members of boards not only have to decide how they will meet their governance obligations, which stakeholders should be given due consideration, what the corporation's intent will be and what direction the corporate should take, they also have to consider which resources, processes and structures will be required by the corporation now and in the future.

As Hambrick and Pettigrew (2001) advocate strategic leadership is not only the style of leadership adopted in relation to a series of relational and strategic activities, but also it encompasses the relational and symbolic activities associated with strategic leadership tasks. From this perspective the ability of directors and their reputations become key leadership traits. For this reason, what such strategic decision-makers do and how they do it is as important as their value beliefs and reputation (Hambrick, 1989).

Contemporary models of leadership purport control usually lies with one person whose role it is to determine the desired future state, identify the kind of formal structures and systems needed to support that vision, and then to guide the process. In contrast the complexity sciences perspective works on the presumption that growth and the complexity that comes with it are unpredictable. This suggests a very different role for a

leader (Nicholls-Nixon, 2005). Rather than setting the direction the organisation will embark on and deciding which formal structures and systems the organisation will need to achieve its vision, a leader's role is to create the conditions that allow others to contribute and take ownership (MacIntosh & MacLean, 1999; Stacey, Griffin, & Staw, 2000). Bernard Taylor (2003) encapsulates this concept in his notion that the preferred leadership style in a boardroom could be a combination of entrepreneurship, (displaying transformation characteristics), with accountability and control (transactional in nature). But questions remain unanswered. For instance in reality who leads, how is the board's decision-making process shaped, how and who makes decisions at this level, and what leadership style can be associated with effective decision-making?

2.3 Decision-making Themes

How decisions are produced has attracted considerable research studied from a variety of diverse perspectives (e.g., Cosier, 1978; Schweiger & Cosier, 1980; Schweiger, Sandberg, & Ragan, 1986; Schwenk, 1990). Extensive research exists on the effectiveness of work groups in organisations (Bettenhausen, 1991; Campion, Medsker, & Higgs, 1993; Cohen & Bailey, 1997; Gist, Locke, & Taylor, 1987; Gladstein, 1984), and considerable research has also taken place as to disagreement and harmony (Drucker, 1962; Harvey-Jones, 1988), satisfaction with the decision (Nemiroff, Pasmore, & Ford, 1976; Schweiger & Leana, 1986; Schweiger & Sandberg, 1989; Van de Ven & Delbecq, 1974), commitment (Bass, 1981; Heath & Gonzalez, 1995; Locke & Schweiger, 1979), turnover (Maier, 1967), job satisfaction (Locke, 1976), limitations on group process and process losses (Janis, 1972, 1983; Latane, Williams, & Harkins, 1979), process gains (Argyris & Schoen, 1974; Hackman & Morris, 1975), and conflict (e.g., Amason, 1996; Finkelstein & Mooney, 2003; Janis, 1972; Janis & Mann, 1977; Maier, 1967; Schmidt, 1974; Schweiger & Sandberg, 1989). All impact on team effectiveness in ways that either bring healthy interaction or accentuate collective defenses. In recent years considerable inquiry and research into decision-making has been directed towards understanding the optimal outcomes ensued from process (e.g., Amason, 1996; Bierly, Kessler, & Christensen, 2000; Chia, 1994; Dutton, Dukerick, & Harquail, 1994; Forbes & Milliken, 1999; Mintzberg & Waters, 1990; Pettigrew, 1990).

Consistent themes run through most decision-making literature. The first is *choice*, which has been considered from economics, psychology, political science, sociology

and philosophy perspectives. As theories have been refined, cognitive behaviour and change have been linked more with decision-making (Chia, 1994; Forbes & Milliken, 1999) than rationality. The second is the well-established heuristics of *frames*, *framing* and the *framing effect*. Frames are generally conceptualised as individual-level concepts, but they are formulated in an organisational context and are expected to influence responses. Hamond (2000) divides decision-making and judgement theories into ‘correspondence’ and ‘coherence’ theories. Framing, when viewed as a correspondence theory, seeks to explain the factors that produce accuracy. For example: Did the chief executive make an accurate assessment of the situation? When viewed as a coherence theory framing seeks to explain the rationality of judgements and whether decisions meet mathematical or normative standards, and lack contradictions. For example: does the positive or negative framing of a decision change views? On the coherence side, decision analysis provides two further variables: was the decision positively or negatively framed and who actually framed it? Detractions from the coherence of the decision-making process can occur by altering risk preferences (Tversky & Kahneman, 1981). As the prospect theory (Kahneman & Tversky, 1979) purports, individuals tend to be risk adverse relative to decisions that are framed as choices among gains. On the other hand they tend to be risk-seeking relative to decisions framed as choices among losses. Thus the framing effect could be a bias that reduces coherency (Svenson & Benson, 1993).

The notion of process is also intrinsically linked to decision-making. With the exception of Barnard (1938) and Stene (1940), many of the classical theorists overlooked the concept that decision-making, despite the ambiguities surrounding its usefulness, is both a *process of deciding* (selection process), and a *process of action* or implementation. This concept and the notion of process embrace the ideas of *anticipatory*, *consequential* and *optimisation* (March, 1988). This conceptualisation now rests on an empirical foundation of considerable dimension (e.g. Cyert & March, 1956; Dill, 1958; Guetzkow, Kozmetsky, & Tyndall, 1954) and has been referred to in literature as a way to describe *managerial action* (Beach, 1997; Chia, 1994; Edwards, 1954; Payne, 1982; Stevenson, Busemeyer, & Naylor, 1991), or the process of action. Significant decision-making research has also been built on the premise that human behaviour flows in a linear logicality or “a stream of action” (Mintzberg & Waters, 1990:5), or phases (Cutting & Kouzmin, 2002). In this sense the word “process” implies a concept of stability, which, in terms of top-level decision-making, is not always possible. The

perspective of process presumes that *decision* and *action* are connected. Chia's (*ibid*) work challenges the notion of process and instead refers to decision-making as a change mechanism. This academic reaches the conclusion that *thought* is the initiator or the *controller of action*, and *cause* and *actions* are the *effects* or outcomes of the decision (Chia, 1994:788).

2.4 Decision-making Models

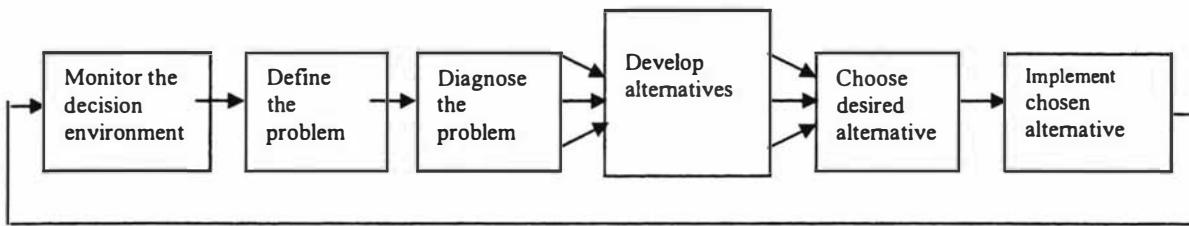
Pursued vigorously over the past 70 years, study of the decision-making processes in business has seen the development of two theoretical models: rational model (Bernoulli, 1738) and bounded rational model (Simon, 1947). Decision-making theories have also developed from two platforms: individual and group decision-making. This section in addressing the individual decision-making models, followed by group decision-making models before outlining behavioural theories, sets the platform for considering such behaviours in a boardroom.

2.4.1 Rational Model

Originated from Daniel Bernoulli's work, carried out in 1738, the premise this model is built on is that individuals act rationally and therefore react in the same way when they work under similar circumstances. This model, set out in Figure 2, is also referred to as the economic man model (Simon, 1977).

The simplicity of the rational model has been found to rest on questionable foundations with critical drawbacks (Simon, 1947). Firstly, by portraying that individuals have access to and have gathered all information needed before making a decision it can be implied that individuals have and comprehend all information before actually making the decision. Secondly, the deliberation, interpretation and transformation processes suggest that the information is often made up of a continuous complex stream of discrete problems, options and consequences. Daft and Steers (1986) purport these are analysed in six stages, each of which require both time and resources.

Figure 2. The Rational Decision-making Model



Source: Daft, R., & Steers, R. (1986). Organization: A micro/macro approach. Glenview, III Scott, Foresman, 442.

Herbert Simon (1957) sums up the weakness of the rational model by saying:

- (1) Rationality requires a complete knowledge and anticipation of the consequences that will follow on each choice.
- (2) Since these consequences lie in the future, imagination must supply the lack of experienced feeling in attaching value to them. But values can be only imperfectly anticipated.
- (3) Rationality requires a choice among all possible alternative behaviors. In actual behaviour, only a very few of all these possible alternatives ever come to mind.

Simon, H.A. (1957a). *Administrative behavior*.
New York: The Free Press, 81.

If however there are gaps in the analysis, or a change in the form of the streams then the process can come to a halt. Klein and Weick's (2000) work advocates that in such cases any analysis that has been conducted becomes obsolete.

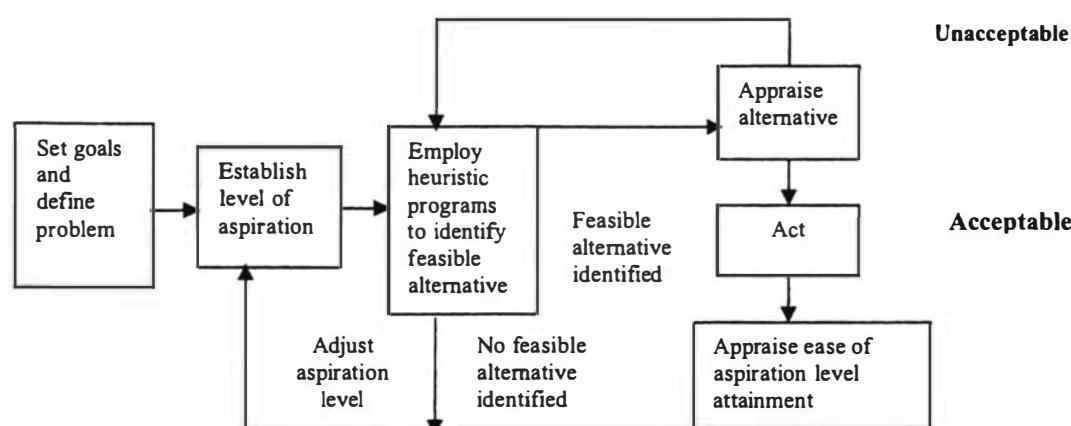
Tversky and Kahneman's (1974) 'prospect theory', briefly referred on page 20 of this thesis under the tenet of framing, illuminates a fallacy of the rational model by dealing with the consideration of risk when clearly specified alternatives are available. According to the prospect theory, individuals in favourable conditions are more likely to act in a risk-averse manner because they feel they have more to lose than to gain;

conversely, individuals in unfavourable circumstances are more likely to be risk-seeking, as they perceive they have little to lose. An extension of the prospect theory, the *threat rigidity* hypothesis (Ocasio, 1995; Staw, Sandelands, & Dutton, 1981), presents a way to examine how an individual responds to risk by purporting that, when a decision-maker is faced with the need to make a decision where the risks are not clear, the individual fails to consider alternatives because risks are not understood. The same pattern of behaviour is claimed to occur when a high degree of ambiguity is associated with the outcome (Ocasio, 1995). Substantial empirical evidence supports these theoretical perspectives (Chattopadhyay, Glick, & Huber, 2001).

2.4.2 Bounded-Rational Model

As convincing evidence began to show that individuals do not obey the substitution axiom (Allais & Hagan, 1979), a concept originally put forward by supporters of the rational model, a decision-making paradigm shift occurred. By illuminating that decision-making behaviour involves conscious and unconscious selection, Simon's (1957b) bounded-rationality replaced the laws of chance embedded in the rational model, with judgemental strategies and heuristics. In the bounded-rational model, shown in Figure 3, decision-makers, such as board members, are purported to be unable to maximise their decision-making capacity because they are unable to obtain complete information. Instead by optimising decisional outcomes they are 'satisficing' the need for full information (Simon, 1947).

Figure 3. The Bounded Rational Decision-making Model



Source: Behling, O., & Schriesheim, C. (1976).
Organizational behaviour: Theory research, and application. Allyn and Bacon.

In explaining bounded rationality as an alternative theory to the rational theory March and Simon (1958) point out that outcomes are optimal, if:

- (1) there exists a set of criteria that permits all alternatives to be compared, and
- (2) the alternative in question is satisfactory if (a) there exists a set of criteria that describes minimally satisfactory alternatives, and (b) the alternative is a radically different problem from finding a satisfactory alternative... To optimize requires processing several orders of magnitude more complex than those required to satifice.

March, J.G., & Simon, H.A. (1958). *Organizations*.

New York: Wiley , 140-141.

Bounded-rationality also recognises actions and inactions that reflect the beliefs, knowledge, presumptions and values that board members intrinsically possess and bring into the decision-making process (March & Simon, 1958, cited by Finkelstein & Hambrick, 1990). In pursuing the notion that human action is neither optimal nor random, dialogue in a boardroom, can be considered to be carried out to varying levels of comprehensiveness in spite of the outcomes being sub-optimal (Brunswik, 1955; Edwards, 1954; Kahneman & Tversky, 1973, 1979).

Since the work of March and Simon (1958) and later Simon (1960), the conscious or unconscious selection of a particular action from a range of alternative actions has been considered as a reflex action or causal triggers, thereby portraying individual decision-making as “intentional, consequential and optimizing” (March, 1988:1) occurring in three stages: (1) occasions for making a decision, (2) finding the possible courses of action, and (3) choosing among courses of action (Simon, 1988). It often is viewed as incorporating rules and identities: important logics used to made decisions on.

2.4.3 Group Decision Models

The vast majority of social psychology on identifying effects and impacts has taken place with ad-hoc groups of college students in a laboratory environment (Brower, 2002). For instance, satisfaction with decision and process has primarily been tested in laboratory research using brainstorming (Osborn, 1957), Delphi (Dalkey & Helmer, 1963; Hall & Watson, 1970), and nominal group or survey techniques (Nemiroff et al.,

1976; Rohrbaugh, 1979; Roth, 1994; Schweiger & Leana, 1986; Schweiger & Sandberg, 1989; Van de Ven & Delbecq, 1974). Such techniques can limit group discussion as the findings are developed in response to responses rather than face-to-face participation.

Over the past decade naturalistic decision-making (NDM), using a variety of methods (in particular cognitive ethnography) is beginning to explore real world decision-making processes in natural settings. Lipshitz, Klein and Carroll (2006) argue that in spite of the similarities between organisational decision-making as proposed by Simon (1955, 1957) and March (March & Simon 1958; Cyert & March 1963) naturalistic decision-making macrocognitive functions may reveal more about decision-making.

Such direct observation ascertaining how groups interact and rationalise can be traced to Bales (1950) and Bales and Strodtbeck (1951). Using a verbal-coding methodology these scholars presented an unitary sequence model claiming group problem-solving also passes through three phases: orientation, evaluation, and control. Daft and Weick (1984), in proposing a similar cognitive reality assert that group problem solving exhibits three akin phases: *intra-transferable* or the scanning of the data collection, *interpretation* or the process of giving meaning to the data, and *learning* or taking action. Cutting and Kousmin's (2002) findings, developed from the work of Daft and Weick (1984) confirm Bales and Strodtbeck's (1951) earlier proposition and served to reaffirm Daft and Weick's (1984) three-phased proposition. According to Cutting and Kousmin (2002) and March & Olsen (1995) the three phases form a trinity of personal and group decision-making, which these scholars express as:

- (1) The base phase, where the individual or group takes in what is happening, proposed or implied. Individuals or groups draw on their own experience or gather data by scanning information or the environment. The focus they take can be outwardly focused or inwardly focused. It is during this phase that reading something extra (appereception) into the situation can occur.
- (2) The second phase or intelligibility level, when the individual or group perception or interpretation gives meaning and therefore relevance to the process. This can be objective and factually focused, imaginative and systemic (intuitive) or symbolic and/or reality transcending the imaginative (aesthetic).

- (3) The third phase of the individual or group decision-making process, where cognitive judgement takes place. This can lead to a “commitment to do something (conation), a judg[e]ment of what is true/factual (reasoning) or an assessment of the reality cum value (feeling or a sense of right or wrong)”.

Cutting, B., & Kouzmin, A. (2002). *Evaluating corporate board cultures and decision making*. Corporate Governance, 2(2), 28.

While there is obviously movement between all three, the phases are not operative at the same time, nor are they equally applied. Instead they can be better explained in terms of a preferred focus on a particular phase and potency of the pathways between the different phases: “to the extent that all three phases of knowing are fully accessible with easy and constant movement between them” (Cutting & Kouzmin, 2002:28). However, as the three phases cannot be operative equally at the same time the decision-making process, such as that occurring in a boardroom, can only be explained in terms of the particular phase occurring at that time.

2.4.4 Strategic Decision-making

The acknowledgement that some boards set the corporation’s strategic direction implies strategy-setting behaviours. Emerging from early academic debate, the ‘rationalist’ or ‘deliberate’ approach (Ansoff, 1965; Argyris, 1973; Hofer & Schendel, 1978) holds the implicit belief that strategy setters are able to objectively appraise an organisation and its current environment, formulate an optimal strategy, and implement a desired strategy. This perspective reflects much of the rational decision-making model.

Mintzberg (1973; 1976; 1979), one of the first researchers to draw attention to the importance of the contextual view of organisational structures, defined strategy as *intended* or *realised*, asserting that strategy setting should be viewed as “a pattern in a stream of decisions between the environment and bureaucratic momentum, with leadership mediating in between the two” (Mintzberg, 1976:941). From his perspective, “priori guidelines as well as strategies evoke posteriori consistencies in decisional behaviour” (Mintzberg, 1976:35). Thus, a sequence of decisions exhibit consistency over time. Mintzberg’s existential model of decision-making, as opposed to the classical or more rational view, advocates that cognitive or rational strategic formulation is not

possible in unpredictable environments, as it is not possible to forecast the future with complete confidence. Thus it adopts a bounded-rational approach to decision-making.

Drucker (1988; 1990), in challenging the relevance of Mintzberg's approach, has argued that it neglects a key characteristic of the environment: the acceleration of the speed of change that has occurred during the past 30 years. When considering the strategic thrust which is entering into governance debate together with decision-making behaviours of individuals on a board, a board is not only a decision-making body comprised of strategic leaders and decision makers, it also a social system characterised by imperfect information, inefficiencies, multiplex incentives and contextual issues (Perrow, 1986), many of which are influenced by environmental changes (Miles & Snow, 1978; Porter, 1991). Thus, the notion of 'strategic satisficing' (Sanders & Carpenter, 2003) and 'bounded-instability' encapsulated in the chaos theory (Basile, 1997) both capture the essence of decision-making in such environments and reinforce the notion of bounded-rationality.

2.5 Decision-making as a Form of Action

More recently a new generation of decision-making concepts has emerged that views decisions as a form of *action* (Mintzberg & Waters, 1990; Mintzberg & Waters, 1985) or *change* (Pettigrew, 1990). When studying strategy-formulation, Mintzberg and Waters (*ibid*) conclude that decisions can emerge 'inadvertently' and not necessarily as 'triggers' for other decisions. In other words they saw *actions* and *decisions* as being separable. In presenting this proposition they have turned academic thinking towards *change* rather than *choice* (Chia, 1999). In adopting this line of reasoning, these academics also purport that action is often not preceded by *commitment* (intention), or if it does it is likely to be vague and confusing (Mintzberg & Waters, 1990). An emerging question is: Do boards seriously commit to the decisions made?

Chia (1994), in extending the work of Mintzberg and Waters (1990), considers a decision as a series of interlocking pre-definitive acts, which punctuate the current line of thinking, in order to make sense of the situation: or the *will to order* (Chia, 1994). From this perspective, a decision, when arrived at, cannot be just a casual adjunct to the current issue on the table but instead reforms the issue so that it becomes the very meaning of it (Chia, 1994).

At the same time a decision provides a basis for other situations that may supersede it. From this standpoint, a decision could be viewed as an ‘explanatory principle’ of action. Chia’s *decisionality of action* and the *actionality of decision* (1994:789) reinforces early findings in respect to individual decision-making by separating the actual decision from any action that may follow. Implicitly implied within current corporate governance literature (e.g. Cadbury Report) is the accountability for ensuring decisions made at board level are converted into action, or in Chia’s (1994) terms, the actionality of the decision takes place. However, this task generally lies with executive management, whereas Chia’s decisionality of actions is the function of the board.

Such findings continue to challenge the ingrained traditional belief, disputing the almost myopic view that a strong linkage between *commitment* and *action* exists. Although researchers (e.g. Mintzberg & Waters, 1990; Chia, 1994) have given priority to the action needed to arrive at a decision, rather than to the decision itself, they have nonetheless been able to dispense with the notion that a decision is a necessary prior condition of action. Instead, it is now viewed that a decision is a consequence of attempting to rationalise the action of decision-making, thus placing importance on the rationalising process when trying to arrive at a decision.

Thus, the contribution each board member makes can be highly individualised, drawn from an independent perspective of a situation and from his or her ability to ‘hone in’ on the key issues as opposed to complying with group norms. Whether board members make decisions individually and/or collectively, the notions of choice, commitment and streams of action that underlie the decision-making capacity are, in essence, substitutes for a deeper understanding of the ‘incision’ activities (Chia, 1994) that shape the decision and result as part of a process. According to Bierly, Kessler and Christensen (2000), decision-making:

...requires the simplification of information and knowledge. The complexity of the situation must be channeled, such that the most critical knowledge areas dominate the decision-making process. Additionally, the complex information and knowledge must be evaluated in a broad, holistic framework. This simplification and evaluation of knowledge requires judgment...

Bierly, P.E., Kessler, E.H. & Christensen, E.W. (2000). Organizational learning, knowledge and wisdom. *Journal of Organizational Change*, 13(6), 597.

Thus the concept of decision-making now accommodates within it themes such as foolishness, intelligence, adaptive aspirations, and search, and seeks to address their relations with organisational behaviour (March, 1999). In Simon's more recent work he refers to these as "the relative elements in decision" (Simon, 1997:5).

2.6 Group Cognitive Capabilities and Behaviour

Although field studies into group behaviour suffer from the lack of discrete decision-making processes (Grinyer & Norburn, 1978; Bourgeois, 1980), lack of information on the means used to achieve the outcome among those surveyed, and the compounded effects when two variables are measured simultaneously, such research highlights a group's capability to make decisions. Much of the work undertaken in this area of study has been developed from Janis' (1972) well-known model, which isolated a phenomenon referred to as groupthink: a conformance to a group perspective or point of view. Process loss, an outcome of groupthink, refers to "the deterioration of mental efficiency, reality testing and moral judgement that results from in-group pressures" (Janis, 1972:9). Diversity (or the lack of it) lies at the core of this phenomenon, and when present the interactive process can lead to poor decisions (Janis, 1972) or conflict (Alderfer, 1977). Table 1 displays the characteristics of groupthink.

Table 1. Eight Common Symptoms Associated with Groupthink

- An illusion of invulnerability, shared by most or all group members, that leads to over optimism and excessive risk-taking
- Collective efforts to rationalise or discount warnings
- An unquestioned belief in the group's inherent morality
- Stereotyped views of adversaries as too weak and stupid to pose a serious threat
- Pressure directed at any group member who dissents from the majority view
- A shared illusion of unanimity
- Self-censorship of deviations from the apparent group consensus
- Self-appointed "mind-guards" who protect the group from information that might challenge the group's complacency.

I.L. Janis. (1972). *Groupthink: Psychological studies of policy decisions and fiascos*, Boston: Houghton Mifflin, 2nd Edition, 24: 7-13.

Group diversity as asserted by Janis (1972; 1983) appears critical to quality group decision-making because it provides a reservoir of behaviours and capabilities that add to the decision-making process (Bantel & Jackson, 1989) leading to gains (i.e. Argyris & Schon, 1974; Hackman & Morris, 1975). Conversely, in its absence groups often experience process loss, which limits a group's ability to make sound decisions (Janis, 1972; Latane et al., 1979; Steiner, 1972). Researchers have also reached a view regarding cognitive capabilities relative to cognitive diversity with the group that can be drawn on and recognised as influencing decision-making (Hoffman, 1959; Hoffman, Harburg, & Maier, 1962; Hoffman & Maier, 1961; Wanous & Youtz, 1986, cited by Amason, 1996). For instance, a group is more effective, innovative and makes higher-quality decisions when composed of individuals possessing a variety of skills, knowledge, abilities and perspectives (Bantel & Jackson, 1989; Murray, 1989). Thus utilising, by identifying and synthesising the most appropriate skills and perspective is, according to Schweiger and Sandberg (1989), of importance to the quality of the decision. Process loss is less often applied to time, however the time taken may encourage dissention or foster conflict, and, as Gersick (1988) has discovered through observing groups in action, the process changes and accelerates when the time allowed becomes a conscious consideration.

2.7 Interactive Processes for Cognitive Capabilities

The quality of decisions has two identifiable principal antecedents. First is the interactive process through which team members contribute and produce decisions (Amason, 1996). For instance considerable research identifies how interaction takes place and in particular the impact of disagreement and harmony (Drucker, 1962; Harvey-Jones, 1988) within the process. The second relates to cognitive capabilities of the individuals who make up the team (Amason, 1996) "depends heavily upon the process that the group actually employs" (Steiner, 1972:35).

Consensus is said to be an outcome or the process of building an agreed outcome and: ...it occurs only after deliberation and discussion of pros and cons of the issues and when all (not a majority) of the managers are in agreement. Each member of the group must be satisfied as to the ultimate course of action to be taken.

Holder, J.J. Jr. (1976). Cited by Dess G.D., & Origer, N.K. (1987).

Environment, structure and consensus in strategy formulation:

A conceptual integration. *Academy of Management Review*, 12(2), 307.

Whereas, agreement implies a lack of conflict or process, agreement can also suggest early acceptance of a proposed outcome. When reaching a consensual outcome, as opposed to agreement Stagner (1969) found positive correlations existed between executive satisfaction, the decision-making process and cohesiveness amongst group participants. More recent work produced by Whitney and Smith (1983) and Schweiger, Sandberg, and Ragan (1986) reinforce each other's findings as well as the work of Stagner (1969), purporting a high level of cohesiveness and decision-making (under forced consensus situations compared with other situations) reflects a high level of group satisfaction with the quality of performance exhibited. This suggests that harmony is likely to be present as the consensus process evolves.

This notion of harmony in turn builds on the work of behavioural scholars labeled as group polarisation, group decision-making and group judgement. It suggests that when time is spent looking for areas of agreement participants more readily accept information provided by others. Research has also shown that members of a team, such as a board, respond positively to open decision-making processes when their concerns are considered (Korsgaard, Schweiger, & Sapienza, 1995).

Consensus, like agreement, aligns with the persuasive argument theory (Bishop & Myers, 1974; Burnstein, 1982; Myers & Bishop, 1971; Vinokur & Burnstein, 1978), which assumes that the position taken by individuals on any specific issue is a function of the number and persuasiveness of available arguments. It also aligns with the social comparison theory (Baron & Roper, 1976; Brown, 1965), which suggests that directors of boards are motivated by a desire to be socially favoured. On the other hand, consensus, unlike agreement, can exhibit deviant behaviour, for it has the ability to hide or distort any changes made through individual preferences by presenting an unanimous decision (Abelson, 1973; Davis, 1973). Consensus within a board could therefore imply that each director is explicitly aware of the trade-offs, negotiations, and game-plays that take place as members polarise their thoughts and modify their decisions in search for a group decision. In doing so, a minority within the group may select to go with the decision, even when they or their peers hold a conflicting perspective.

Conflict itself is said to have a role to play in reaching a decision. Amason (1996) divided conflict into two groups: affective and cognitive. *Affective conflict* with emotional and incompatibility elements has a dysfunctional effect on decision quality

and affective acceptance. *Cognitive conflict* has been operationalised in group research by either: (1) dialectic inquiry: a process whereby the group is split and both subgroups develop an alternative (Mason, 1969; Mason & Mitroff, 1981), or (2) devil's advocacy: where a member of a group presents a solution and at least one other member challenges the solution and assumption (Cosier, 1978; Schwenk, 1990; Schwenk & Valacich, 1994). Laboratory studies conducted by Schweiger and his colleagues show that, while cognitive conflict may decrease commitment and satisfaction (Schmidt, 1974; Schweiger & Sandberg, 1989), it brings out alternative arguments that challenge presumptions made by other members of the group (Maier, 1967; Schwenk, 1990). On the other hand, because of judgemental differences produced by individuals, cognitive conflict can positively affect the quality of a decision as well as the acceptance level of a decision. Researchers have shown that cognitive conflict and dialectic interaction bring different and opposing positions to the debate, encourage critical and investigative interaction, and assist in reducing process loss (Churchman, 1971; Forbes & Milliken, 1999; Sundaramurthy & Lewis, 2003). There is little research that shows how these actually play out in a boardroom.

Information sharing or pooling (Burnstein & Vinokur, 1977; Stasser & Stewart, 1992), group judgement and group accuracy (Hastie, 1986), and group influence (Deutsch & Gerald, 1955) are further components of the decision-making process. It is often socially rational for decision-makers who are confronted with complex or unfamiliar choices to select the most readily justifiable options, even if that means violating basic consistency axioms of rational choice theory, such as ignoring irrelevant alternatives or violating the sure-thing principle (Simonson, 1989). At the same time, decision-makers can get caught in accountability cross-pressures and must therefore find ways of fudging trade-offs (Tetlock, Peterson, & Lerner, 1996). However, like conflict, there is little evidence to indicate if information sharing dominates interaction in a boardroom.

Such behaviour, coupled with Tversky and Kahneman's prospect theory (*ibid*), suggests that groups are likely to respond to a crisis or external risk by adopting risk-averse behaviour (Sitkin & Pablo, 1992) and, by turning attention to the activities over which they have greater organisational control. In adopting this defensive approach, they are likely to initiate internally-focused action, adopting accepted best-practice, or turning attention to internal issues such as controlling costs (Thomas, Clark, & Gioia, 1993). Conversely, where opportunities arise that are perceived as being associated with a

greater sense of control and are more likely to produce performance or financial gains, group members are inclined to initiate actions (Jackson & Dutton, 1988; Taylor, 1989). This line of reasoning suggests that a board is more likely to respond to matters over which it has greater organisational control. Internal matters such as controlling costs is one such example (Thomas et al., 1993). Therefore a board is more likely to address any risk situation associated with costs as it believes it can control or affect the outcome of it. Conversely, when circumstances arise that call for a somewhat risky decision to be made, group members may be more likely to respond by adopting risk-averse behaviour as the risks are not so clear (Sitkin & Pablo, 1992) and the situation could be ambiguous.

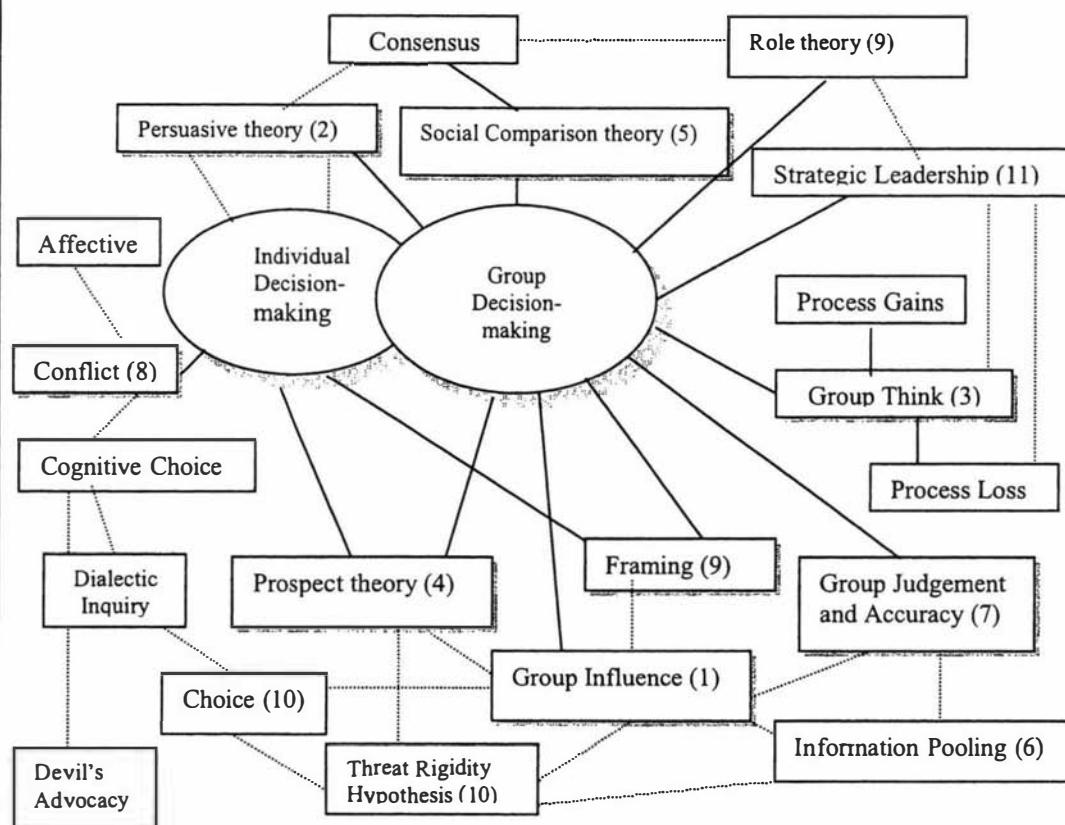
2.8 Group Roles

The role an individual plays within a group has been extensively researched (Hackman, 1987; Hackman & Morris, 1975; McGrath, 1984; Steiner, 1972). The theoretical thrust of role theory is that each member of a group has a preconceived notion of what should take place, and a perception of how his or her peers and superiors ought to act (Weick, 1995). Thompson and Strickland have identified thirteen different leadership roles that strategic leaders have to play: “chief entrepreneur, chief administrator, crisis solver, taskmaster, figurehead, spokesman, resource allocator, negotiator, motivator, adviser, inspirationist, consensus builder, and policy maker” (1997:253). Thus the decision-making behaviours of leaders who actually drive a business at the top echelon of an organisation are, as Hambrick and Pettigrew (2001) state, a pivotal consideration, yet little is written about leadership styles associated with these roles.

2.9 Chapter Summary

Business leaders, board members and members of the senior management team have the ability and latitude to make choices that affect an organisation’s outcome (Child, 1972). Thus, the way an organisation operates is, in essence, a reflection of its leadership (Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984), and by implication that of the board. Drawing on the literature cited up until this point a number of behaviours relative to individual and group theories may contribute to decision-making in a boardroom. These are shown in Figure 4.

Figure 4. Contributory Theories to Decision-making Behaviour



Source: Constructed from the Literature Review

- (1) Group Influence: Deutsch & Gerald (1955)
- (2) Persuasive Argument theory: Myers & Bishop (1971)
- (3) Group Think: Janis (1972)
- (4) Prospect theory: Tversky & Kahneman (1974)
- (5) Social Comparison theory: Burnstein & Vinokur (1975)
- (6) Information Pooling: Burnstein & Vinokur (1977)
- (7) Group Judgement and Accuracy: Hastie (1986)
- (8) Conflict: Amazon (1996)
- (9) Role theory: Belbin (1981)
- (10) Threat Rigidity theory: Straw, Sandelands & Dutton (1981)
- (11) Strategic Leadership: Hambrick & Pettigrew (2001)

2.9 Chapter Summary

Behaviours associated with many theories (e.g., social comparison theory (Baron & Roper, 1976; Brown, 1965), group polarisation (Burnstein & Vinokur, 1975; Stasser & Stewart, 1992) persuasive arguments (Meyers & Bishop, 1971)) are either interlinked or

become a reaction or response to another. This suggests that a multi-theoretical approach is appropriate when studying group behaviour.

Such moderating and interacting elements are explained in more depth throughout the Literature Review. Chapter Four gives further explanation of the contextual nature, Chapter Six considers types of decisions made under the heading the decisional framework, and Chapter Seven illuminates the behavioural influences including conduct and process.

Part Two: Literature Review

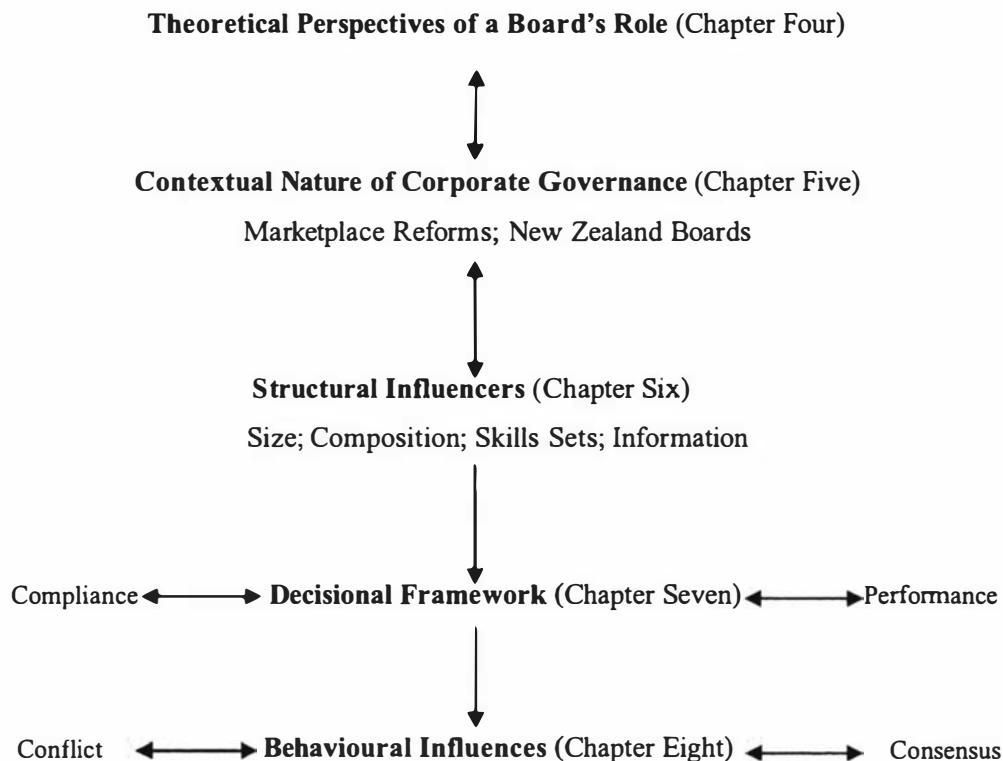
Chapter Three: Theoretical Perspectives of a Board's Role

3.1 Chapter Intent

The term “corporate governance” is commonly used, yet rarely was it encountered before the 1970s. As a cybernetic concept originating from the ancient Greek word ‘*kybernetikos*’ its meaning ‘good at steering’ (Rwegasira, 2000) is applicable to the decision-making task of a board. Four theoretical considerations imply and interlink with steering: contextual, structural, processual and behavioural. Board structure for instance can be influenced by external influences or can constrain the extent to which board processes and behaviour will occur (Bradshaw et al., 1992). Skills and experience possessed by board members and the information they have secured, are effectively key inputs to the decision-making process. Even though these are rarely considered as structural inputs this chapter views them as such.

It could be argued that, as decisions are made within a specific context, the context itself needs to be circumscribed and defined for meaning to be applied (Chia, 1994:790). This implies that theoretical propositions need to be considered contextually. For this reason, it is felt appropriate for this literature review to begin by providing a synopsis of theoretical perspectives of a board’s role followed by comment on marketplace influences that shape the contextual environment of organisation. The benefit of this starting point is that the regulatory framework, which forms the governing mandate for boards, can be described. At the same time such a starting point provides an explanation as to how the principles that dominate much of the practical application of corporate governance came into being. This discussion precedes further chapters that draw on literature relating to structural considerations, decisional framework and board-level input variables. The relative individual and collective behaviours applicable to the boardroom are explored in the final section under the heading ‘Conduct’. Collectively, these variables are converted in Chapter Eight into propositions as the means to explore, then to explain, boardroom behaviour and process. The following representation of this approach (depicted in Figure 5) gives consideration to the macro or external influences and concludes with commentary on the micro or internal boardroom decision-making behaviour.

Figure 5. Influencers of Boardroom Decision-making



3.2 Theoretical Perspectives of a Board's Role

The theoretical debate on corporate governance in Anglo-Saxon countries started from a simple premise: a company is a piece of property owned and controlled by its shareholders (Berle & Means, 1932). Such an ideology sets profit-orientation as the platform for corporation performance. While the term 'corporate governance' was not referred to in Berle and Means' (1932) work, their fundamental ideology has driven much of the western world's modern economics since that time, and is reflected in a number of corporate governance theories. No fewer than eleven schools of academic thought have been used as theoretical references from which to view or put forward a notion relative to governance: agency theory, shareholder theory, stakeholder theory, transaction cost theory, contractual theory, stewardship theory, institutional theory, managerial hegemony, resource-dependency theory, organisational trust perspective, and trusteeship perspective. Aligned to these is the resourced-based theory.

At least three interpretations can be applied to this collection of theoretical propositions. The first interpretation adopts the view that corporate governance theories are either ‘economic’ or ‘organisationally-based’ in nature (Learmount, 2002; Prowse, 1994). These ‘internally-influenced’ or ‘externally-influenced’ perspectives have also been referred to as “outsider” versus “insider” frameworks (Dickerson, Gibson, & Tasakalotos, 1995). The second view, acknowledged by academics and researchers such as Williamson (1979), Williamson, Bromiley and Cummings (1995) and Powell (1996), builds around trust. The third interpretation originates from the work of Judge and Zeithaml (1992) and expands on Hung’s (1998) typological parameters drawn for Judge and Zeithaml’s (*ibid*) work. In capturing both the extrinsic (contingent factors) and intrinsic influences (institutional impacts) it shows the effect of the extrinsic and intrinsic environments and the behavioural approaches associated with each. Hung’s work (*ibid*) provides a means to interpret governance across a number of theories. However more currency is achieved when the twelve theoretical perspectives outlined in this chapter are considered and compared.

3.2.1 View One: Economic Frameworks

i) Agency Theory

Arguably the dominant theoretical influence on the developing discipline of corporate governance, particularly in the Anglo-Saxon model, is the agency theory. Lying at the heart of many economic and finance theories it builds on the presumption that leaders of organisations are boundedly-rational, self-interested and opportunistic (Eisenhardt, 1989c), seeking to maximise their own interests at the expense of their shareholders. Its ‘control over’ function aimed at curbing this self-serving behaviour reflects differing views and/or divergent interests between two major parties, principal and agent. In adopting this view, Eisenhardt (1989a) considers that this governance mechanism acts to resolve problems and protect owner wealth through the board becoming the “ultimate internal monitor... whose most important role is to scrutinize the highest decision makers within the firm” (Fama, 1980:294). Thus the role of a board is to discipline management through ensuring checks and balances are in place (Rechner & Dalton, 1991a).

Agency problems arise because shareholders and managers, both boundedly-rational decision makers, have differing risk preferences (Eisenhardt, 1989a; Holstrom, 2001).

When considering directors' resource and strategic roles (Daily et al., 2003), it proposes that board members should not be vulnerable or to take risk, even if such risk adversity may impact on strategic initiatives. That said agency proponents have noted the costs and limits of vigilant control (Morck, Schleifer, & Vishny, 1989; Sundaramurthy, 1996).

The lack of trust embedded in the theory makes it difficult for an independent director or chair to work with the chief executive (Ghoshal, 2005; Roberts, 2001). Conflict between the interests of principal-agent may also underestimate the degree of congruence or conceal why and how decisions are made, which according to Froud, Haslam, Sukdev, and Williams (2000), could occur at the expense of stakeholder groups and/or the long-term organisational capabilities of the organisation. Eisenhardt, although a strong supporter of the agency theory, in recognising such deficiencies, concludes that: "Agency theory presents a partial view of the world that, although it is valid, also ignores a good bit of the complexity of organizations" (Eisenhardt, 1989a:71). As she also points out "additional perspectives can help capture the greater complexity".

ii) Shareholder Theory

At the core of shareholder theory is an economic rationale: since it is the shareholders who contribute to an organisation's capital they deserve the residual earnings. Therefore the fiduciary role that underpins this theory implies that board members should only expend business resources in ways authorised by shareholders, regardless of any societal benefits that could accrue. With shareholder-maximisation as the major objective, any business activity is justified only when it lawfully increases the value of the firm to its shareholders. Conversely, it is not justified if the value of the firm reduces. This gives importance to the property rights of shareholders over all other interests (Friedman, 1962). Collegially termed the "single bottom line", with its sole performance measure being financial, it is identified with positivist accounting theory. According to Hasnas (1998), this theory comes the closest to achieving ethical obligations for individual entry into the complex web of contractual business arrangements. Notwithstanding this, other academics (Carroll, 1989; Donaldson & Preston, 1995; Freeman & Evan, 1988; Goldenberg, 2001; Korsgaard et al., 1995; Weiss, 1994) believe it is inferior as it deprives markets of social legitimacy, undermining commitment and flexibility (Clarkson, 1998) and because it is "based on transactions not relationships" (Davies, 1999:83).

The role of a board, under this theory, is therefore to act as a *ratifier* of decisions made by management and to monitor the implementation and performance of the decisions (Hung, 1998). The board's decision-making capacity thereby oscillates between two key constituents: the shareholder and management: one to act on behalf of, the other to have control over.

Turning to the notion of trust, the accepted understanding of the shareholder theory, similar to the agency theory, implies that a board cannot trust its management (Roberts, 2001). In adopting this perspective, a board would only make decisions in line with its shareholder interests and in that way would limit any self-interested tendency management may possess (Bayinger & Hoskisson, 1990; Fama, 1980; Fama & Jensen, 1983). However, the theory is not totally devoid of trust and advocates some reliance on its senior management to deliver a strategic framework. From such a position, it could be inferred that the board trusts the ability of management, and that control is a mechanism to avoid misinformation. Thus a degree of trust, although relatively low, can be evidenced within the theory.

iii) Contractual Perspective

The publication of Alchian and Demsetz's seminal paper *Production, Information Costs and Economic Managerial Behaviour* (1972) introduced the idea that a business entity is in essence a nexus of contracts set among individual factors of production. By drawing on property rights literature these scholars argue that the primacy of shareholders is legitimised by the notion that an organisation does not own all its inputs. Instead, shareholders are 'residual risk-takers', who have the most to lose if the company fails and the most to gain from the effective monitoring of corporate activity (Alchian & Demsetz, 1972:777).

Jensen and Meckling's (1976) paper *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, supports Alchian and Demsetz's work by casting management as agents for shareholders, but differs from the shareholder theory in that relationships are viewed as a series of implicit and explicit contracts with associated rights. This differentiates their work from that of other theorists as it places emphasis on market exchange as a way to maximise shareholders' returns. Drawing on these contractual theories Hart and Moore (1990) have since proposed that a business entity is a collection of jointly-owned physical assets. More recently Rajan and Zingales (1998),

in an attempt to narrow this view somewhat, advocate that a business entity is a nexus of specific investments that cannot be replicated by the market.

Such theoretical perspectives shape a board's role as being a *monitoring* device and in doing so turn the decision-making capabilities toward the various contractual obligations entered into by management on behalf of the corporation. By looking towards the market exchange and formalising contractual arrangements it brings third parties to the board's interaction sphere, although indirectly in most situations. The element of trust is not high, purporting control over contracts and need for close monitoring of them.

iv) Transaction Cost Theory

Williamson (1975; 1979) in refining Coase's (1937) 'theory of the firm' views the market as having limited constitutional powers and unable to be relied on to mitigate problems in relation to contractual hazards. Rather than focusing on maximising profit, the thrust of this form of institutional economics has, in general, turned academic attention to minimising transaction costs. Yet the fundamental assumptions of the transactional approach have faced criticism. For example, Moran and Ghoshal (1996) strongly criticised Williamson's (1975; 1985) presumptions relating to organisations, human behaviour and motivation:

[Economic] theories of today are dominated by a profoundly pessimistic view of organizations, concerned far more about the unintended consequences of organizing than about organizing for their intended purpose, and by an even more skeptical view of individual-organization interactions, grounded in the assumption that the human role of organizations is largely passive and frequently pathological ...the all-pervasive concern for shirking, opportunism, and inertia in organizational economics.

Moran, P., & Ghoshal, S. (1996). Theories of economic organization: The case of realism and balance. *Academy of Management Review*, 2(1), 70.

Contrary to the concerns raised by Moran and Ghoshal (1996), Williamson's later work (1993) implies that trust through the sharing of information may transcend opportunism. Linking this with his transaction cost theory, Williamson applies a fresh interpretation by changing the foundations to the minimisation of transactional information, rather

than transactional costs (Jones, 1995). In adopting either the early or more recent theoretical perspective, a board's role remains internally focused: ensuring internal measures and mechanisms minimise costs associated with contractual hazards. In carrying out this role a board becomes a cost driver. Hung ascribes this role as being a ceremonial function "*supporting or legitimating*" management decisions (Hung, 1998:104) for as Hung argues it is management that establishes and maintains the actual contractual arrangements while the board acts as the overseer of them.

v) Commons themes relative to the Economic-based Theoretical Propositions

Despite scholars such as Starkey (1995) and Turnbull (1997) challenging the usefulness and validity of economic theories, they have become an accepted explanatory premise for corporate governance. Yet a number of developments occurring globally have signaled that corporate governance systems based on shareholder supremacy lack consideration for other stakeholders. Such developments include: (1) increased dominance of share ownership by institutional investors and significant costs to them for relying on exit as their principal response to under-performance, (2) increased shareholder activism, (3) growing recognition that product markets are less than fully contestable, therefore market disciplines are an insufficient means of encouraging efficiency and (4), transformation of companies due to advancement of technology (Reddy, 2005).

The above suggests three common themes run through the economic theories. Firstly they are demand-side responses to market pressures, secondly, they spawn mistrust with the intent of keeping bureaucratic chains of command intact (Ghoshal, 2005) and thirdly they focus on control over managerial decisions.

3.2.2 Organisational Perspectives

i) Stakeholder Theory

Stakeholder theory challenges the amorality/immorality of the mainstream economic perspectives of a firm in that it views shareholders as only one group of stakeholders extending corporations into the realm of their stakeholders (Korsgaard et al., 1995). The term 'stakeholder' which first appeared in 1963 in an internal memorandum at the Stanford Research Institute referred to "those groups without whose support the organisation would cease to exist" (Reddy, 2005), implying that a corporation's success

depends on more than just satisfying the providers of the funding. Hence, it focuses on a nexus of interaction among people with various ‘stakes’ legitimate to the corporation. The theory as advanced by Freeman and Evan (1988) goes beyond just strategic advice by offering an account of the varied nature and purpose of the firm and with it the moral claims to which it is subject. According to some academics (e.g., Carroll, 1989; Weiss, 1994) these have become conventionally accepted within the business ethics community.

The stakeholder theory has been categorised on different research approaches (Donaldson & Preston, 1995): *normative*, which views stakeholders as the ‘end’, *instrumental*, which rethinks the traditional role of a firm, and *descriptive*, yet to be tested (Jones, 1995). Both the normative and instrumental perspectives can be considered in relation to decision-making: one from a structural perspective that influences and impacts on the decision-making framework; and the other, to explain if and how board members give consideration to the interests of the organisation’s constituencies (Wang & Dewhurst, 1992), or how a board actually manages the issues raised (Brenner & Molander, 1977).

In countries like Germany, Japan and France that follow this corporate governance model where the role of the board is to maximise social interests, such as promoting growth, longevity and securing employment relationships. Thus profitability becomes more an instrument than the ultimate goal. Under this precept the critical governance task is to ensure that negotiations, coordination, cooperation, and conflict resolution between interested parties are handled professionally (Kochan & Rubinstein, 2000, citing Nader & Green, 1973). In extending this view further by taking the view that the prefix ‘stake’ constitutes a formal or legal arrangement (Nader & Green, 1973, cited by Sharplin & Phelps, 1989) an inference drawn is that the role of a board is one of coordinating and facilitating the external and internal environments. Although it views relationships as important and extends the interactive influence of board decisions across a wide and varying range of constituents the stakeholder theory seeks resolution of conflict, rather than the building of trust.

ii) Institutional Theory

Organisations depicted by early management theorists were seen as ‘rational systems’ designed for the efficient transformation of material inputs into material outputs (Scott,

1987:31-50) and tightly bounded entities demarcated from the surrounding environments. More recently this notion has been reconceptualised by the notion of ‘open systems’ theories, having organisational boundaries that can be porous and problematic (Powell & Di Maggio, 1991). Such conceptualisation lies at the heart of the institutional theory as it encapsulates congruence between the social values associated with or implied by organisational activities. It goes on to describe the norms of acceptable behaviour in the larger social system (Dowling & Pfeffer, 1972:122) by connoting many dynamics in the internal environment which stem and shape cultural norms, symbols, beliefs and rituals for an organisation. In this manner the theory focuses on social rules and follows accepted conventions and practices which shape their form and working structures (Ingram & Simons, 1995). It is these conventions and practices that allow its board to maintain the status quo, even in face of any restricting and limiting external pressures.

Criticism of this theory derives from the lack of explicit attention to strategic behaviour and the ‘over socialised’ view it contains (Oliver, 1991). In a similar way Drazin and Van de Ven (1985) suggest that, as the internal coordination and control practices become institutionalised over time, they are less responsive to organisational tasks and changing technology. Likewise they consider conformity to social rules and requirements is important if the organisation is to enjoy support and legitimacy (Hung, 1998:17, citing Scott & Meyer (1993)). This suggests that boards in the same institutional set may tend to be more homogenous in nature.

As the theory turns attention to the management of processes and structural issues that can be handled objectively, it is somewhat devoid of personal interaction and trust. However this view aligns well with the increasing requirements of boards to conform to ‘principles of best practice’.

iii) Resource Dependency Theory

Encapsulating the insights of sociology and psychology, the resource dependency theory enhances both the board-management ties (Sundaramurthy & Lewis, 2003) and the external environment (Pfeffer, 1972; Pfeffer & Leong, 1977; Pfeffer & Salancik, 1978). It builds on the presumption that organisations depend on directors for access to valuable resources and sound communication conduits. In this vein Pfeffer and Salancik (1978) advocate that interlocking directorates assist organisations to cope with the need

to obtain valuable resources while controlling the other through manipulating available resources.

From a governance perspective, the theory presumes that the effectiveness of the organisation rests with the board members, as opposed to shareholders, to build relationships. Proponents advocate empowering managers (Davis, Schoorman, & Donaldson, 1997) to co-opt interdependent non-executive directors who in turn *link* the corporate with its environment (Pfeffer & Salancik, 1978:176). This notion in stressing the importance of motivation and collaboration is grounded in the belief that management can be trusted to “behave in ways that are consistent with organizational objectives” (Davis et al., 1997:25) and calls for board members to advise and foster social ties between the key parties. Hence communication, candid feedback and consensus are important decision-making components.

iv) Resource-based Theory

The resource-based view of an organisation attempts to explain how depth of knowledge, commitment, access to current operating information and technical expertise, such as those imported into the organisation through its directors, are important enablers of the decision-making process. By explicitly addressing these dimensions, academics argue that organisations can have internal idiosyncratic characteristics and attributes which contribute to a corporation’s competitive advantage (Barney, 1991; Wernerfelt, 1984). Thus board members, under this theory, are an externally-sourced knowledge group that plays an important role in disseminating information from one board to another as well as bringing environmental knowledge into the boardroom, which implies that the individual and collective skills, knowledge and capabilities of the directors including the application and interpretation of knowledge (Grant, 1996; Pearce & Zahra, 1991; Pfeffer & Salancik, 1978; Spender, 1996; Spender & Grant, 1996) are critical to the decision-making process. As the resourced-based view seeks talented and appropriate directors for the purpose of overseeing, contributing and delivering on director obligations, it implies that trust is well-intended (Learmount, 2002).

v) Managerial Hegemony

The key argument underlining managerial hegemony conjects that organisations are run by professional managers whereas the role of a board is to “rubber stamp” or a support

mechanism for management (Mace, 1971). However such a support role is compounded by three factors: (a) directors being appointed by management and therefore adopt a subordinate role; (b) directors being co-opted into the organisation, and (c) the benefits accrued act as an incentive for compliance (Hung, 1998). In turn these could become satisfiers having the potential to reduce the rigour of debate.

Proponents of managerial hegemony suggest that boards resist involvement in strategic decision setting (Whistler, 1984) or are constrained from doing so (Lorsch & MacIver, 1989). The work of other academics suggest boards only get involved during a time of crisis (Clendenin, 1972; Mace, 1971, 1986), such as when hit by an environmental jolt. In a similar way the heavy reliance the theory places on the ability of management suggests a board should adopt ‘blind’ trust in management’s ability as opposed to the board applying its collective wisdom to ensure management has considered the issue thoroughly.

vi) Stewardship Theory

Stewardship theory in prescribing a different logic for the board’s composition and leadership (Davis et al., 1997) rejects the notion that management is untrustworthy (Etzioni, 1975; Marris, 1964: cited by Letza, Sun & Kirkbride, 2004). Instead its theoretical premise is built on the idea that strategic leaders are ‘stewards’ of the firm’s assets, “who are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principles” (Davis et al., 1997:20) and therefore close monitoring is not required. In addition to viewing the chief executive and senior management as stewards seeking to attain the objectives of the organisation through collaboration this theory sharply contrasts with the agency theory by recognising a range of non-financial motives for managers (usually found in the occupational psychology literature) as opposed to just financial objectives (Muth & Donaldson, 1998). Hence it provides a means to better understand the top management teams’ motivation and actions (Davis et al., 1997; Donaldson, 1990; Donaldson & Davis, 1991). Like the resource-based theory, stewardship theory suggests that knowledge, commitment, access to information and technical expertise are key enablers.

Structurally this means a board’s role becomes ‘facilitative’ rather than monitoring and controlling, implying that independence may be less of an issue than the ability of a board to support, facilitate and bring value to the collective endeavour. In this vein

Andrews (1981) proposed that the role of a board is to act as a coalition in *guiding* management to achieve desired outputs through active and participative directors who make management analyse its work and articulate its proposals, recommendations and plans. Such involvement restricts a board's role to *reviewing* and *ratifying* decisions made by management, not making them (Hung, 2002).

In spite of these considerations, the model has received criticism in that it presumes only rational and legalistic behaviour occurs which means that attention on matters such as the dynamics of boards, inter-personal perceptions of roles and the effect of board leadership may often be ignored (Tricker, 1994a). Nor does it account for the possibility of conflict impacting on business decision-making. Instead it suggests that all an organisation has to do to be successful is to have in place a structure that allows cooperation, coordination and trust. However as Davies, Schoorman and Donaldson (1997) concur such a relationship based on trust can result in a willingness to be 'vulnerable', or to take risks.

vii) Trusteeship Perspective

A variation of the concept of stewardship is the proposition of trusteeship (Kay & Silberston, 1995), which suggests the roles and responsibilities of a board are aligned with that of a trustee – a *controller* and *manager* of assets. In circumventing the problem of ownership of assets it views both board and management roles as having a legal obligation to administer the assets in a certain way. This has similarities to the contractual approach in that the corporate is essentially an artificially constructed bundle of contracts (Alchian & Demsetz, 1972; Learmount, 2002), a notion that Kay and Silberston (*ibid*) advocate should be legally acknowledged. Its expectation is that both directors and managers, individually and/or collectively, will make decisions based on a sense of duty and identification (Etzioni, 1975).

viii) Organisational Trust Perspective

Emerging from a growing interest in inter-firm collaboration, strategic alliances, partnerships and joint ventures is the organisational trust perspective (Powell, 1996; Zaheer & Venkatraman, 1995), with implications for the way organisations are governed. It putting forward an alternative theory to directly monitor and control management (Powell, 1996; Roberts, 2001) it builds on the work of other theorists; for example Williamson (1993), Bromiley and Cummings (1995), and Powell (1996) and

by taking into account the trust phenomenon, intra and inter corporate networks can be viewed under this perspective as a social structure of cooperation for facilitating the sharing of knowledge (Tsai, 2002).

3.2.3 Common Themes Relative to Organisational-based Theory

The organisational-based theoretical propositions counteract sentiments put forward in economic-based theories by giving consideration to the cooperative social context of management, and placing credence on unselfish behaviour (Ghoshal & Moran, 1996). The same theories make a presumption the information is symmetrically distributed between parties and that individuals are risk averse.

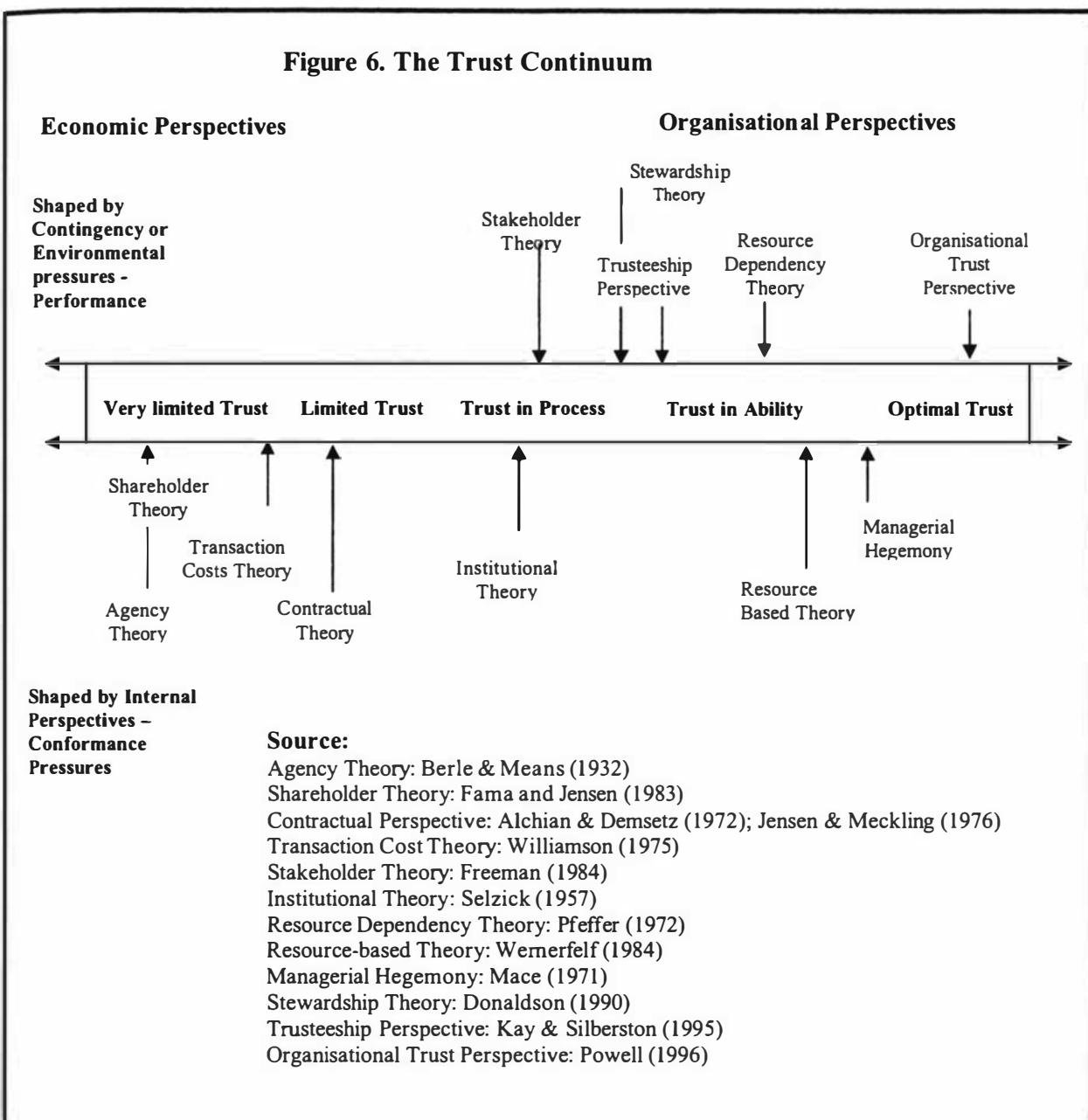
3.2.4 Value of Theory

Ghoshal (2005) sends out a warning that such theories not only influence what is being taught, but impact on how business is performed. Moreover Ghoshal points out, theories, once accepted, tend to become self-fulfilling. In reference to the agency theory the message to business is that managers can not be trusted to do their jobs. Similarly theories grounded in transaction cost economics indicate that tight monitoring and control to prevent ‘opportunistic behaviour’ is needed. Although some theories emphasis the aim of governance is to maximise returns to shareholders, Ghoshal also notes that shareholders merely own a right to the residual cash flows produced by the corporation, rather than ownership rights on actual assets or subsidiaries companies. In reality the board of directors and members of management carry more risk than shareholders in that it is their knowledge, skills, abilities and reputation shape the corporation’s strategic and operational form.

3.2.5 View Two: Trust

Considering all theoretical propositions from a reference point of trust suggests that at one extreme are the *agency* and *shareholder theories*, emphasising the need to monitor self-satisfying management. At the other end lies *organisation trust*, reflecting partnerships and collaborative decision-making with various parties (internal and external). When the ‘presence of’ or ‘absence of’ trust is represented as a ‘trust-distrust continuum’ (refer following figure), the level of trust associated with the twelve theoretical perspectives becomes comparable.

Figure 6. The Trust Continuum



It could be argued that encouraging organisational trust through interaction removes much of the need for direct control (as demanded in the economic and agency-based theories). According to Kanter (2005) there is a growing body of research showing positive relationships between profitability and respect for employees and customers, or between financial success over time and consideration for stakeholders (Kanter, 2005) suggesting organisational theories may be more relevant when explaining positive relationships. Could it be that cognitive behaviours of those making decisions are

reflections of the varying degrees of trust? Chapter Seven extends this notion by referring to commentary in relation to influences on behavioural conduct.

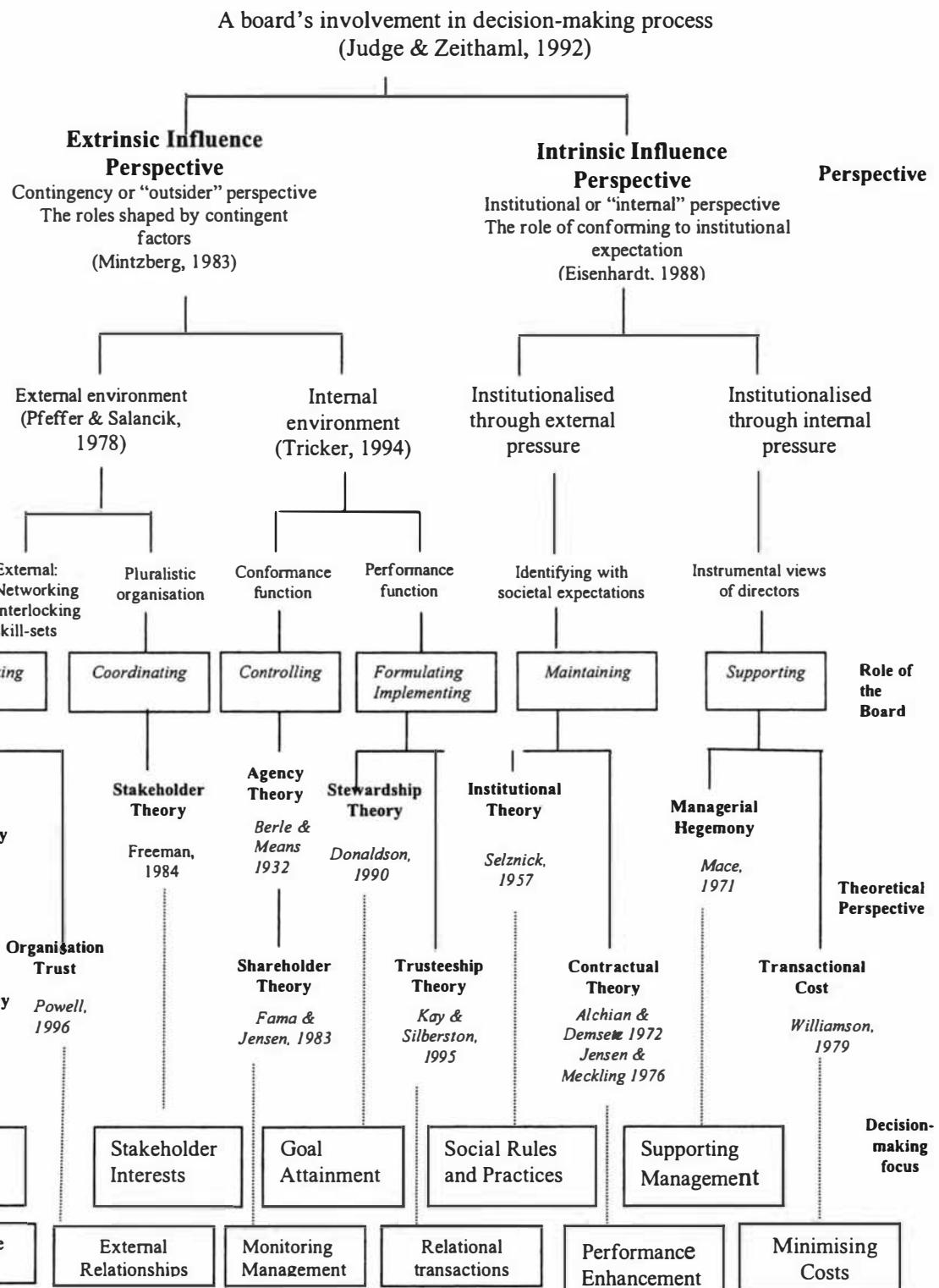
3.2.6 View Two: Intrinsic versus Extrinsic Typology

The work of Gupta, Dirsmith and Fogarty (1994), represented in a typology created by Hung (1998:102) is built on the premise that the role of a board is built either on a contingency (external) or institutional (internal) theoretical platform. Whereas the institutional perspective is a relatively deterministic theoretical framework, addressing mainly structural issues and processes resulting from socialisation and institutionalisation, “the strategic change approach considers the external factors shaped by contingent features and the adaptation processes” taken in response to such influences and pressures (Hung, 1998:102).

Expanding Hung’s typology to include the twelve theoretical perspectives (referred to in this thesis) allows the differing emphasis associated with each of the theories and the grounding decision-making philosophy incorporated in each theory to be illuminated. Thus each theoretical perspective can be viewed as defining a board’s role differently and thereby shaping its decision-making focus in a different way.

From such analysis eleven differing decision-making focuses: boundary spanning, information input, adopting a shareholder interest, building external relationships, monitoring management, achieving set goals, ensuring relational transactions are handled appropriately, building social rules and practices, enhancing performance, supporting management or minimising costs, can be identified.

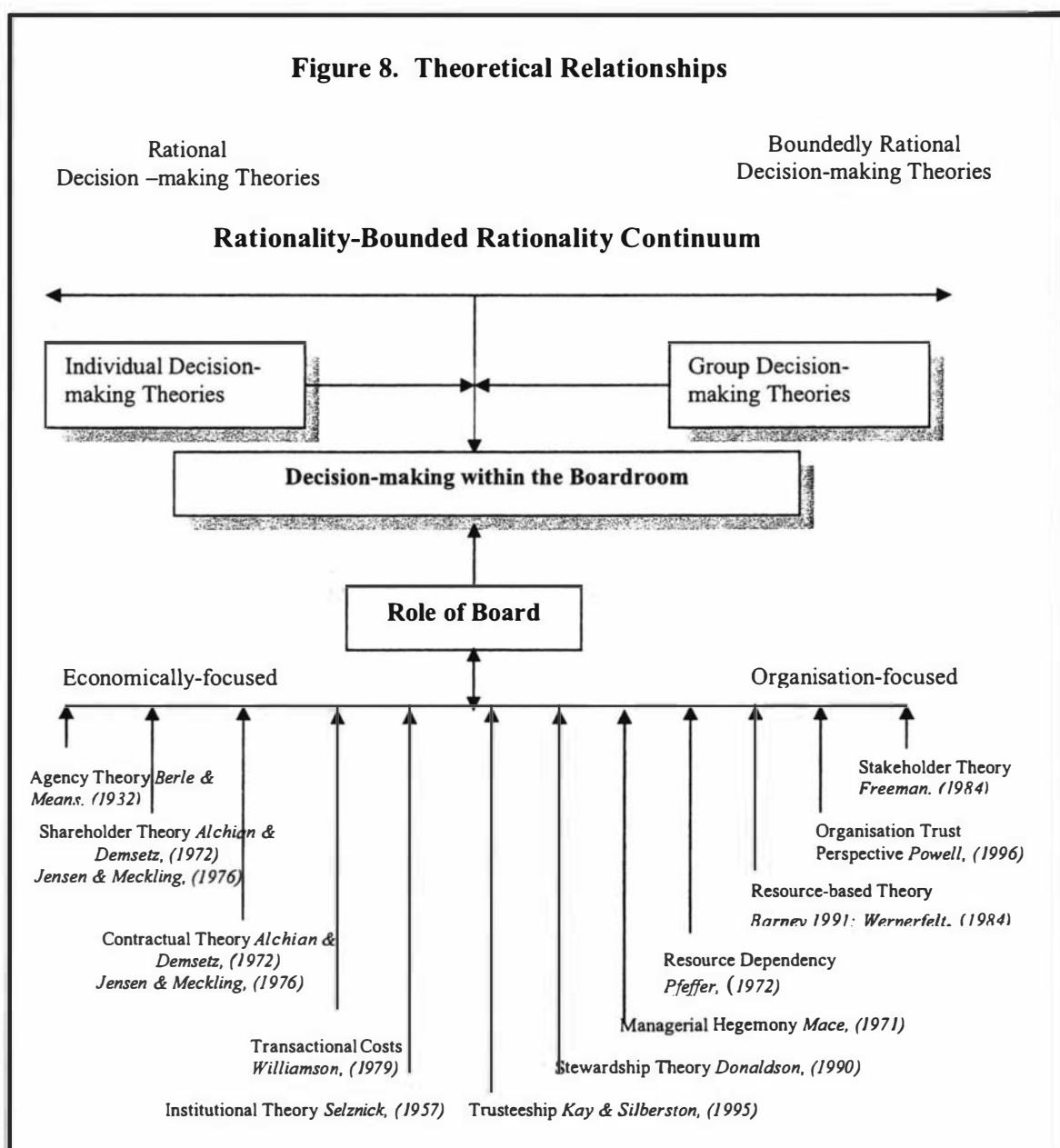
Figure 7. Typography of a Board's Decision-making Role



Adapted from Hung, H.A. (1998). Typology of the theories of the roles of the boards. *Corporate Governance: International Review*, 5(2), 105.

3.3 Chapter Summary

Depending on the theoretical proposition, the role of a board encapsulates differing decision-making obligations. Given the rational and bounded rational nature of some information (described in Chapter Two), and depending on the type of decision being made (a topic expanded more fully in Chapter Six), together with differing role perspective that can be adopted, boards may carry out differing tasks and therefore it is suggested may display differing characteristics. Drawing on the material presented so far, the theoretical relationships and their varying points of interactions (depicted in Figure 8) suggests that there are diverse options of what the role of a board is.



Chapter Four: Contextual Nature of Corporate Governance

4.1 Marketplace Reform

Marketplace reform has shaped and reshaped corporate governance; most of this reform has come as a response to crisis. This chapter discusses some of the crises and responses, mainly occurring in America and the United Kingdom, that have punctuated the development of governance cyclically over the past eighty years.

The transformation in America began in 1928 and 1929 with a need for compliance and control mechanisms when the expanding confidence in the American markets and the personal wealth, gained through speculative ventures on the stock market, was recognised as contributing to the Wall Street Crash. In response, the American Congress enacted the *Securities Act* 1933 and the *Securities and Exchange Act* 1934, thus creating regulatory obligations.

The collapse of Penn, the largest United States Railway Corporation in 1970, was one of the first major corporate failures to raise concerns about the decision-making powers held by management. An account of the demise, provided by Louis Cabot in 1976, showed the board was distanced from the activity of the organisation.¹ In response to the Penn collapse the US Securities and Exchange Commission (SEC) insisted that in future boards must exercise effective oversight of managerial actions, including decisions made. In essence, this broadened the ‘control’ task of boards. In doing so turned practitioners’ attention towards how CEOs were managed.

The United Kingdom experienced similar collapses during its post World War Two recovery. The concerns, compounded by the financial exuberance experienced during the 1980s, became the catalyst for further investigation into corporate governance practices. The first United Kingdom (UK) Inquiry, conducted by the Cadbury Committee (also referred to as the Cadbury Inquiry), was set up in 1992 by the City of London in conjunction with the country’s Institute of Chartered Accountants (ICAEW).

¹ Louis Cabot was a Harvard professor who had served as a director at the time of the collapse; he pointed out that Penn’s board members were both uninformed and misinformed.

The relatively narrow terms of reference: “to address the financial aspects of corporate governance” (The Cadbury Report, 1992:15) provided scope for the work. This committee set an authoritative definition for corporate governance, expressing it as: “the system by which companies are directed and controlled” (1992, clause 2.5). This definition may place directors and shareholders at the centre of corporate governance but is restrictive in that it “excludes many activities involved in managing a company which may be vital to the success of the business” (The Hampel Report, 1998). The Cadbury Committee (1992), best described as a ‘damage control’ initiative, produced a code of practice. The Nolan Committee (1997) and the Greenbury Study Group (1995), which followed, led the development of corporate governance down the ‘accountability’ route. As a result, emphasis turned to improving information to shareholders, auditor independence, the remuneration and compensation of directors, and self-regulation. Such issues, expanded on by the Hampel Committee (1998), emphasised disclosure and best practice, whereas the Committee on Corporate Governance (The Combined Code, 1997), outlined a mandatory disclosure framework, and the Turnbull Committee’s Report (The Turnbull Report, 1999) offered advice on compliance with a mandatory disclosure. In planting the seed of best practice, attention turned towards the creation, adoption and expansion of codes of practice through authoritative bodies worldwide.

At the same time corporations in the United States (US) had already experienced regulatory intervention by way of the *Foreign Corrupt Practice Act* (1977), Securities and Exchange Commission (SEC) guidance (1979), the *Fraudulent Financial Reporting Act* (1987), and the Treadway Commission (1988), which considered issues such as federal charters; having fewer insider directors on boards; nomination and compensation committees; structuring boards rigidly with fixed participation of women and minorities; and increased fiduciary responsibilities for board members. These culminated in the development of a rules-based, as opposed to a principles-based, regime in the US (stated in the New Zealand the Institute of Chartered Accountants Report on Corporate Transparency, 2003). To differing degrees, reports from the US and the UK advocated for stronger moves to ensure board members were independent of management.

Although the larger economy of the US enabled more explicit attention be given to corporate governance issues, the Cadbury Code (1992), albeit in the light of the

Treadway Commission Report (1999) and the Committee of Sponsoring Organisations (COSO) Report (1988), established itself as the world leader (Vinten, 1998).

Other countries adopting the Anglo-American model were influenced by such debate (Bosch, 1995; Fraser, Henry, & Wallace, 2000) and in turn reviewed their governance practices. For example, Henry Bosch (1995) chaired the National Corporations and Securities Commission (1999) after similar failures occurred in Australia. More recently in South Africa, a committee, chaired by Merv King (2001), compiled a report on best practice in Southern Africa. In New Zealand the Securities Commission (2004) introduced more prescriptive board guidelines.

Whereas accountability, transparency and independence became the founding principles of compliance regimes around the world, strategy has only recently been seen as a board task (Dulewicz, MacMillan, & Herbert, 1995; Finkelstein & Hambrick, 1996; McNulty & Pettigrew, 1996; Short, 1996; Stiles & Taylor, 1996). Up until the 1970s scholars (e.g., Bratton, 1989; Chandler, 1962) proposed managerial conceptions of the organisation that placed high-level strategic decision-making in the hands of management. At that time the view of boards was that they were objective entities, having a fiduciary duty to protect the interests of the shareholders as opposed to having an obligation to be involved in strategic issues unless the organisation was facing a crisis (Mace, 1986; Whistler, 1984).

Over the past three decades this view changed. As early as 1985, Weidenbaum argued that the best defense against corporate raiders would be for the board to have greater involvement in the strategic decision-making process (Weidenbaum, 1985). Similar calls were made by others; for example, Power (1987) who observed that institutional investors were calling for greater accountability and challenging boards to be more involved in the process. Despite considerable research debating the level of involvement, a board's task was seen to include setting the strategic direction, or at least to challenge the direction proposed by management (Dulewicz et al., 1995; Finkelstein & Hambrick, 1996; McNulty & Pettigrew, 1996; Short, 1996; Stiles & Taylor, 1996). This implies that a corporate board's decision-making power should continue to ensure compliance and oversee managerial behaviour, while adopting a strategic oversight dimension. Such a shift means the decisional power for performance and the chosen

future direction of the corporation is more likely to lie with the corporation's board than with its management.

In spite of the reforms, a further round of financial crises was evidenced in June 1997, beginning in Thailand and engulfing the Philippines, Indonesia, Malaysia, Singapore and South Korea, before impacting on Taiwan and Hong Kong. A year later, Japan experienced a financial crisis. Institutes of Directors (in various countries) strengthened their best practice frameworks, spurring the OECD to produce its 'Principles of Corporate Governance' in 1998. Recent corporate failures have again fueled debate, bringing with it a fresh round of inquiry. In UK these included The Higgs Report (2003); in New Zealand the Institute of Chartered Accountants' Report on Corporate Transparency (2003), and the Securities Commission's Principles of Corporate Governance (2004). In the US the Enron class scandals brought fresh controls in the form of the *Sarbanes-Oxley Act* (2002).

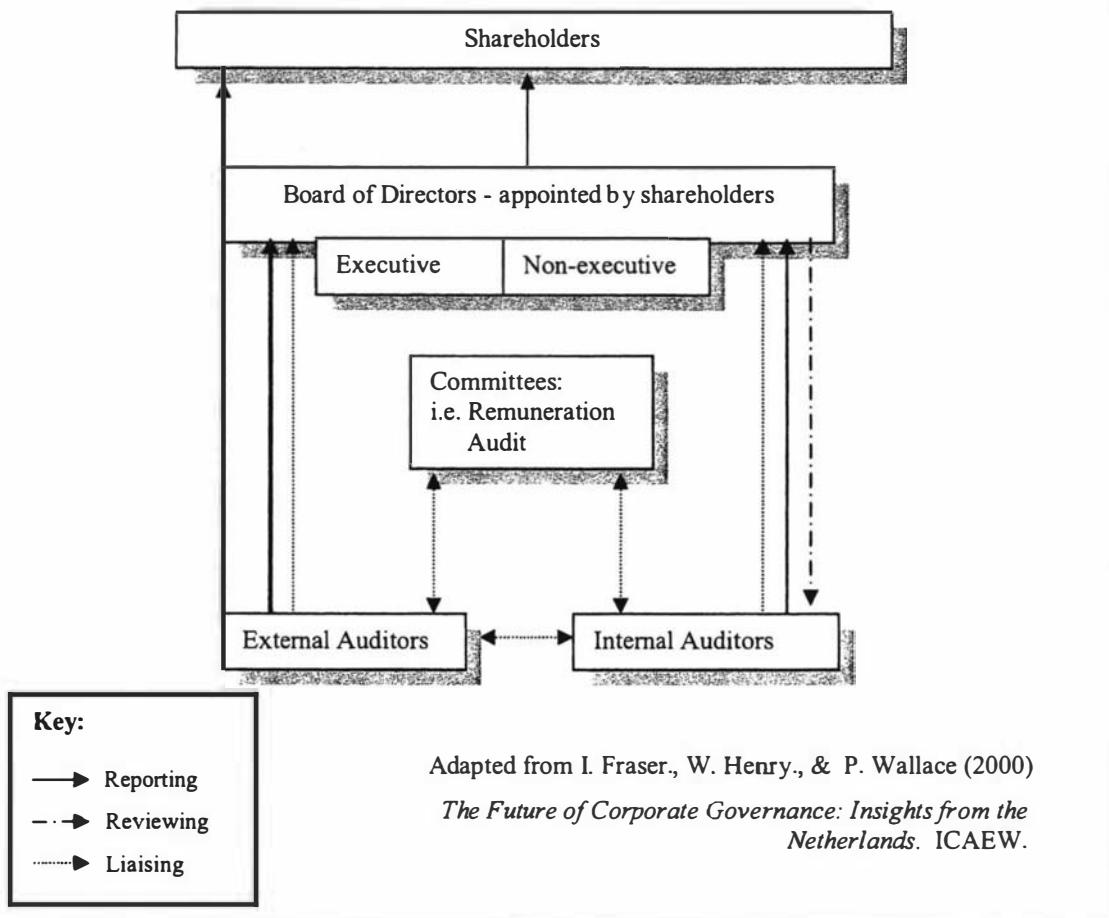
Although corporate governance began as a means to necessitate conformance, in more recent years it has extended its breadth of decision-making to include strategy setting: once held by management. Thus a board's decision-making framework can now be viewed as being responsible for approving, monitoring and reviewing (a task that reflects compliance, legislation and best practice) at one end, and at the other actively participating in formulating and initiating strategic initiatives (Ingleby, & Van der Walt, 2001). This implies the decision-making tasks are both competitive and complementary than rather than dichotic in nature. This notion is further developed in Chapter Seven when the decisional types within a boardroom are discussed.

4.2 Corporate Governance in New Zealand

New Zealand companies have, like their American and UK counterparts, faced a raft of corporate failures (refer Appendix B) and scrutiny by the public. Similarly such failures or corporate collapses have seen the Securities Commission and where applicable CCMAU taking a more active role in monitoring board performance.

Corporate Governance in New Zealand aligns closely with the Anglo-American model shown in Figure 9.

Figure 9. The Anglo-American Board Model



Dovetailing with the reform initiatives emanating from Great Britain, most New Zealand boards are predominantly made up of independent or non-executive directors. “There are some with parent companies operating under the two-tiered structure, such as Shell and Philips New Zealand. Like the United States, it is becoming uncommon to find an executive director being appointed to the board” (Bell Gully, 2000:35). There are, however, several significant differences between board governance in the other Anglo-Saxon countries and New Zealand. Besides boards in this country comprising mainly independent directors, organisations are not of the same size and complexity nor do they use share options to the same extent. A draft report to the United Nations on the Status of Women in New Zealand (2001) notes that a total of 37 per cent of appointments (including reappointments) to boards of statutory entities in this country were women. Furthermore, 80 per cent of the remuneration of CEOs is salary-based, with only 12 per cent in the form of performance bonus and virtually nothing by way of long-term incentives (Healy, 2002).

New Zealand has two groups of companies. The first is a group of private companies, subject to the *Companies Act* 1993. Of these companies, those listed on the New Zealand Stock Exchange are also subject to the Stock Exchange Listing Rules. During the period 1962-1993 a significant shift to majority control took place (Chiu & Monin, 2003:123) and by 1993 50 per cent of listed companies had a controlling shareholder (Fox and Walker 1999:323). The consequence, as Chiu and Monin (*ibid*) point out, is that the influence of institutional investors has become severely reduced. The second group of companies is Government-owned. The ownership takes two forms. The first accommodates community, public-service agencies with intents that are less corporate, and more focused on being socially responsive. Such organisations are funded directly by public monies within devolved budgets. In 2004, the second form comprised 36 Crown or State-owned companies (SOEs). These not only have to comply with the Companies Act but also work to the corporate model in which priorities are profitability over social responsibility. The net worth of these SOEs is estimated at \$9.8 billion, \$17.9 billion total assets, and combined revenue of \$7.7 billion (<http://www.ccmau.govt.nz>). As New Zealand Government-owned entities they have two shareholding ministers and numerous salient stakeholders in the country. One minister, the ‘responsible minister’, has specific responsibilities for an individual company or group of SOEs.² These entities operate under the State-Owned Enterprises Act 1986.

The Crown Company Monitoring Advisory Unit (CCMAU), established in 1993, ensures that Government investments in Crown and State-owned companies (SOEs) perform effectively. Currently, there are 205 director positions on these Crown Company boards and, as at the February 2002, 67 (33 per cent) were female and 138 (67 per cent) were male, according to figures provided by the CCMAU (McGregor, 2000).

The financial reporting standards in New Zealand are principled, rather than rules-based (The Institute of Chartered Accountants of New Zealand, 2003). The Institute of Chartered Accountants of New Zealand’s financial standards and the power of the

² The responsible minister takes the lead shareholder role and acts as the formal point of contact with the board. Because of the importance of the company and sector to the country’s economy the Minister of Finance is the second shareholding minister. The Government acts as a steward, protecting the SOE’s investment on behalf of the people of New Zealand. Directors, appointed by the shareholding minister are legally bound to act in the best interest of the SOE. The chief executive appointed by the board has delegated power to control the organisation within delegated limits.

directors as set out in the Companies Act 1993, place considerable obligations on directors. For example, the definition of a director in Section 126(1)(a) of the *Companies Act* 1993 is “~~a person occupying the position of director of the company by whatever name called~~”. This definition extends the prescription set out in the old 1955 Act under Section 180(1)(a) to include a person who:

- ~~is required or is accustomed to instructing the board on what to do;~~
- ~~exercises powers normally reserved for the board of directors; or~~
- ~~exercises powers or duties delegated by or with the consent of the board.~~

The statutory regulations impose on a board of directors an obligation to manage the business and affairs of the organisation. Based on a fiduciary duty, boards in New Zealand must “act in good faith and in best interests of the company” and have a duty to “exercise the care, diligence and skill that a ‘reasonable’ director would exercise in the same circumstances, taking into account, but without limitation, (a) the nature of the company; and (b) the nature of the decision; and the position of the director and the nature of the responsibilities undertaken by him or her” (*The Companies Act*, 1993: Sections 131 and 137). The third schedule of the same Act implies that directors must fully participate in the board’s discussion and decision-making and act in good faith in the best interests of the organisation in the statement that: “A director present at a meeting of the board is presumed to have agreed to and have voted in favour of a resolution of the board unless he or she expressly dissents from or votes against the resolution”.

Obligations also generate from company legislation, common law and other relevant legislation relating to business practice such as taxation laws and legislation covering issues such as resource management, trade practices, privacy, industrial relations, occupational health and safety, equal employment opportunities, dangerous goods, building codes and customs excises. A director who fails to carry out his or her statutory responsibilities may have committed a personal offence³.

³ Penalties for not properly performing duties; making false or misleading statements in documents required by the *Companies Act* 1993, carry a maximum penalty for of five years imprisonment. Failure to produce financial statements within five months of the period end or issuing financial statements that do not comply with applicable financial reporting standards can result in fines of up to \$100,000. The maximum penalty for knowingly including an untrue statement in an advertisement or registered prospectus is a fine of \$25,000 or imprisonment for five years or both. The penalty for contravention of the Resource Management Act is up to \$200,000 plus \$10,000 per day while the offence continues or two

The practical consequence bestows a discretionary, non-contractual consideration on boards to make sound decisions in the best interests of an organisation, and ultimately of the shareholders. The introduction of the Sarbanes-Oxley Act (2002) in the United States, the proposed New York Stock Exchange Corporate Governance Rule Proposals, the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, and the New Zealand Exchange Governance Best Practice Code have collectively brought together a multi-jurisdictional guidance for boards, and in particular placed considerable emphasis on independence.

Corporate governance principles in New Zealand make it clear that the same individual should not hold the chair and the chief executive roles concurrently (Weir, 2004, citing Securities Commission chairman, Jane Diplock). Whereas directors have been viewed as ‘non-executive’ or ‘executive’ under the ASX Corporate Governance Council guidelines (2002), a company must identify which directors are ‘independent’ based on pre-determined criteria.

In governance literature a non-executive director is one who is not employed in the organisation he or she serves (Kesner & Johnson, 1990; Kesner, Victor, & Lamont, 1986). Daily and Dalton (1994a) also cite the independent-interdependent distinction proposed by Wade, O'Reilly and Chandratat (1990) and Boeker (1992), where independent directors are outsiders who are appointed to the board prior to the current chief executive's appointment, as opposed to the interdependent director appointed by the current chief executive. Independence of directors in New Zealand has seen companies stating definitions in their annual reports. *The Warehouse* adopted the following criteria to assess whether a non-executive is independent.

1. Does not hold more than ten per cent of the company's voting shares.
2. Has not been employed in an executive capacity by the company within the last three years, or has been a director after ceasing to hold any such employment.
3. Is not a principal or employee of a professional advisor to the company and/or its entities whose billings exceed five per cent of the advisor's total revenues.
4. Is not significant to or a customer of the company.

years imprisonment, or both. The penalties for contravention of other legislation are in some cases equally severe.

5. Has no material contractual relationship with the company.
6. Has no other interest or relationship that could interfere with his or her ability to act in the best interests of the company and independently of management.

(The Warehouse Annual Report, 2003:26).

Likewise, Telecom Corporation of New Zealand Limited, a publicly listed company, considers individual board members as independent when they meet the following criteria.

1. The director must not serve on the board for a period which could reasonably be perceived to interfere with the director's ability to act in the best interest of the company; and
2. The board must affirmatively determine that the director does not have a material relationship with the company (other than solely as a consequence of being a director).

(Telecom New Zealand Limited., 2004:96).

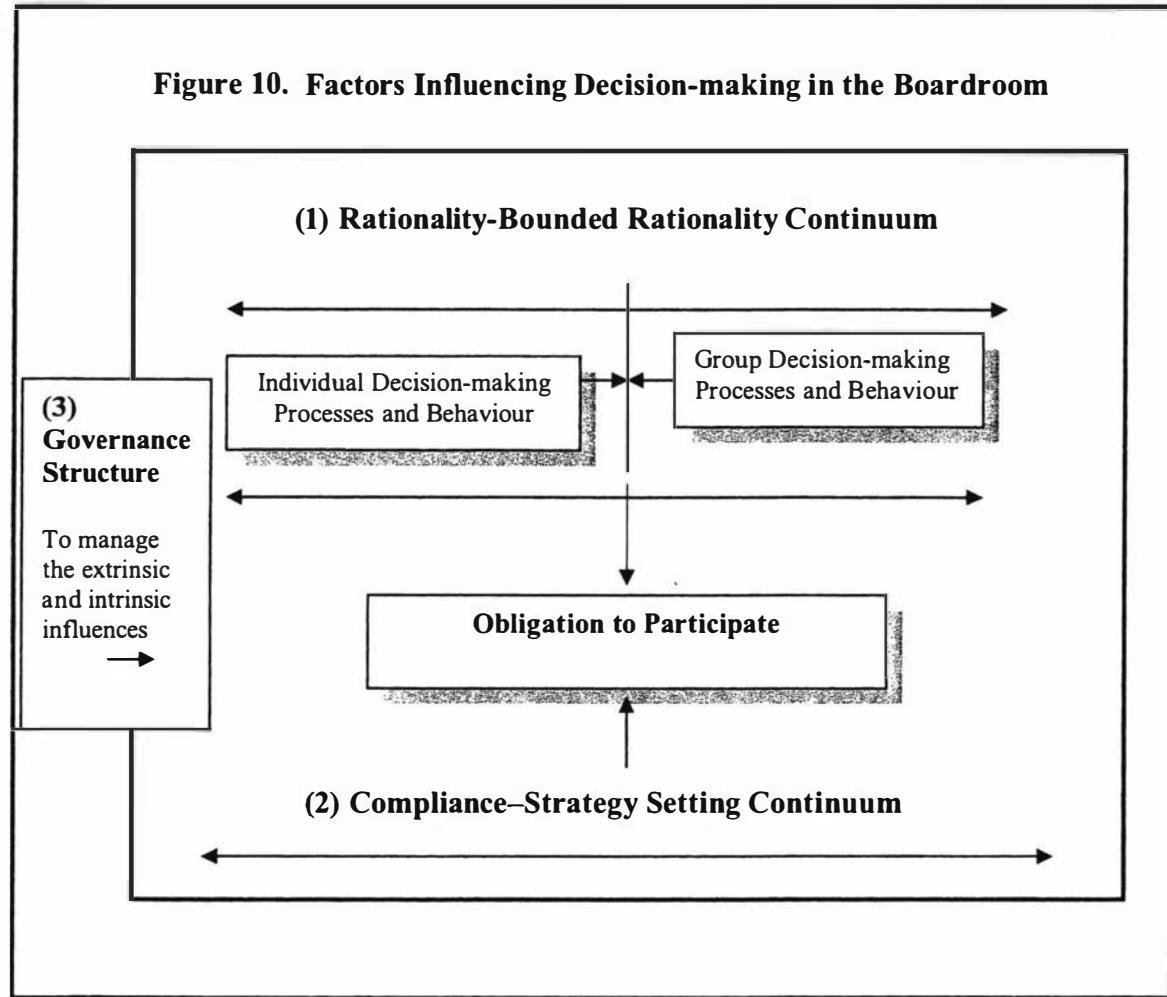
4.3 Chapter Summary

The underlying ideological paradigms derived from western thought are in the main economically driven with a one-tier model prevalent, reflecting market conditions and pressures. Boards of directors in New Zealand, like their international Anglo-American counterparts, adopt this model. Legislative intervention, followed by the recommendations of the various committees, starting with The Cadbury Committee, has resulted in a greater depth of compliance through the creation of codes of practices. Decision-making at this end of the continuum reflects a compliance and control focus. At the other end, the decision-making capacity of a board is perceived as more extensive, with its focus dominated by broader environmental and social responsibility issues.

The lack of an unified “framework for comparing different perspectives of corporate governance” (Turnbull, 1997:187) means there is no one platform from which to consider the decision-making platform. However a number of dimensions are evident which the thesis considers as suitable. Compliance and strategy setting together with rationality and bounded rationality appear to be intertwined and connected with

structure and roles. Thus a model of interlinking constructs, as shown in Figure 10, begins to form.

Figure 10. Factors Influencing Decision-making in the Boardroom



Such theorising opens up discussion relative to participation and the influences that impact on it and obligations that come with it. Obligation also is shaped by behaviour and process predominantly occurring in the boardroom. To gain a greater appreciation of influences and obligations the balance of this literature review turns attention firstly on the board-level inputs, then the decisional framework and concludes with process and conduct.

Chapter Five: Structural Influencers

5.1 Chapter Intent

Much is now known about structure and composition of boards (Bostock, 1995; cited by Pettigrew & McNulty, 1998), and widely studied in governance research (Judge & Zeithaml, 1992). Inherently linked to group decision-making, structural variables shape the decision-making forum. The structural dimensions discussed in this chapter derive in the main from theoretical commentary relating to the two interacting constructs: composition characteristics and the knowledge-collecting framework. However in this chapter marketplace information is also drawn on to complement scholarly commentary as a way to present structural influencers that are present in the market. For example, when considering the size of boards this chapter calls on literature relating to small decision-making groups as well as statistical evidence provided by practitioners or consultants. For example Korn/Ferry International (Korn Ferry International, 2004: reported in Boardroom 2004) chronicles the evolution of boards in the US to smaller, more independent units. This approach is seen as appropriate, as referencing to both academic and marketplace information has been considered complementary in nature by previous researchers into board activity (e.g. Dalton & Rechner, 1989; Finkelstein & Mooney, 2003).

The chapter starts by considering the compositional variables provided in literature. It concludes by considering sources of boardroom information, including the skill set and abilities that individual board members may possess.

5.2 Compositional Variables

Composition includes independence and diversity. Independence takes three forms: (1) balance of non-executive to executive directors (2) board-management separation or the vigilance of management action, and (3) separate or dual roles. Diversity, on the other hand, relates to age, number of board members and the ethnicity mix. Input sources, rather than the process variables that impact on information (Forbes & Milliken, 1999), include the presence of knowledge, skills and access channels. Independently and collectively these structural variables help shape the debating environment. As process variables these represent the way the resource is tapped into and applied to the decision-making task, a notion that is dealt with in Chapter Seven.

5.3 Independence Variables

5.3.1 Independent Directors versus Executive Directors

Both the calibre and independence (from management) of directors stressed in The Cadbury Report is important “for the setting and maintaining [of] standards of good governance practices” (1992, clause 4.5). The Higgs Review (2003:clause 2.2.1) reinforces the need for non-executive directors (often referred to as independent directors), stating: “The board should comprise a balance of executive and non-executive directors, preferably comprising a majority of non-executive directors of whom sufficient should be independent of management for minority interests to be protected”.

Executive directors are generally defined as board members who are current or former employees of the organisation, or who are beholden to the organisation (Cochran, Wood, & Jones, 1985) as opposed to non-executive board members who are not employed in the organisation. Although independent directors can be distinguished by the way and time of their appointment both independent and interdependent directors are categorised as being non-executive directors. Both are expected to carry out a dual function: strategic advisors and corporate overseers (Maassen, 1999; Short, Keasley, Wright, & Hull, 1999; Stiles & Taylor, 2001; Tricker, 1994b).

Research into whether there is a financial advantage for an organisation to have non-executive directors predominantly on a board has produced conflicting results (Kesner & Dalton, 1986; Lorsch & MacIver, 1989; Mizruchi, 1983; Pfeffer, 1972; Schellenger, Wood, & Tashakori, 1989; Vance, 1964; Zahra & Pearce, 1989). For instance, some researchers have found that boards with a greater non-executive representation produce higher performance (Alchian & Demsetz, 1972; Baysinger & Butler, 1985; Cotter, Shivedasani, & Zenner, 1997; Daily & Dalton, 1993; Lorsch & MacIver, 1989; Mizruchi, 1983; Stearns & Mizruchi, 1993). Other research findings conclude that a higher number of non-executive members is associated with poor performance (Baysinger, Kosnik, & Turk, 1991; Beatty & Zajac, 1994; Goodstein & Boeker, 1991; Subrahmanyam & Rangan, 1997; Vance, 1968, 1978). At the same time Chaganti Mahajan and Sharma (1985), Dalton and Daily (1993) and Kesner and Dalton (1986) have found no evidence of a relationship between the number of non-executive board

members and performance. It seems fair, therefore, to conclude that there remains some controversy regarding the impact of independent directors on a corporation's financial performance.

Baysinger and Hoskisson's (1990) view is that independent or non-executive directors may lead to decisions that use short-term financial measures in line with their board tenure, rather than giving due recognition to longer-term considerations. In contrast, a higher ratio of executive directors has been associated with higher spending on research and development (Baysinger et al., 1991) thus planning long-term.

Some researchers have gone beyond assessing the value of independent, non-executive or executive directors in terms of only financial outcomes, and have found a higher portion of executive directors on the board is positively associated with a greater board involvement in strategic planning (Ford, 1988; Tashakori & Boulton, 1983), innovative strategy (Hill & Snell, 1988) and strategic change (Goodstein & Boeker, 1991). Conversely, Judge and Zeithaml's (1992) research in challenging such findings concludes that a high representation of independent directors on a board leads to greater, rather than less, involvement in strategic decision-making.

Executive directors have also been viewed as being in a better position to make decisions about critical areas of operation and performance (Brennan & McDermott, 2004), as it could be "difficult for non-executive directors to be fully informed about the affairs of a large, complex, fast-moving corporation" (Donaldson & Davis, 1994:157) coupled with their energy being directed to other boards they serve on (Maassen, 1999; McNulty & Pettigrew, 1996).

In considering such commentary, the value of independent or non-executive directors may lie not in their ability to improve profitability or increase the level of strategic discussion, but rather in bringing dispassionate objectivity to the decision-making process, as sought in the Cadbury Report (1992: para 9.5). Despite this ongoing debate independent directorships are embedded in corporate governance literature and are viewed as a critical structural component. Nonetheless, recent scandals and mismanagement, such as the recent Enron case, demonstrate that non-executive boards sometimes may not carry out even their monitoring-control task effectively.

The balance between independent and executive directors has significantly changed over time. Since 1973, and more markedly during the last decade, the number of executive directors on a board has dropped. For example in 1973, 57 per cent of boards in the United States had 10 to 15 members with four to six executive directors serving as board members. In 1999, the average number of members on a board in the United States board was 13, comprising 11 independent directors with only two executives (Ferry, 1999). Similarly in the US Standard and Poors' 500 indicates 75 per cent of directors are independent (cited by Finkelstein & Mooney, 2003). This proportional representation exceeds the Combined Code (*ibid*) and the Higgs Reports' (*ibid*) recommendations that advocate at least 50 per cent of directors should be independent directors.

Healy (2003) reinforces Ferry's (1999) view that the balance of truly independent directors compared with executive directors will continue to change, replacing inside and affiliated directors with independent directors. Such evidence of change gives credence to the view of Dalton, Daily, Ellstrand and Johnson, who in 1998 pointed out that literature revealed a near consensus in saying that effective boards in the near future would comprise a greater portion of independent directors. The 'balance of non-executive' debate gives credence to the notion proposed by Dulewicz and Herbert (2004:270), who conclude that maybe there is a critical threshold for the appropriate number of executive directors.

5.3.2 Independence from Management

The notion of directors being independent of management forms a structural demarcation premised on power and control. The concept aligns with Fama and Jensen's work (1983), where it is purported that when a board acts independently from management it is considered better able to control management decision-making for the betterment of shareholders. Demarcation underlying implication is purported in the economic-based theories of corporate governance in which it is implied that management cannot be trusted, is self-serving or lacks the ability to communicate honestly and professionally with the organisation's shareholders or with the board (Eisenhardt, 1988, 1989a, 1989b, 1989d; Fama, 1980; Rechner & Dalton, 1991b). Westphal and Zajac (1994) have presented compelling cases that claim board independence serves to reduce and filter such negative managerial behaviour and is in a

better position to increase its overall ability to protect shareholders' interests (Lorsch & MacIver, 1989; Westphal, 1998), or to create a mechanism that can more appropriately inform management about matters emanating at board level (Abrahamson & Park, 1994). Westphal and Zajac (1994) purport independent boards also reduce the probability of "symbolic" performance rewards for senior executives. Lorsch and MacIver (1989) believe a structurally independent board is likely to have better control over board membership, and therefore be better able to coerce renegade directors to resign from the board because there is no interference by the chief executive.

In its simplest form, and in contrast to agency based governance theories, the justification offered by the Cadbury Committee (1992) for structural separation implies that it is through a balance of shared authority that harmonious working relationships between the board and management can be achieved. From a structural dimension, the roles of the chair and chief executive may differ even though both sit at the apex of the organisation (Fama & Jensen, 1983). The seemingly simplistic rubric: "the chair runs the board and the chief executive runs the business" (Pettigrew & McNulty, 1998:198) suggests that both parties, the board through its chair and relevant committees, or the chief executive through management ultimately hold decision-making powers for different accountabilities. Thus the chair and the chief executive positions, being hierarchical designations, represent two strong sources of authoritative and symbolic power (Knights & Willmott, 1992). Given that each is a decision-making authority, the apparent simplicity of the division of responsibilities must be somewhat illusory. As Roberts and Stiles (1999) point out, these roles are not only critical, they are influential, for if the relationship is disconnected or remains at a considerable professional and personal distance from the other it can have a rippling impact on a wider set of relationships. Role separation opens up discussion on chief executive-chair relationship and the appropriateness of a dual role. Although considerable debate has taken place as to the desirability or otherwise of the chief executive's and chair's roles being one⁴ the argument to structurally separate the incumbents is compelling. For example the financial correlation between a company with high cash-flow returns and total assets and chair independency suggests that companies with a chairman who is not the chief

⁴ The effect a split of power between the chief executive and chair has on the performance of the organisation has been a subject of academic debate (Daily & Dalton, 1997; Rechner & Dalton, 1991a). However there is a general consensus among theoreticians that one individual should not simultaneously hold the role of CEO and Chair (Dalton & Kesner, 1987; Finkelstein & D'Aveni, 1994; Mallette & Fowler, 1992; Monks & Minow, 1995; Zahra & Pearce, 1989).

executive and who works in an independent capacity tend to perform better (Dulewicz & Herbert, 2004).

A number of interesting situations can arise as a result of role separation. For instance, “a board with a separated chair who is most interested in accountability would be more geared to the group decision-making process that ensuring that the executive management is following proper process” (Cutting & Kouzman, 2002:34). Yet these authors purport that an adventurous chief executive working under this style of chairmanship would have a tortuous passage when seeking approval for an initiative that presented risk to the organisation. On the other hand, if a board has a separated chair with a strong interest in strategy who is the one who controls the agenda, there could be increased focus on what is needed to meet externally driven change. A counteraction could be that the chair becomes less reliant on the chief executive to bring information to the board table. It could therefore be that such a chair orchestrates the setting of a sound corporate direction. Conversely in acknowledging the separation of the position of chair and chief executive, Ward (1997) states:

The independent, outside board chair, who has no other connection to the company, simply would not have enough muscle to make a difference. Despite the new powers and self-confidence the boards of major corporations have gained, they still lack the day-to-day strength to counterweigh management.

Ward, R.D. (1997). *21st Century Corporate Board*.
John Wiley & Sons, New York, 250-251.

5.4 Composition Variable: Board Diversity

Founding conditions (Zald, 1969), age (Boeker, 1989; Eisenhardt, 1988), size (Provan, 1980; Zahra & Pearce, 1989; Zahra & Stanton, 1988), composition (Chaganti et al., 1985; Cochran et al., 1985; Kesner, 1987; Tashakori & Boulton, 1983; Vance, 1964; Zahra & Stanton, 1988), demographic characteristics (Forbes & Milliken, 1999; Kosnik, 1987; Provan, 1980), process and style of the board (Kesner, 1988), in addition to other features leading to outcomes (Daily & Schwenk, 1996; Johnson et al., 1996; Zahra & Pearce, 1989, cited by Forbes & Milliken, 1999), have been widely studied. Despite research to date no clear consensus has yet been reached as to which feature, if any, directly leads to which outcomes.

A small, but significant, body of research has explored the direct impact of founder status and its locus of control (Begley & Boyd, 1986) and the founding chief executive's influence on performance (Daily & Dalton, 1992; 1993). While the result from this stream of research is inconclusive, Chandler and Hanks (1994) have suggested that founder competencies are a more promising predictor of performance than founder characteristics. Walsh and Anderson's (1995) research, based on a sample of 113 small firms operating in Ireland, revealed that founders, compared with non-founders, take a significantly more innovative approach to problem solving. While these researchers found no relationship between the problem solving style and growth, Ginn and Sexton (1990, cited by Daily, McDougall, Covin & Dalton, 2002) point out that small business growth is significantly related to an owner's willingness to delegate decision-making authority. When applied to the growth of the company, the influence of a founder may be less relevant to a corporation as most corporations have long since outgrown the founder. This may explain the lack of research in this area. Similarly, as Judge and Zeithaml (1992) found when they interviewed 114 board members in 42 companies, a positive association with the organisation's age is evident. This indicates that, as the organisation ages, its board is more likely to make strategic decisions.

Board size, being the number of directors on the board, including management representatives, has several implications for any decision-making group. Top management teams as opposed to boards studied by Eisenhardt and Bourgeois (1988) ranged in size from five to nine members, whereas groups studied by Gersick (1988) and Jehn (1995) were 5.8 and 5.9 respectively. From a theoretical perspective, Shaw (1981) suggests that the optimum size of a group of decision makers is approximately five people. James (1951) contends that action-oriented groups comprise 6.5 people compared to non-active groups that are likely to comprise 14 or more. Belbin (1981) takes a similar line, saying that groups with above ten members are less than ideal; instead advocates that the optimum membership of a management team is six.

According to Monks and Minow (1995) and Gordon (1945) boards are considerably larger than other work groups studied in management. There is not a considered view as to whether boards are increasing or decreasing in size. For instance Vance (1983) states over recent years a slow but steady increase in board size is evident in response to the growing demands for 'representative' boards. More recently, Pye (2000) indicates the opposite, claiming that boards have become smaller in size. Finkelstein and Mooney

(2003) also challenge earlier theories by indicating that average board size in the United States has dropped from around 16 directors in the 1980s to an average of 11 today. In New Zealand the Institute of Directors recommends between five and ten directors. Likewise, the State-Owned Enterprises (SOE) model contemplates five to nine directors (Bell Gully, 2000).

The size of boards of directors has been argued to influence the board's effectiveness. Jensen (1993) and Yermack (1996) suggest that smaller boards are in a better position to control management while large boards are less effective as they are more likely to be influenced by the chief executive. A smaller board may be easier for the chair and/or chief executive to dominate yet may be more manageable due to the potential for social cohesion (Shaw, 1981). Yermack (*ibid*) advocates that companies with small boards exhibit favourable financial ratios while having better control over performance incentives and threats of dismissal. Conversely the opposite may apply; the chief executive's and/or chair's ability to influence a larger board may be lessened as it is more difficult for the chief executive to dominate the board (Muth & Donaldson, 1998) but social cohesion is less achievable. Chaganti, Mahajan and Sharma (1985) found that large boards' monitoring capabilities increase as directors display higher levels of accumulated knowledge and expertise. Similarly, Beasley and Salterio (2001) purport that larger boards with more diverse skills and accumulated knowledge have the ability to increase the monitoring capacity of audit committees.

A larger group can experience low motivation (Herold, 1979) and have problems with coordination and organisation (Hackman & Morris, 1975). This brings with it more factions within the group, increasing the level of group conflict (O'Reilly, Caldwell, & Barnett, 1989). As the group size increases, some members are likely to dominate the discussions, limiting efficient input from others. Findings from such studies align with group dynamic literature suggesting that, when a board becomes too large, discussion and debate on issues may lessen as the level of involvement and participation decreases (Harrison, 1987; March & Simon, 1958). For example, Herman (1981) found that large *Fortune 500* boards were too cumbersome to conduct effective discussions. Similarly, Kovner (1985) found that large hospital boards were generally ineffective in making decisions in a timely fashion (Herman, 1981). Other observers have noted that large boards slowed down decision-making and reduced individual commitment (Jensen, 1993; Yermack, 1996). These arguments suggest that smaller boards are more

responsive for the reason that positive dynamics allow talent and knowledge to be recognised and utilised within an environment of trust.

The converse can therefore be applied. A larger board of directors, having a greater independence from management (Muth & Donaldson, 1998), brings an increase in range and breadth of views, thereby adding rigour to the debate, even though it may require more time to discuss matters and build a consensus of thought for every given course of action. Notwithstanding this, when the board is large it is less likely to address the strategic issues (Judge & Zeithaml, 1992). As some decisions are complex and/or ambiguous in nature they are, according to Goodstein, Gautam and Boeker (1994:242) “apt to be more unfavourably affected by large group dynamics”. Judge and Zeithaml (1992) also draw the conclusion that size of a board is negatively associated with a board’s involvement in the strategic decision-making process. Conversely, the level of diversification and the composition of the board were negatively related. Beasley (1996), consistent with Jensen (1993), documented that the likelihood of financial statement fraud increased with larger boards.

There is also a perception that the number of directors on a board is a function of the size and complexity of the company itself. As Pfeffer noted “the requirement for a large board undoubtedly increases as the size of the organisation itself increases” (Pfeffer, 1972:223). The evidence he provided suggests that board size is related to an organisation’s need for capital and the degree of regulation in its environment. Despite his claim, this view is not universally held. Vance, for instance, purported “there have been no reputable studies which show that the size of the board increases proportionately to the size of capital, net assets or even sales” (1983:31). Similarly, as Dulewicz and Herbert (2004) have shown, there is a significant correlation between corporate performance and size of the board.

Boards often have a close relationship with their major institutional investors (Holland, 1995, 1998, 1999) and can arrange to meet with their investors on a one-to-one basis during the course of a year. These meetings tend to involve key board members such as the chair and chief executive (Mallin, 1999). Institutional investors holding large shares, as powerful shareholders, may exert pressure for financial performance (Useem, 1996). In addition, institutional investors seek to have a representative at board level.

It has been shown that tenures of individual board members and the length of time they work together assist parties in gaining an appreciation of the capabilities of each other. Sharing of such experiences and capabilities increases this social cohesion (Meyerson, 1992, cited by Muth & Donaldson, 1998). Similarity in tenure also results in low interpersonal conflict, improved communication, and low turnover (McCain, O'Reilly, & Pfeffer, 1983). This implies that the consensual process could be aided by the length of time that directors have worked together. It may also suggest the board has established processes that are understood by all. Conversely long tenures can result in insularity, or a board developing tunnel vision (Bantel & Jackson, 1989). For such reasons, Muth and Donaldson (1998) recommend that a greater number of executive directors supported by longer terms are better able to generate positive financial outcomes.

Some researchers suggest that compositional heterogeneity has certain advantages for small group decision-making functionality. For example Watson et al (1993) found it leads to a greater knowledge base; Bantel's (1993) findings support that greater educational and functional background leads to better strategic decision-making, and Simon and Pelled (1993) found organisation performance is enhanced when there is diversity in education levels and cognitive diversity. Sundaramurthy and Lewis (*ibid*) point out that heterogeneous composition and backgrounds offer vibrant sources of diverse ideas and therefore such groups have the potential to outperform homogenous groups (Maznevski, 1994). But not all agree. Maznevski (1994) examined the literature on group diversity, finding that homogenous decision-making groups perform better than diverse groups. Interestingly, Elron (1996, cited by Erhardt, Werbel & Shrader, 2003) found no relationship between cultural heterogeneity and member diversity with group cohesion, whereas demographic similarity was shown to enhance interpersonal trust (Kanter, 1977) such that there was a perceived need to closely monitor management decision-making when board members have similar demographic profiles (Westphal & Zajac, 1995). Similarity of members' values, attitudes, and status have positive effects on group consensus, conformity, and cohesiveness (Lott & Lott, 1965; McGrath, 1984; O'Reilly et al., 1989). Moreover, members who take similar positions are more likely than those with disparate positions to bring opposing views and disagreements into the open and be prepared to enter into candid debate (Dess, 1987). Yet excessive homogeneity in members' values, goals, and experiences may lead to

problematic group behaviour such as ‘groupthink’ (Janis, 1982). Further, diversity is effective in non-routine decision-making (Filley, House, & Kerr, 1976; Nemeth, 1986). Conversely, Hambrick, Cho and Chen’s (1996) longitudinal study found homogeneous top-management groups outperformed heterogeneous teams. Their findings offering an explanation as to why heterogeneous groups disagree more often than homogeneous groups. They purport that individuals within such groups often present differing or contrasting views and it is this diversity that makes the task of arriving at a consensus agreement hard to obtain.

Siciliano’s (1996) study revealed higher levels of social performance when there was diversity. Erhardt, Werbel and Shrader (2003) found cultural diversity was positively associated with both return on investment and return on assets. Research on board diversity defined as the gender balance shows disproportional representation of women on boards ((Bilimoria & Piderit, 1994; Kesner, 1988). Bilimoria and Piderit’s findings differed from Kesner’s (1999) on two main issues: (1) female directors are more likely to be placed on public affairs committees as opposed to finance, audit or nomination committees, and (3) females are as qualified, if not better qualified, than their male counterparts. While literature strongly supports the idea of diversity, Van de Walt and Ingleby (2003) made a case that boards needed to be reflective of their shareholders and the wider community they served, but diversity in itself was insufficient basis on which to build a board. Older executives were likely to take a more conservative approach (Stevens, Beyer, & Trice, 1978), whereas younger managerial executives were found to be associated with both risk-taking and strategic change (Child, 1974). These findings support a well-accepted tenet that maturity is associated with moral development.

It may be in part that older decision makers exhibit better moral judgment because they (a) tend to take longer to reach decisions and to seek greater amounts of information, (b) are able to diagnose the value of information more accurately.

Daboub, A., Rasheed, A., Priem, R.L & Gray, D. (1995).
Top management team characteristics and corporate illegal activity.
Academy of Management Journal, 20(1), 152.

Such decision-making capability of older directors intimates that these directors are more likely to demonstrate a more considered and objective approach. Age may correlate to tenure, but there is not enough evidence to purport that they are

conceptually similar (Pfeffer, 1983). Despite this latter point a presumption could be made that an effective board would have a proportionately higher percentage of mature and experienced directors than new incumbents.

Gender balance is a further structural consideration. Kesner's (1988) study of executive and non-executive directors investigated the gender differences and the characteristics of director type, tenure and occupation. Her study found that women were more likely to be non-executive directors. Bilimoria and Piderit's (1994) study examined the same characteristics, in addition to directors' external corporate and non-corporate connections in specific context of qualifications held, and found that directors' external linkages distinguished new members from others on key corporate committees. Their research also showed there was a preference for men to be put on compensation, executive and finance committees, whereas women were more likely to serve on public affairs committees. In a more recent study into executive directors Bilmoria and Zelechowski (2004) found there was no difference in board tenure and company tenure between men and women non-CEO directors.

Such structural variables may not explain board effectiveness but what is not known is whether the structural characteristics acknowledged in normative literature are different for effective boards than they are for ineffective boards. If diversity "translates into a greater variety of perspectives being brought to bear on decisions and, thereby, increases the likelihood of creative and innovative solutions to problems" (Milliken & Martin, 1996:412).

5.5 Knowledge as an Input Variable

The requirement is for boards to appoint directors who can participate in and contribute to the board's decision-making process and the governance function. As Hilmer (1993) points out, "while board composition is important, so is the quality and ability of each individual on the board" (1996:62). Hilmer (*ibid*) also adduces that, "effective board membership requires high levels of intellectual ability, experience, soundness of judgment and integrity. There is also the question of the collective capacity of the board in terms of the mix of abilities, experience and personalities that best make up the board as a collective body" (Hilmer, 1993:62).

Thus:

The very existence of the board as an institution is one that is ‘rooted’ in the wise belief that the effective knowledge oversight of an organisation exceeds the capabilities of any individual and that collective knowledge and deliberation are better suited to this task.

Forbes, D.P., & Milliken, F.J. (1999). Cognition and Corporate Governance: Understanding boards of directors as strategic decision-making groups. *Academy of Management Review*, 24(3), 2.

5.5.1 Presence of Skills and Competencies

Board members are expected to have firm-specific knowledge as well as functional or specialist skills (Forbes & Milliken, 1999). Firm-specific skills relate to understanding how the business operates and the internal management issues associated with running the business. Functional or specialist skills span accepted business disciplines (Forbes & Milliken, 1999) as well as connections with and comprehension of external networks assisting the gathering of information (Ancona & Caldwell, 1988). This kind of ‘tacit’ knowledge also assists in dealing with strategic issues regarding the acquisition or diversification of resources (Nonaka, 1994). Accessing valued information and resources, facilitating inter-firm commitments, and establishing and maintaining an organisation’s legitimacy can, according to some researchers (Bazerman & Schoorman, 1983; Pfeffer & Salancik, 1978; Provan, 1980), be more achievable where directors have outside connections, providing general support for independent directors.

An extension of specific skills is subject-matter expertise. Ericsson and Smith, (1991:2) defined expertise in terms of what “distinguished outstanding individuals in a domain from outstanding individuals in other domains”, as well as from people in general. Some business decisions involve significant allocation of resource, some of which require time to implement and/or to produce a financial return. Expertise may or may not be supported by the subconscious process of intuition. Intuition, as Miller and Ireland (2005) point out, can take the form of either a holistic hunch or automatic yet expert response. The key to the latter lies in a person’s ability to quickly identify with a familiar situation and apply stored knowledge to the issue under discussion.

Herbert Simon (1987) puts it this way:

Recognising the patterns [on the chess board] brings to the grandmaster's mind at once moves that may be appropriate to the situation. It is this recognition that enables the professional to play very strong chess at a rapid rate. Previous learning that has stored the patterns and information associated with them in memory makes this performance possible. This, then, is the secret of the grandmaster's intuition.

Miller, C.C., & Ireland R.D. (2005). Intuition is strategic decision making: Friend or foe in the fast-paced 21st century?
Academy of Management Executive, 19(1), 22.

An implicit assumption made in both management and corporate governance literature is that people with expertise would draw on that expertise and applied knowledge and, through them, contribute to the organisation, even though psychological research clearly showed that “the availability of expertise in a group does not guarantee the use of that expertise” (Jackson, 1992:359).

Stevens and Campion (1994:505) identified fourteen specific knowledge areas, skills and abilities (KSA), applicable to decision-making teams. These capture five dimensions: (1) conflict resolution, (2) collaborative problem solving, (3) communication, (4) goal setting and performance management, and (5) planning and task coordination (Chen, Donahue, & Klimoski, 2004:29).

A competency, as opposed to a skill, is defined as “an underlying characteristic of an individual that is causally related to effective performance fall into five types: motives, traits, self-concept, knowledge and skill” (Spencer & Spencer, 1993:9). These are the basic elements of expertise (van den Berg, 1998). Tricker and Lee’s (1997) study into the Mass Transit Railway Corporation (MTRC) in Hong Kong promoted much academic thought in this area, suggesting that the core competencies required by executive directors could be identified and objectively assessed.

Comparison of the research findings carried out by Lorsch & McIver (1989), Lee & Phan (2000), O’Higgins (2002), and Dulewicz & Herbert (1999) illuminates that high on the list of the basic competencies, is the ability to evaluate a complex issue, clearly supported by practical business experience. Dulewicz and Herbert (1999), for instance,

factor-analysed 40 'primary' competencies into a list of twelve: strategic perspective, business sense, planning and organisation, analysis and judgment, managing staff, persuasiveness, assertiveness and decisiveness, interpersonal sensitivity, communication, resilience and adaptability, energy and initiative, and achievement-motivation abilities. These they called their 'supra-competencies'. Other researchers (Bayly, 1988; Bowen, 1995; Coulson-Thomas & Wakelam, 1991) described these competencies as strategic awareness, objectivity, long-term vision, insight, a track record in business, leadership and commanding respect. In a similar manner, Dulewicz and Gay (1997) include critical faculty, helicopter vision, organisational awareness, strategic awareness, and judgement. Ernst & Young/IoD (1999), viewed such competencies as the ability to influence, and having close contact with reality and judgement.

Directors in global organisations need competencies beyond generic ones to enable them to understand complex issues from different stakeholders' perspectives (Lee & Phan, 2000), and to act out a cognitively complex strategy (Petrick, Scherer, Brodzinski, Quinn, & Ainina, 1999). To embrace their responsibility, directors would also possess high levels of emotional intelligence. According to Lee and Phan (2000) the ability to influence is another dominant competency sought, but clearly one that does not stand alone. Other competencies include a good understanding of business principles and the ability to make an effective contribution – inside as well as outside the boardroom, and these are key characteristics. Dulewicz and Gay (1997) added change oriented, listening, appraising and integrity. Bowen's (1995) argument that courage and the will to act is the most scarce attribute has gained support. King (2003), author of the Southern African report on corporate governance, talks about the courage to act.

Based on research conducted by Henley in 1993/94, the UK Institute of Directors (IoD) reported, in *Good Practices for Directors* (1995), a set of standards for good board practice for executive management. Moreover, Tricker and Lee's (1997) belief is that the IoD's requirements of an executive director in respect to qualities exhibited are relatively abstract. However, a consistent theme that runs through the work of academic commentators highlights that six groups are believed necessary: (1) taking a strategic direction and having the ability to make decisions, (2) adopting an analytical approach, (3) possessing communications skills, (4) having the ability to interact with others, (5) managing the board, and (6) achieving results. As research shows, the quality of

strategic decisions begins with cognitively diverse skills, knowledge, abilities, and perspectives (Bantel & Jackson, 1989), often taking the form of ‘tacit’ knowledge that is converted through interaction to objective contribution.

The personality of a new director is an important consideration (Finkelstein & Mooney, 2003). The most important criteria when selecting a new board member, in ranked order is, according to O’Neal and Thomas (1996), character/integrity, business success, strategic knowledge/experience, intelligence, independence and reputation that builds on credibility. This suggests that the prestige of directors can also enhance the reputation and credibility of the organisation they serve (Daily & Schwenk, 1996; Hambrick & D’Aveni 1992). However, as board members have reputations that are intertwined with the financial performance of the organisations they serve (Baysinger & Hoskisson, 1990) to enhance their reputation they must work to maximise the financial situation of the organisation. This hints at board members only serving on boards that will add to their reputation.

Certo, Daily and Dalton (2001) found that firms with more prestigious directors experienced better performance. This intangible linkage is seen as being just as valuable as, and in many cases, worth even more than tangible assets (Hambrick & D’Aveni, 1992; Mintzberg, 1983). As the chairman of the United States Federal Service, Alan Greenspan, said:

In today’s work, where ideas are increasingly displacing the physical in the production of economic value, competition for reputation becomes a significant driving force, propelling our economy... Qualifying the value is difficult, however The Good Reputation Index in Australia is an example of the value being placed on this intangible asset.

Gettler, L. (2001). The good reputation index.

The Sydney Morning Herald, Section 2.

The King Report (2001) in summarising the abilities sought of directors, brings much of the content of this chapter together by stating: “Non-executive directors should be individuals of calibre and creditability and have the necessary skills and experience to bring judgement to bear independent of management on issues of strategy, performance,

resources and standards of conduct and evaluation of performance" (The King Committee, 2001: clause 2.4.2).

5.5.2 Forms of Information

Grinyer and Norburn's (1978) research carried out among 91 chief executives and senior managers found that high financial performance was associated with use of more informational processes and use of informal channels. In adopting a structuralist view this can imply emanation points for information. Thus, five dominant conduits become evident in corporate governance literature: board committees, management, legislative requirements, best practice principles, and the various market-based sources. Each is expanded on in this chapter.

Each country has its own regulations embodied in statute. Boards need to ensure a corporate adheres to that regulatory regime and any associated compliance-oriented framework. Noteworthy are the words of Tricker (1996:29) in which he says: "underpinning company law is the requirement that directors show a fiduciary duty towards the shareholders of the company".

Such frameworks look towards board committees mainly comprising board members to act as a component of the control mechanism. The Cadbury Report on the Financial Aspects of Corporate Governance (The Cadbury Report, 1992), The Greenbury Report (1995), The Hampel Report (1998), Combined Code (1998) and Turnbull Report (1999) in the United Kingdom and the passing into legislation of the Sarbanes-Oxley Act (2002) in the United States have placed emphasis on the implementation of audit committees (Bosch, 1995; Canadian Institute of Chartered Accountants, 1997; The Hampel Report, 1998). Ten years ago only the audit committee was made up entirely of independent directors.

Likewise the notion of having nomination committees, evident since the 1970s, is continuing to emerge. In 1973 only two per cent of boards had a nominating committee: just five years ago such committees included one outsider. Today, "74 per cent of all boards have a nominating committee entirely composed of independent directors" (Ferry, 1999:3). In spite of the introduction of board committees, Beasley and Salterio (2000) and Xie, Davidson III and DaDalt (2001) found that the presence and quality of audit committees was negatively related to the levels of earnings in organisations.

Similarly, the work of Dulewicz and Herbert (2004) found no statistical difference in performance (either as cash-flow return of total assets or from sales) between boards that had an audit or remuneration committee compared to those that did not. These researchers reason that “there appears to be no material financial penalty entailed in meeting these conformance obligations” (Dulewicz & Herbert, 2004:272). Conversely, Beasley, Carcello and Hernamson (1999), when investigating the effects of corporate governance mechanisms on fraudulent reporting, found that companies with a prevalence of fraud were less likely to have an audit committee. Yet committees have advantages, such as speeding up decision-making and focusing skill-sets on appropriate issues, suggesting such board committees create a two-tiered system that elevates these committees to high authority bodies (Finkelstein & Mooney, 2003).

The notion that directors possess boundary-spanning qualities (Baldwin, 1984; Kesner & Dalton, 1986; Mintzberg, 1983) aligns with resource-dependency perspective, (Pfeffer & Salancik, 1978) by purporting that non-executive directors provide critical linkages with an organisation’s environment (Gales & Kesner, 1994), as well as a way to co-opt significant external resources (Pearce & Zahra, 1991; Pfeffer & Salancik, 1978). Executive directors, on the other hand, provide valued information and resources and facilitate inter-firm commitments, analysing joint ventures, strategic alliances, and associations of any form of “economic entities which have a coherence, a structure, and an individuality of their own” (Mathews, 1996), as well as establishing and maintaining a firm’s legitimacy, (Bazerman & Schoorman, 1983; Pfeffer & Salancik, 1978; Provan, 1980). When viewed as a structural variable, boundary-scanning becomes an outwardly-focused mechanism for gathering new information and bringing it into the boardroom.

Similarly, directors who sit on other boards, particularly those in complementary organisations or appointed as government representatives, suggest a deliberate structural consideration by ensuring that connectiveness and knowledge is available at and from the board. As a variable such board ties are consistent with the resource dependency theory, and can help prevent or counteract excessive managerial commitment to an organisation’s strategy (Hambrick, Geletkanycz, & Fredrickson, 1993; Weick, 1995). Corporate governance literature indicates situational variances exist. For instance, in a stable environment board ties help board members to keep abreast of changes in the business environment, whereas in a more unstable environment an organisation’s success often depends on directors and senior management identifying strategic

alternatives that align with the organisation's intent or at least maintain the organisation's fit within its changing environment (Halebian & Finkelstein, 1993; Tushman & Anderson, 1986: cited by Carpenter & Westphal, 2001).

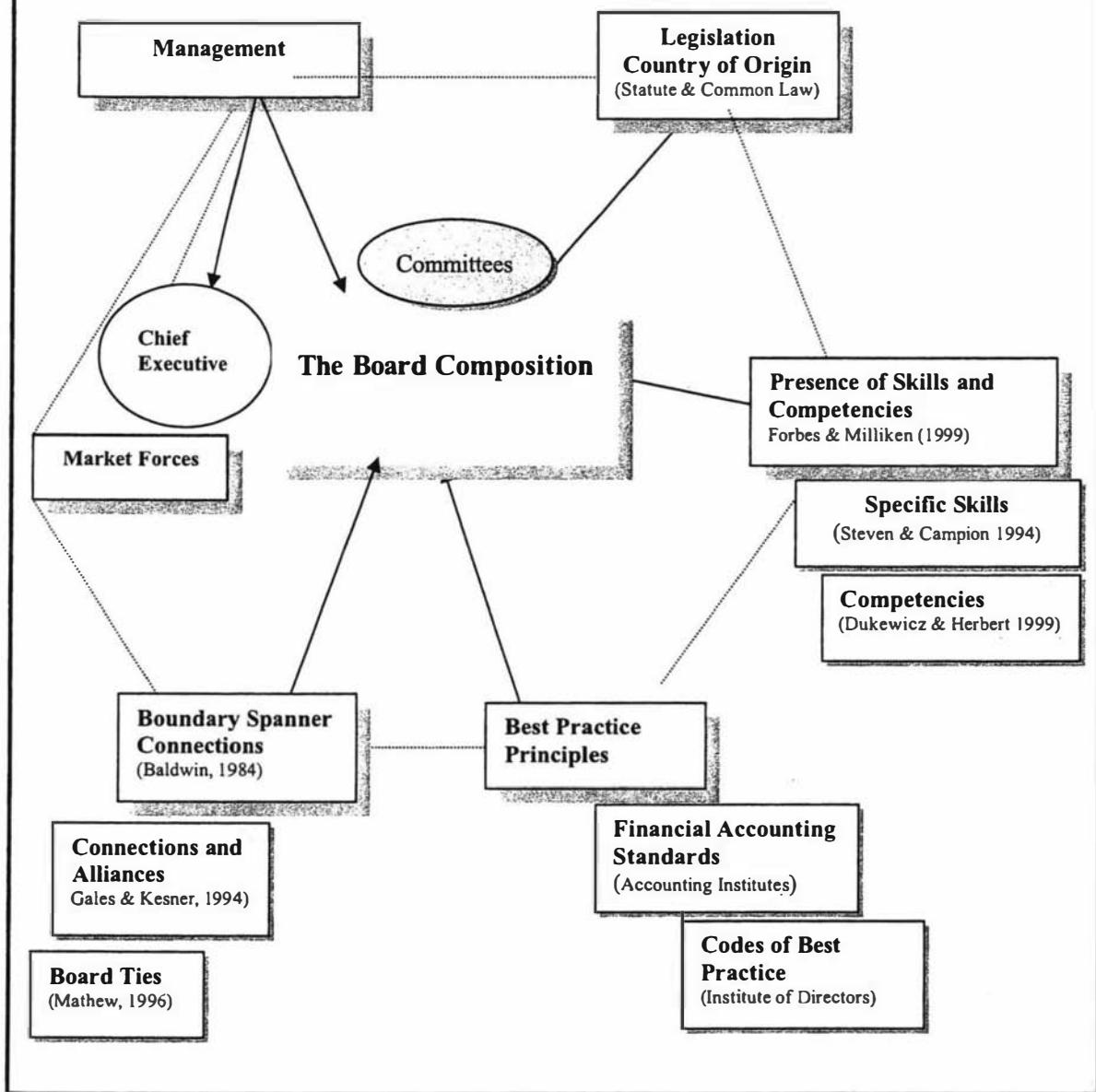
Board members have a responsibility to be well informed, briefed and prepared prior to a board meeting. This form of information gathering includes having an expectation that they will receive all the information from the chief executive that they need to make decisions (Donaldson & Davis, 1994; Lorsch & MacIver, 1989; McNulty & Pettigrew, 1996, 1999; Stiles & Taylor, 2001). Embedded in this notion is the expectation that neither the chief executive nor management will withhold any relevant information (DelfosRoy, 1997, cited by Hooghiestra & van Manen 2004). Some information can also be complex, which suggests that unless it is crystallised and presented in a clear manner there may be limited ability to process the information. Likewise directors do not like surprises (Lorsch, 1995; Stiles & Taylor, 2001), indicating that directors want quality information, presented in a way that can be comprehended.

5.6 Chapter Summary

Literature suggests that to facilitate the governance process it is necessary to have a structure that enables a board to deliver on its role: monitor management, enhance shareholder value, work with management, and make strategic decisions giving due consideration to the company's wider social and political obligations (Collins & Porras, 1994; Davies, 1999; Dilenschneider, 1996; Wallis, 2000). Scholarly literature also suggests that diversity in many forms can adversely impact on group dynamics, but at the same time it has the ability to improve decision-making as it can lead to a greater knowledge base, creativity and innovation (Watson, Kumar, & Michaelsen, 1993).

The information is not only diverse it generates from a number of sources. Each source acts as a vehicle to bring knowledge and information into the boardroom. The convergence of the information and data is the catalyst for debate. The varying information streams discussed in this chapter are depicted in Figure 11.

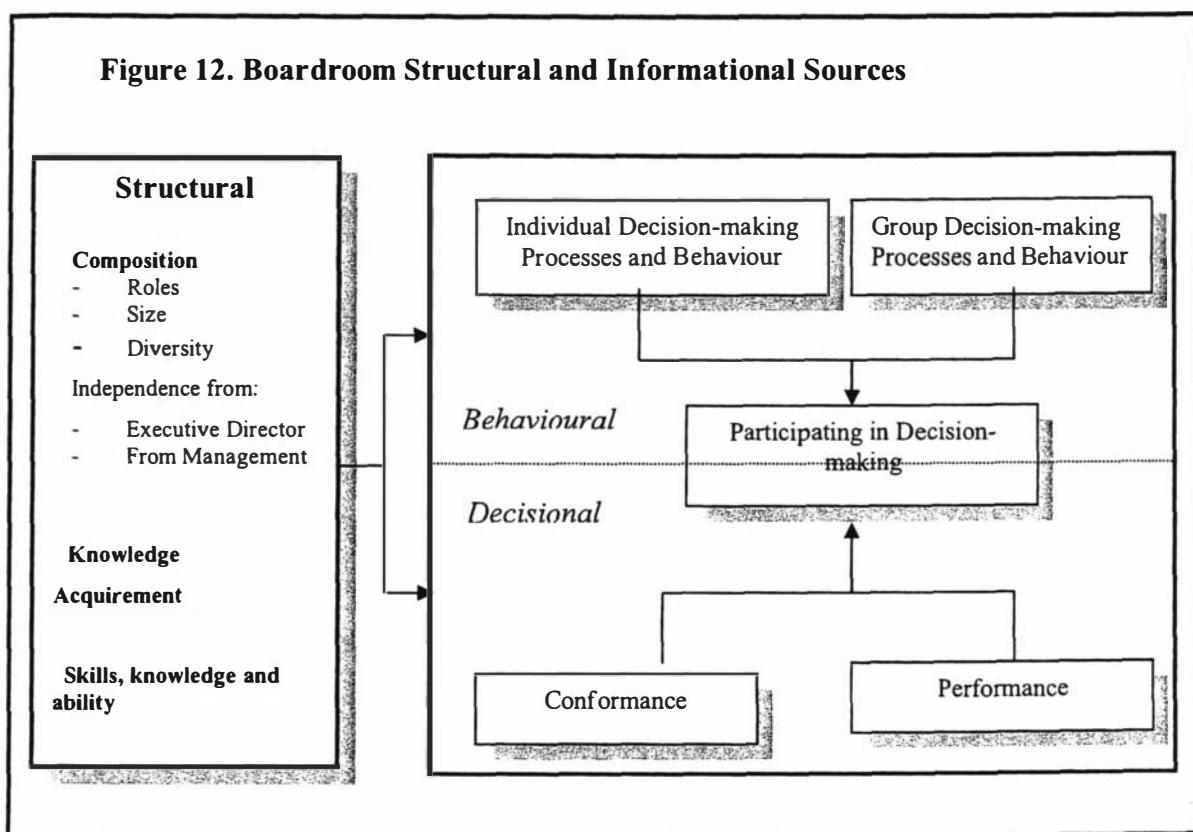
Figure 11. A Boardroom's Information Web



Thus three themes emerge in this chapter. The first is the composition of the board, in particular the size of the board, balance of independent directors to executive directors, the roles and hierarchy that are acknowledged, and the heterogeneity of the group. The second theme is built around the sources of information that flow into the boardroom. The third theme emerging relates to the level and mix of skills, knowledge and competencies possessed by board members that individually and/or collectively provide a key decision-making input resource. The diversity of these skills adds a further dimension to the boardroom debate. While board composition, skill sets, knowledge and

competencies, and information sources are interrelated the inclusion of these into the model (refer Figure 12) provides a means to review the key structural components that form the decision-making platform.

Figure 12. Boardroom Structural and Informational Sources



Chapter Six: Decisional Framework

6.1 Overview

While regulators endeavour to enforce upon companies ‘principles’ of good governance, internal and external influences are impacting on the corporation’s performance. This chapter captures such strands by considering and classifying tasks associated with the three governance roles proposed by Johnson, Daily and Ellstrand (1996), referred to in Chapter Two of this thesis.

These roles, viewed by academics as a continuum with policy support and strategy setting (Johnson et al., 1996), or overseeing performance (Tricker, 1994a) sitting at one end and compliance at the other (Ingleby & Van der Walt, 2001). The activities do not stand alone or in isolation to the other. The first functional activity can be aligned to agency requirements of a board and takes the legalistic perspective purported by Pearce and Zahra (1991), while the second takes a more external view and can be associated with stakeholder and trustee theories. However, the third functional activity is closely related to financial and risk-taking considerations yet can be linked to either compliance and monitoring of management as well to strategy. Thus the continuum reflects a range of decision-making classifications from a legalistic perspective through to a strategy-setting framework and therefore appropriate for investigating types of decisions made.

Reflective in the breadth of decisional type are two categories of decisions: *intellective tasks*, being those that have a demonstrably correct answer and *judgemental tasks*, those requiring consensual agreement (Innami, 1994, citing Laughlin (1980) & McGrath (1984)). As this chapter explains, intellective decision-making can be aligned with regulatory or legalistic issues whereas judgemental decision-making has synergy with the strategy setting activity.

6.2 Conformance and Control

Much of the empirical literature examining how chief executive-board relationships influence decision-making is predicated on the assumption that board members contribute to decision-making through the monitoring decisions made by management for the betterment of shareholders. For instance, Walsh and Seward (1990), drawing

their support from the agency theory (Jensen & Meckling, 1976), describe a board as an internal control mechanism. Likewise, Kosnik (1987; 1990) emphasises the role of non-executive directors in disciplining managerial decision-making. Monitoring the chief executive and senior managers however involves making decisions as to the appropriateness of process needed to demonstrate proper accountability to stakeholders. Therefore a board needs to decide how and through what processes it will: (1) ensure independence from management (2), oversee the work of a management team, and (3) compensate senior management.

The board's monitoring role can also be cast in terms of financial management and the expertise within the board members to evaluate the day-to-day business, dividend policy and capitalisation, and in selecting among alternative presentations of financial statements (Cravens & Wallace, 2001). A further control aspect centres around the installations of control mechanisms that cover a wide spectrum of internal control to ensure adherence to policies in order safeguard assets and produce accurate, transparent records and reports (Helliar & Dunne, 2004: cited in Burton, Helliar and Power, 2004). The establishment of audit committees (although not all equally effective), is perceived as an additional effective component of a monitoring regime (Holthausen & Verrecchia, 1988; Ohlson, 1990; Wild, 1990, cited by Cravens & Wallace, 2001). Tied to the auditing role is an onus on a board to have information relative to performance, placed in specific documentation and monitored by an appropriately qualified accountant. For the public, the annual report and prospectus are key documents; for a SOE, the Statement of Corporate Intent and financial reports prevail.

Such conformance and compliance to policy and process involve seeking legitimacy by achieving conformity with the demands and expectations (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Suchman, 1995). A board that conforms and complies accepts the demands, expectations and practices rather than questioning, challenging or violating them (Zimmerman & Zeitz, 2002). Undoubtedly, adherence to good corporate governance practices has helped to reinforce investor confidence, to reduce the cost of capital and ultimately to induce a more stable capital flow (Sharma, 2001). But such standards of good practice, many of which are proposed by Institutes of Directors (IoDs) residing in a number of countries although sound and sensible, only propose a framework from which to monitor performance of management and ensure compliance.

The deterministic principles and mathematical models associated with classical decision-making theories parallel the compliance-bound legislative regimes and best practice, particularly those that are rules-based. Similarly they reflect the characteristics contained in the concept of rational decision-making as total information such as that set out in Codes of Best Practice and legislation are made available through guidelines and codes. As one demonstrative correct answer presents itself such decision-making also encapsulates the notion of an *intellective* task as proposed by Laughlin (1980) and McGrath (1984). Yet, Heracleous (1999) argues such indicators focus only on control and not on performance because they pay little attention to the constraints of business (Augier, 2004).

6.3 Strategic Decision-making at Board Level

The argument that boards have an obligation to actively set strategy can be traced in part back to Weidenbaum (1985) who argued that the best defense against corporate raiders was for the board to have a greater involvement in the strategic decision-making process. Because of their dominance, strategic leaders have the power to both monitor and influence decisions (Bethel & Liebeskind, 1993; Hoskisson, Johnson, & Moesel, 1994). Similar calls were made by others; for example, Power (1987) who, in observing that institutional investors were calling for greater accountability, challenged boards to be more involved in the strategic decision-making process. Recent research shows that directors and chief executives alike now agree that non-executive directors take a greater share of responsibility for major decisions, particularly in long-term strategy, management succession, chief executive evaluation and compensation, crisis management and issues related to shareholder interests (Ferry, 1999). Some researchers (Ahlstedt, 1991; Goold, 1996; Lorsch & MacIver, 1989) described such involvement as having a distant and somewhat passive overview, viewing boards as providing specialist advice, review the process, and provide a second opinion, others (e.g. Collins & Porras, 1994) viewing it as a key role. Pye (2000) in her research of boards goes further. She places strategising, aimed at heightening performance, as a key task of a board. Pye (*ibid*) mirrors the thoughts of Heracleous (1999) when referring to the notion that, although many corporations comply with all the various corporate governance practices, this function “is ‘an aside’ to the more important questions of how to improve the performance of the company” (Pye, 2000:342). However the lack of an academic agreement as to whether corporate governance is primarily fiduciary or broader and

related to strategic issues (2002) may not be an issue as the increase of change in the environmental, social, economic and legislative regimes is in practice causing board directors to give due consideration to the widening obligations and responsibilities of corporations (e.g., Porter, 1980, 1984; Collins & Porras, 1994). The question of whether it is active or passive may be more appropriate, although to what extent is still being debated (Stiles & Taylor, 1996).

Research over the past two decades gives some insight as to a board's involvement in this activity. Finkelstein and Hambrick's (1996:228) extensive research drew the conclusion that "boards of directors are not involved in strategy formation". A similar and more recent study, conducted by Myllys (1999) into two Finnish banks, confirmed this view by finding that non-executive directors in some companies still only carry out the role of critically reviewing and ratifying strategic decisions made by management. Conversely, other researchers advocate boards as a corporate resource (Finkelstein & Hambrick, 1996; McNulty & Pettigrew, 1996; Short, 1996; Stiles & Taylor, 1996), having an active role to play in the strategy formation, especially in issues such as diversification and strategic change. Even though Lorsch and MacIver (Lorsch & MacIver, 1989) point out directors may wish to be involved but are often constrained from doing so, other empirical data produced for Dulewicz, MacMillan and Herbert's (1995) indicate that directors take the strategy function seriously, believing they should be involved in setting the direction and structure of the organisation. Interestingly Judge and Zeithaml (1992) found that corporate executives on boards were less willing challenge the strategic than independent directors would. However as Carter and Lorsch (2004) point out it is time to propose a strategic redesign of board, making them better attuned to their oversight, decision-making and advisory roles.

Acknowledged as elements of strategic decision-making are complexity (March & Simon, 1958), growing competitiveness (Ireland & Hitt, 1999; Porter, 1985), informational overload, often within an increasing hyperturbulence (Eisenhardt, 1989d; Ireland & Hitt, 1999), and ambiguity, discontinuities, disequilibrium and uncertainty (Kessler & Chakrabarti, 1996). While scholars stress that the speed of decision-making is increasing the certainty of arriving at outcomes is diminishing (Inami, 1994, Amason, 1996, Kessler & Chakrabarti 1996). Behavioural scholars (i.e. Kahneman, Slovic, & Tversky, 1982; Lindblom, 1959; Quinn, 1980; Schoemaker, 1990), and strategy theorists (Ghemawat, 1991a; Hansen & Wernerfelt, 1989; Jacobson, 1988; Prahalad &

Hamel, 1990; Vasconcellos & Hambrick, 1989) concur that such decisions are subject to considerable biases, illusion and suboptimality. In this sense board members are being asked to act rationally in a bounded rational manner because of the complexity, ambiguity and increasing pressures surrounding the decisions.

There are a number of reasons why the centrality of strategy would be an important role of the board. Firstly, over the last 30 years there has been considerable literature produced by researchers suggesting that an organisation's ability to achieve its goals is a function of congruency between various internal and external components of a corporation (e.g. Ansoff & Sullivan, 1990; Argyris, 1973; Chandler, 1962; Drucker, 1954, 1974; Hofer & Schendel, 1978; Miles & Snow, 1978; Mintzberg, 1973, 1979; Mintzberg & Waters, 1985; Peters & Waterman, 1982). Secondly, no less than twelve theoretical perspectives of governance, as outlined in Chapter Three, have been proposed suggesting the discipline of corporate governance needs a more solid platform if it is to be advanced. For instance the agency perspective of governance, with its emphasis on short-term wealth creation takes for granted that strategic control is sufficient, both to avoid misinformation, and to ensure a level of operational efficiency resulting from strategic initiatives will effectively ensure a good return to shareholders. It makes a presumption that senior management has the means to ensure the corporation's operations and processes are aligned with its strategic direction. The resource dependency theory (Pfeffer, 1972; Pfeffer & Loeong, 1977), advocates that board members as key strategic links with the corporate environments are able to seek out information applicable to the corporation's strategic viability. The stakeholder theory (Freeman & Evan, 1988) on the other hand, extends the corporate operating framework through the inclusion of stakeholder interests.

Much that has been written operationalises the notion of strategy (e.g. Miles & Snow, 1978) rather than synthesises the practical application of it. For example it could be argued that organisations go through long periods during which they develop strategies incrementally, moulding present and future action on past decisions. This logical and conscious approach may assist some to understand the complexity and uncertainty of the environment and the need for change, but it is often reliant on the 'certainty' of past practices and successes. Strategic leaders are aware that it is not possible to know with any degree of exactitude how the marketplace will evolve. To make up for this, they keep to the comparatively straight and narrow road of progress, rather than adapting the

operations when new environmental challenges emerge (Collins & Porras, 1994), such as the shortage crisis experienced by the New Zealand Electricity industry in 2003.

What past research and debate illuminates is that a board's task is at least to challenge the strategic direction proposed by management. Interestingly Judge and Zeithaml's (1992) study showed level of diversification was negatively related to a board's involvement in strategy. The same findings also found that, when the board was large or when there were a high number of executive directors on it, a board was less likely to address strategic issues suggesting composition and selected activities can impact on involvement. While Judge and Zeithaml (1992) were unable to confirm whether board participation was the cause or effect of high performance, their study found that, in corporations where there was a healthy respect between the board and the executive management and the board influenced the strategic decision-making process, the financial performance was higher. Similarly Collins and Porras' (1994) study sought to identify and understand factors behind durability and success in corporations. When comparing 18 corporations with a shareholder-value philosophy against 18 "visionary" organisations, the youngest of which was created in 1945 and the oldest in 1912, these researchers found corporations that maximised shareholder value in the short-term were outperformed by visionary corporations by 6:1. Thus being shareholder driven may not necessarily produce a sustainable position.

The need for adopting a long-term, as opposed to more short-term, shareholder return focus, involves deciding among strategic choices, or as Saunders and Carpenter (2003) assert, *strategic satisficing*. Together the notion of 'strategic satisficing' and 'bounded instability' encapsulated in the chaos theory (Basile, 1997) lie at the heart of strategic decision-making. What therefore becomes clear is that strategic leaders decide the 'fit' (Myllys, 1999) by being involved and interpreting environmental changes (Daft & Weick, 1984; Doty, Glick, & Huber, 1993; Miles & Snow, 1978). Because environmental changes are usually ambiguous in nature (Ford & Baucus, 1987; Pfeffer & Salancik, 1978) directors bring varying interpretations, many of which produce different consequences.

The notion that board members draw diverse conclusions from the information and have differing expectations long-term, cognitively turns attention onto group judgement: the third phase in Cutting and Kouzman's (2002) decision-making process (described in

Chapter Three of this thesis). Furthermore, board members' judgements and choices are likely to exhibit idiosyncratic aversions to risk in addition to ambiguity (Einhorn & Hogarth, 1986; Kahneman & Tversky, 1979). While both executive and non-executive directors can be responsible for deciding the strategy initiatives, economic theories of corporate governance emphasise that non-executive directors have the potential to evaluate strategic decision-making more objectively (Brudney, 1982; Fama & Jensen, 1983; Zahra & Pearce, 1989). This is achieved by questioning strategic issues in addition to capturing the abilities and competencies of the chief executive (Boeker, 1992) and other directors. This notion diverts from agency theory in that it hints at a partnership, a move towards the stakeholder, managerial hegemony or institutional trust theories.

The work of a director is not confined only to a boardroom. Decision-making in the boardroom can usually be traced to influences or ideas that generate from outside the boardroom (Mintzberg & Waters, 1983). Board members, in their role as boundary spanners, are in a position to gain a unique perspective on varying issues and are best able to deal with outside constituencies and to represent a strategy for dealing with an organisation's relationship with the environment (Johnson & Greening, 1999). Notwithstanding this, deciding among alternative choices is more than understanding; it is about deciding on the strategic intent supported by the capacity to leverage corporate resources, particularly the strategic architecture, core competencies (Hamel & Prahalad, 1996) and core products. The creation of new competitive space (Collins & Porras, 1994) and recognising new business development opportunities are the outcomes. Thus three key forces become obvious: the environment, the organisation's operating system and its leadership, while responsiveness, evolutionary approaches and change are the three driving factors.

Strategic decision-making at board level is therefore about choreographing the transition of industry from the comparative safety of the present to the unknown and somewhat veiled future. With a responsibility to identify opportunities and ensure the organisation is moving forward (McGregor, 2000) board membership is about rethinking and revitalising the corporation through visioning. Such activity, because of the ambiguity surrounding it, implies boundedly rational decision-making calls on the judgemental abilities of directors and therefore captures Laughlin (1980) and McGrath's (1984)

notion of a judgemental task. This perspective is further developed in Chapter Seven and linked with decision-making behaviour.

6.4 Resource Acquisition Decision-making

While principally referring to human resources, Lazonick and O’Sullivan (2000) point out that corporate governance is also aligned with the acquisition and management of corporate resources. The importance of such organisation’s internal resources and capabilities has become widely accepted and promoted in strategic literature (Barney, 1991; Mahoney & Pandian, 1992), particularly the competitive dynamics literature (Chen, 1996; Grimm & Smith, 1997). Building on a notion first put forward by Coase (1937) and Penrose (1959) and developed and debated by other scholars (Barney, 1989, 1991; Conner, 1991; Dierickx & Cool, 1989, 1989a; Ghemawat, 1991b; Nelson & Winter, 1982; Peteraf, 1993; Rumelt, 1984; Teece, Pisano, & Shuen, 1997; Teece, 1982; Wernerfelt, 1984) the resource-based view of a firm holds that competitive advantage (Lippman & Rumelt, 1982) can emerge from the way the organisation’s own resources and capabilities are utilised, rather than from product market activities.

Resources, defined as stocks of available factors or “anything that could be thought of as a strength or weakness of a given firm” (Wernerfelt, 1984:172) are owned or controlled by the firm, and can be converted into final product and services. These comprise either tangible or intangible assets, such as networks, knowledge, reputation, on behalf of the organisation (Johnson et al., 1996; Pearce & Zahra, 1991), relationships and competencies. This notion includes ensuring access to finance is available for operations and new initiatives.

In contrast, capabilities refer to an organisation’s capacity to deploy resources, offer information-based, tangible or intangible firm-specific processes, developed, carried and exchanged through the firm’s human capital. These “typically resident in the unique combination of people, their skill sets, competencies and processes operating within the firm” (Hamel & Prahalad, 1996:175).

Directors, as an acknowledged resource, besides making compliance and strategic decisions have to apply their decision-making capabilities to: (1) appropriate employment of suitable resources in all forms through out the organisation; (2)

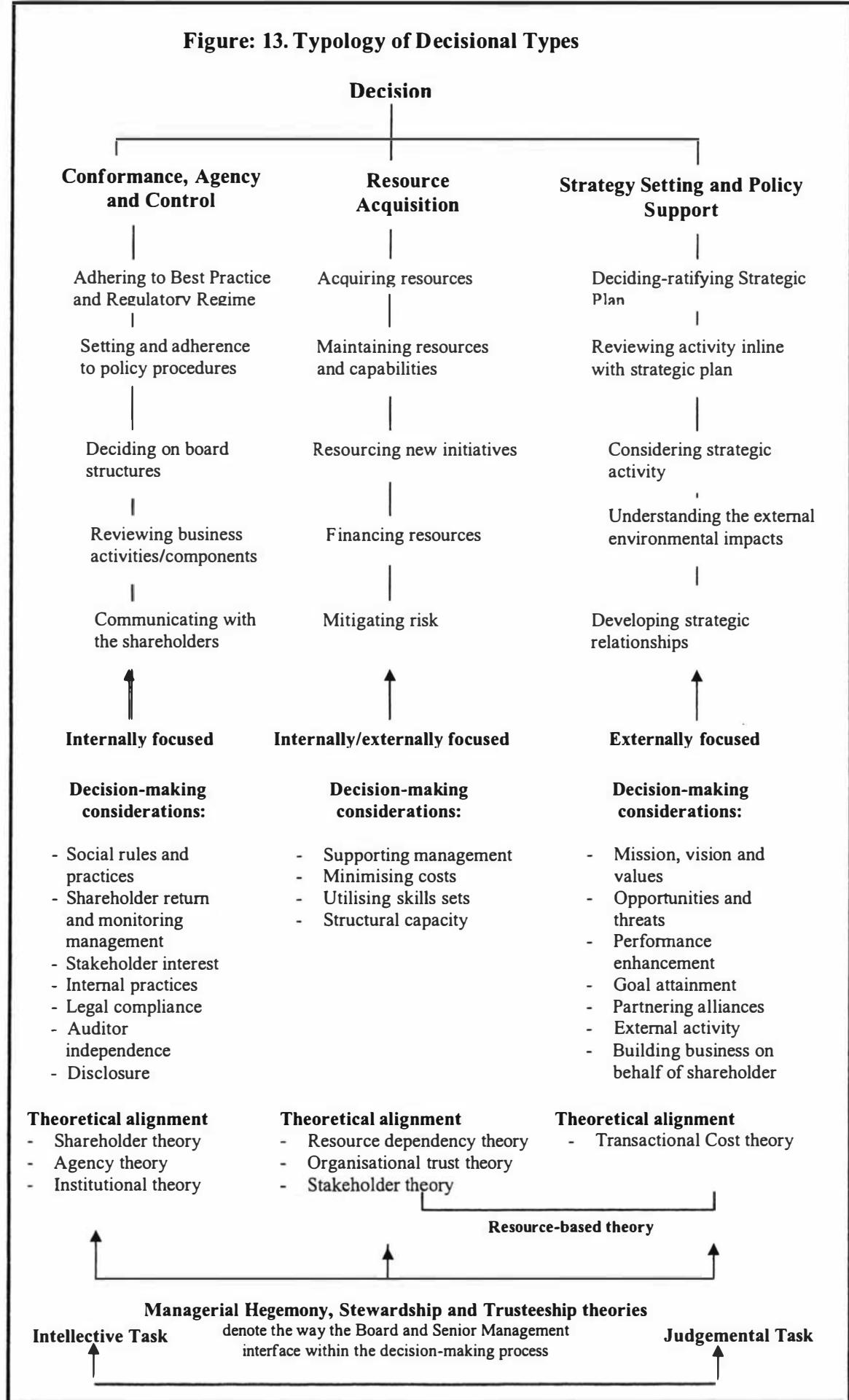
resourcing of strategic initiatives and ensuring all associated risks are known and given due consideration; and, (3) meeting the immediate financial costs of the corporation's acquisition as well as being able to assure the maintenance/retention of the resource over the appropriate period. Acquisition and maintenance of resources for these reasons becomes a governance role firstly when the acquisition is needed to achieve a strategic intent and secondly as resources are embedded in the routines of the business (Nelson & Winter, 1982).

Resource acquisition links with normative accounting practices and policy as set out in a vast array of accounting (Shleifer & Vishny, 1996) as well as risk-taking (March, 1988, 1991; March & Shapira, 1992; Ocasio, 1995) literature. Thus there is a strong compliance element. Clear distinctions relating to decisions about acquiring resources can therefore fall into two groups: (1) those acquired for long-term or strategic utilisation, as well as for (2) replacement or enhancement of existing operational components.

In this sense there is a strategic component as well as a business replacement element. From a socio-legal perspective, the task of resource acquisition can align to the stewardship, trusteeship and contractual perspectives of governance (Tricker & Lee, 1997). The range and form of such decisions suggest they cross both intellective and judgemental decision-making.

By calling on the three functional areas of a board as proposed by Johnson, Daily and Ellstrand (1996), a typology of decision-making activities can be constructed and when aligned to the mainstream corporate governance theories provides a model of board decision-making able to be used to operationalise the types of decisions made.

Figure: 13. Typology of Decisional Types

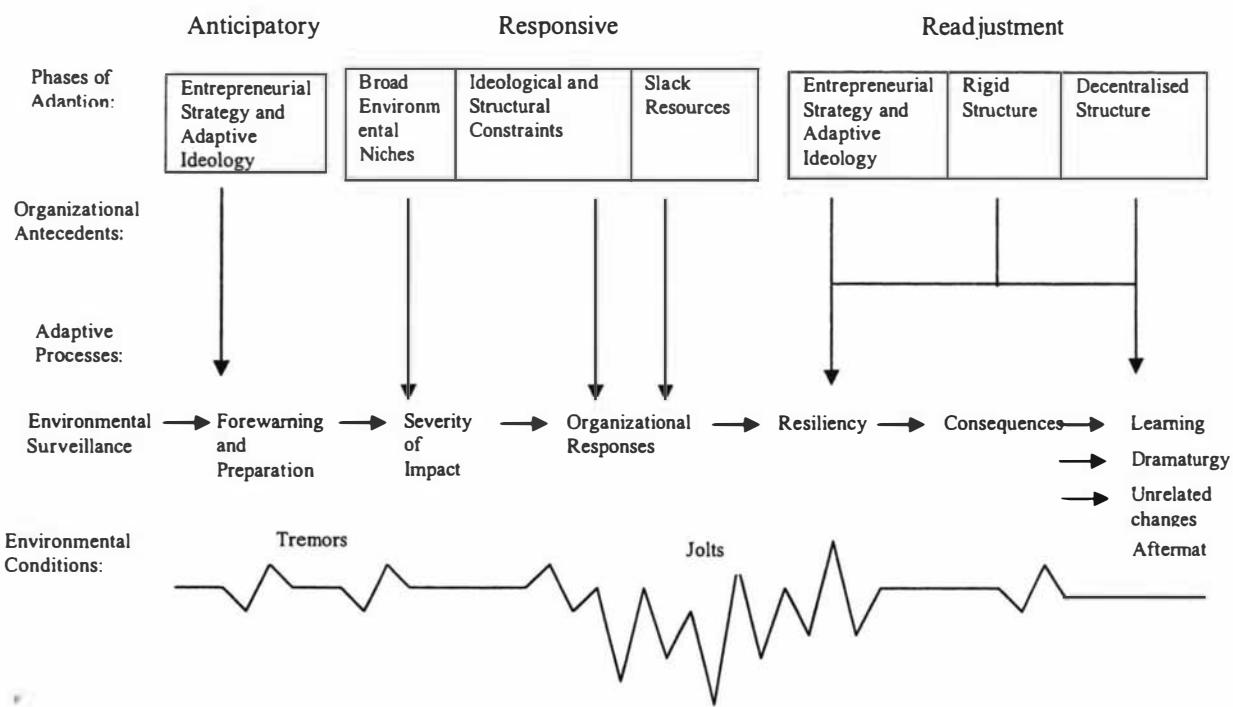


6.5 Decision-making in Times of Crisis

In organisations facing a crisis, tight monitoring and control, as prescribed under agency theoretical principles, can be invoked, although, according to Daily, Dalton and Cannella, they “may actually be harmful to firm survival and shareholder interests” (2003:378). Citing the work of Hambrick and D’Aveni (1988; 1992) these scholars suggest that failure can often set off a downward spiral because as corporate failures become apparent senior management is replaced with the loss of intellectual capital impacting on the strategic direction. Less research has been carried out to understand effective management during corporate crises, financial or otherwise (Daily & Dalton, 1994a, 1994b), or how decision-making under such situations may take a different form from that of strategic setting or monitoring performance under less stressful conditions. As a result this lack of attention provides an opportunity to augment the amount of understanding of the effectiveness of the process of decision-making under such conditions.

However, a crisis is not always aligned with corporate failure. The term ‘jolts’ has been used to distinguish external events from their disparate interpretations within organisations such as ‘opportunities, threats, crises, or catastrophes’ (Billings, Milburn, & Schaalman, 1980). Hostile environmental jolts are defined as “transient perturbations whose occurrences are difficult to foresee and whose impacts on organisations are disruptive and potentially inimical” Meyer (1982:515). Venkataraman and Van de Ven (1998:234) expanded this definition by saying “environmental jolts are low probability-high consequence events that can adversely affect the economic opportunities for the population of firms within an economic niche”. Such jolts “infuse organisations with energy, legitimise unorthodox acts, and destabilise power structures” (Meyer, 1982:533). Jolts, as unplanned events, bring with them unforeseen risks to a business. Although jolts invariably surprise organisations in one form or another, it is equally true that individual corporations may deal with these jolts in different ways (Meyer, 1982). The three cases studied as part of Meyer’s research (1982:534) support the notion that adaptations to jolts occur over three phases: anticipatory phase: when the portents may be perceptible; responsive phase: while the primary impacts are being absorbed, and readjustment phase: after the shocks have subsided. These three phases are shown in Figure 14 below.

Figure 14. Antecedents, Dynamics, and Consequences of Organisational Adaptations to Environmental Jolts



Meyer, A.D. (1982) Adapting to Environmental Jolts: *Administrative Science Quarterly*, 2, 534.

Megginson, Bryd and Megginson (1994) acknowledge four main ways to cope with risk: risk avoidance; risk transfer; risk prevention; and risk assumption. Literature also suggests that organisational adaptations to environmental pressures and forces are influenced by their size (Stinchcombe, 1965; Venkatraman & Van de Ven, 1998), the structures they develop and work within (Lippitt, 1982; March & Simon, 1958), the strategies they adopt (Miles & Snow, 1984; Porter, 1991), and the ideologies they espouse (Bourgeois, 1981; Kolb, Rubin, & McIntyre, 1984; Starbuck, 1982).

Other writers (e.g. Miles & Snow, 1978; 1969) have made a contribution to the adaptive behaviour concepts and theories. Meyer's (1982) research shows the influence of strategy, ideology and slack that occur at different stages of adaptive processes. There is also a need to balance the external focus against other determinants of performance, namely, a firm's internal strengths and weaknesses (Barney, 1995), especially if a corporation wishes to sustain its position in the market. Such liabilities can render a firm relatively powerless in respect of a bottom-line that shows erosion of net worth

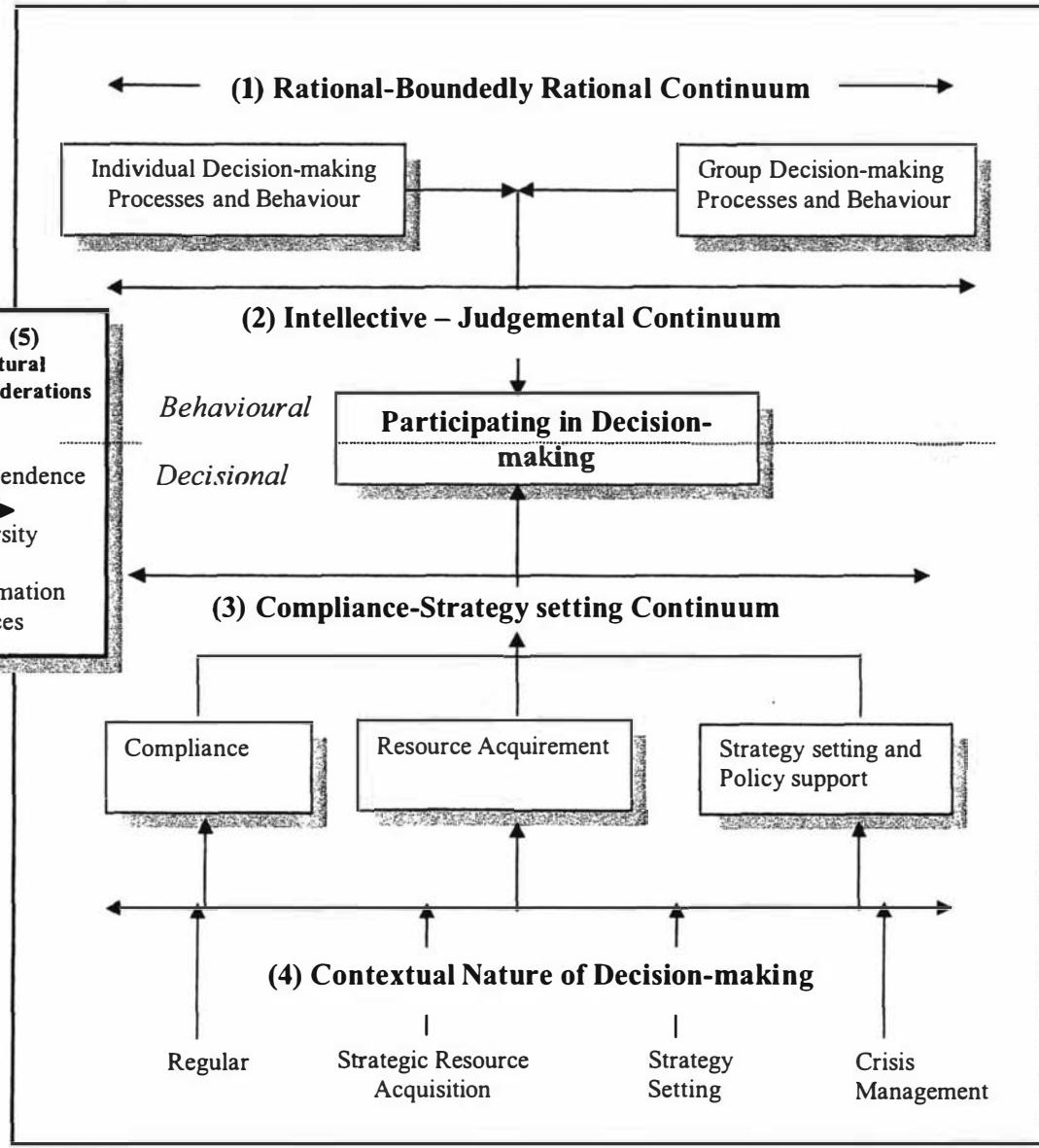
and/or eventual firm failure over time (Venkatraman & Van de Ven, 1998). Stinchcombe's theory of newness suggested that the abundance of financial and organisational buffers, such as legitimacy and networks could reduce failure. Miner, Amburgey and Stem's (1990), and Baum and Oliver's (1991) research indicates that by gaining legitimacy a shield against unexpected changes and market fluctuations that reduced the risk of failure can be established. Miner et. al., (1990) also points out that these organisational buffers are relevant during periods of exogenous shocks.

6.6 Chapter Summary

As an administrative function, compliance relates to two distinct functions: the provision of expert advice and counsel, and the exercise of oversight and control to ensure the organisation meets its regulatory obligations in a manner that reflects best practice and adherence to social rules and practices. Such conformance, being either rules-based in the US or principles-based in other countries is prescriptive in nature. In this form it encapsulates the institutional theory's intent (Selznick, 1957) as well as a legalistic perspective (Zahra & Pearce, 1989). What could be argued is that in reflecting a more rational and tactical decision-making style it aligns with Laughlin's (1980) intellective task.

Compliance and best practice related decision-making could be seen as more rationally constructed and intellectively driven. However, current debate strongly suggests boards that adopt only a compliance role may not be supporting the business it is governing. More importantly it could restrict or impede growth potential (Collins & Porras, 1994). Contextually, decisions can also be considered by the situation in which they are made. Besides the regular monitoring aspect of a board, literature suggests that strategic resource acquisition, strategy setting and impact of unforeseen environmental forces seek decisions at board level. Effectively occurring in differing contexts, each adds a further dimension to the model deriving from literature, one that presumably brings judgementally driven responses. Hence a further dimension is applicable to the model (refer Figure 15 below).

Figure 15. Influencers of Decision-making in the Boardroom



In this way the three roles of a board as defined by Johnson, Daily and Ellstrand's (1996) work can be used to operationalise decisions and meetings types suggesting the type of decision, the form of interaction that takes, the intensity and rigour of the debate could provide a means to gain a greater appreciation of how decision-making is actually occurring in a boardroom. Similarly decision types may be aligned with the role a board chooses to operate under.

Chapter Seven: Behavioural Influences

7.1 Chapter Intent

Structure, decision types and context may shape the decision-making arena. However first and foremost, board decision-making is about human cognitive behaviour (Forbes and Milliken, 1999) for, as stated in the King Report, “directors possessing the calibre, credibility and the necessary skills and experience are required to bring judgement to bear, independent of management, on issues of strategy, performance, resources and standards of conduct and evaluation of performance” (King Report, 2001: Recommendations pg. 59). This chapter turns attention to board decision-making arising from the interaction that takes place as beliefs and knowledge are exchanged and judgement is applied. It does this by recognising such inputs affect the group’s decision-making process which in turn, impacts on the quality of the group’s decisions (Pettigrew, 1992). It also acknowledges that like other groups a board is open to reduction in independent critical thinking (Steiner, 1972) and is vulnerable to process loss (Forbes & Milliken, 1999).

Three constructs have been attributed to sound and cohesive decision-making. A number of researchers (e.g., Bourgeois, 1980; Dess & Origer, 1987) have suggested that the promotion of *consensus* is likely to enhance organisations’ decision-making processes. Conversely, *cognitive conflict* defined by Jehn (1995:258) as “disagreement about the content of the tasks being performed, including differences in viewpoints, ideas and opinions” has been viewed as a moderating variable. Similarly *inquiry*, “being the ability to ascertain knowledge so that independent critical thinking process can take place” (Innami, 1994) involving the use of “critical and investigative interactive processes” (Amason, 1996:104) has also been attributed to good decision-making. Thus, the relentless striving for decision-making effectiveness at board level can be viewed as pivoting around three behavioural outcomes: consensus, cognitive conflict and inquiry. Each in turn becomes a process intervention and interaction that influences both group cohesiveness and the ability of the individual to participate.

Such process intervention derives from the notion that group decision-making disrupts or encompasses individually held beliefs. Thus they shape the form the decision will take (Forbes & Milliken, 1999), as well as the way a group operates. Similarly, how a group is led influences the way interventions are managed and behaviour is controlled,

thus aiding the way an outcome is arrived at. Drawing on behavioural literature, and in particular the work of Sundaramurthy and Lewis (2003), Innami (1994) and Forbes and Milliken (1999), interaction is considered from the contribution made by individuals as well as the independencies and interdependencies of collaboration and conflict.

7.2 The Collective Strength of a Board

A study carried out by Innami (1994) claimed a unique distinction in a group's verbal behaviour is that group members can reason by exchanging facts and reasoned positions. This reasoning-orientation can be aligned with Cutting and Kouzmin's (2002) third phase (refer to their model on page 26 of this thesis) in which these academics refer to the logical voice of reasoning and social aspects of board deliberation. Applicable to boards, this line of academic argument inevitably involves knowledge-based logical arguments that substantiate or support the debate taking place by (1) adding the related fact and knowledge to those initially introduced by someone in a group, (2) exploring the reasons for a particular judgment or inference, and (3) clarifying the conditions and assumptions of the preceding judgment or inference (Innami, 1994:412). Together these factors suggest that a board's decision-making capability depends on the social-psychological processes, both individual and collective, such as preparation, interaction between board members, exchange of information, critical interaction that contributes to the exchange process (Amason, 1996; Butler, 1981; Forbes & Milliken, 1999; Jackson, 1992; Milliken & Vollrath, 1991), and facilitation of the exchange process (Demb & Neubauer, 1992; Forbes & Milliken, 1999), which when summed up by Demb and Neubauer (1992) assert that:

The working style of the board builds its collective strength: the board needs the trusting familiarity of a close-knit group, yet members must be independent personalities who can resist 'groupthink' and raise critical questions of colleagues.

Demb, A., & Neubauer, F.F. (1992). *The corporate board: Confronting the paradoxes*. New York: Oxford University Press, 15.

7.3 Consensus

Agreement suggests that an individual's belief and motives are consistent with a position purported by another individual. In this vein Child (1974) stated; "the

implementation of decisions reached depends upon securing the cooperation of both parties to the decisions” (1974:12). Yet consensus is more than just a simple agreement and by itself consensus does nothing to ensure the quality of the decision (Amason, 1996). To effectively arrive at a decision team members must not just agree with the decision, they must also understand and then commit to the decision.

Acceptance and agreement in a boardroom context are closely associated with *social comparison theory* (Baron & Roper, 1976; Brown, 1965) in that an individual who is internally motivated to be viewed in a socially favourable light by his or her peers may just agree without applying reason. Heath and Gonzalez’s (1995) work aligns with the thoughts of Child (1974) by insinuating that social comparison theory is relatively ineffective as a means to interpret findings. In spite of this, agreement can be demonstrated by a lack of debate, lack of challenge being made to views proposed by other directors or expressing or acting in a way that suggests he or she wants to be accepted socially by peers. Consensus decision-making, on the other hand, can be operationalised in group-research as being the level of collaboration in which group members support decisions, but only after considering the thoughts delivered by others. This could be associated with the level of respect and/or trust they have in their peers’ views and ability.

7.4 Intra Conflict between Board Members

Forbes and Milliken define cognitive conflict as “a task-oriented difference in judgement among group members” (1999:494). Such conflict can be an issue, role or control related and may become evident when a member takes an action that departs from the expected pattern of behaviour. Golden-Biddle and Rao (1997:593) refer to this as ‘conflict of commitment’. Such rising disagreement brings with it tension as board members build up defences and break away from collaborative and social controls. Rational controls, as purported by the agency theory can produce negative consequences. For example they can limit or remove an individual’s intrinsic rewards associated with growth, achievement and affiliation motives (Davis et al., 1997), and reduce social ties. As a result, the individual’s commitment is lowered, and self-serving or withdrawn behaviours may fill the void (Frey, 1997; Sundaramurthy & Lewis, 2003). If such disagreement is not restrained - it could intensify the debate occurring.

The distribution of the power in and between the roles has also been the subject of previous conceptualisation (Fredrickson, Hambrick, & Baumrin, 1988; Mizruchi, 1983; Pearce & Zahra, 1991). Individual board members hold different roles: chair, deputy chair, chair of a board committee and director. As such the role an individual plays within a group has been extensively researched (Hackman, 1987; Hackman & Morris, 1975; McGrath, 1984; Prichard & Stanton, 1999; Steiner, 1972) and can be explained by Belbin's (1981) *role theory*. According to Weick (1995) each member of the group has a preconceived notion with regard to what should take place in the boardroom, and therefore has a perception of how he or she is meant to act. Role theory emphasises that when such perceptions are accepted, a mutual understanding develops as to what the person in the role does and how she or he should behave; conceptually an interpersonal phenomenon. Therefore, when board members act in a manner that reflects the way others view the role, they create congruence between what is expected and what is enacted (Golden-Biddle & Rao, 1997).

However when individuals hold differing views of their roles (Gross, Mason, & McEachern, 1958; Kahn, Wolfe, Quinn, Snoek, & Rosenthal, 1964; Roos & Starke, 1980), role conflict emerges, particularly if expectations are not clearly defined (Aldrich & Herker, 1977; Floyd & Lane, 2000; Friedman & Podolny, 1992; Tushman & Scanlan, 1981). As Floyd and Lane (2000), contended role conflict may lead to the withholding or concealing of information from the board (Mace, 1971; Walsh & Seward, 1990), intensifying mutual distrust. Expanding this point, Lorsch pointed forward to the notion that “[s]uperior knowledge about [corporate] matters provides even the most well-intentioned chief executive with a real power advantage over the non-executive directors” (Lorsch, 1995:111). Alternatively role conflict can arise through the threat of losing control. The psychological reaction can be associated with much of the theorising on board independence; suggesting that chief executives may not respond passively to the threat of losing control of the decision-making process (Brehm & Brehm, 1981; Westphal, 1998). Distance, created between the parties, breeds content that stimulates a lack of mutual understanding and distrust. Thus, a vicious circle of control and counter control is seen as necessary (Gulati & Westphal, 1999).

Such intra conflict can see positional stances being adopted. Positional orientation, an alternative purported by Innami (1994), implies that a group member sticks to his or her position by engaging in a defensive argument, which in turns starts a cycle of

disagreements or ‘ideational conflicts’, evidenced when positions are refuted rather than supported (Maier, 1967, cited by Innami, 1994). The essence of positional orientation is reflected in the notion of devil’s advocacy (Cosier, 1978; Schwenk, 1990; Schwenk & Valacich, 1994).

Such intra conflict has been operationalised in group-research as either *dialectic inquiry* or *devil’s advocacy*. Dialectic inquiry is a process (Mason, 1969; Mason & Mitroff, 1981) whereby the group is split – both subgroups develop an alternative. Conversely with devil’s advocacy, a member of a group presents a solution and at least one other member challenges the solution and assumption (Cosier, 1978; Schwenk, 1990; Schwenk & Valacich, 1994). Amason (1996), when investigating this paradox, dichotomised conflict by dividing it into being either *affective* or *cognitive* related. Affective has emotional and incompatibility elements which create a dysfunctional effect. Such conflict brings out alternative arguments which challenge assumptions made by other members of the group (Amason, 1996; Maier, 1967; Schwenk, 1990). Thus, affective conflict is synergic with devil’s advocacy and leaves other individuals feeling less committed and less willing to work within a group. In contrast, cognitive judgemental differences or cognitive conflict can have a positive relationship with the quality of a decision and the levels of acceptance of a decision because it challenges the tabled viewpoint. Such a form of disagreement is said to stimulate critical thinking and feedback (Amason, 1996; Sundaramurthy & Lewis, 2003), but may undermine the social fabric of the team.

7.5 Cohesiveness

Cohesiveness, being the degree to which individuals are attracted to each other, prepared to engage each other, and motivated to serve on the board (Guzzo, Yost, Campbell, & Shea, 1993; Summers, Coffelt, & Horton, 1988), puts the accent on directors’ tendencies to be collectively-oriented and motivated to support each other, therefore develops an ‘affective’ dimension of board membership (Forbes & Milliken, 1999:493). In adopting the idea of collective identity it “addresses the ‘we-ness’ of a group, stressing the similarities or shared attributes around which group members coalesce” (Cerulo, 1997, cited by Lawrence, & Grant. (2005)).

The number of behavioural aspects contribute to cohesiveness suggests that discussion can be categorised as being either affective or judgemental suggesting a cohesive environment would be characterised by openness in which people should feel free to participate and offer thoughtful interaction, objective opinion and judgement. On the other hand, lack of cohesiveness could be evidenced by conflict generated from roles and positional stances being taken or affective or emotional viewpoints expressed. This section builds on the discussion relative to conflict and consensus by adopting the premise that performance can be directly related to organisation's outcomes whereas it is a board's ability to perform collectively and without conflict or positional stances being taken that reflects its ability to perform cohesively.

Satisfaction, collective efficacy adds to the cohesiveness of the group. Satisfaction, has been tested mainly in laboratory environments by employing varying survey techniques (Nemiroff et al., 1976; Rohrbaugh, 1979; Roth, 1994; Schweiger & Leana, 1986; Schweiger, Sandberg, & Ragan, 1989; Van de Ven & Delbecq, 1974). When combined with progress and coupled with experiencing consistently high performing outcomes, an individual's sense of belief or assurance is built. This belief in himself or herself, defined by Guzzo, Yost, Campbell, and Shea (1993) as *group potency*, leaves the individual believing that he or she can add to the group's effectiveness. *Collective efficacy*, the group collectively believing in its own ability (Lindsley & Brass, 1995), can be interpreted as the trust of the group in its ability to deliver on its governance roles. It follows therefore that collective efficacy suggests board members will assist one another, and have confidence that other directors will consider their view. In this manner it sets the conditions as to how they should act (Weick, 1995). Such behaviour fortifies the confidence within a group (Lindsley & Brass, 1995), and with it a willingness and desire on the part of members to continue considering the viewpoints of their peers. This raises the likelihood of members exhibiting considerable confidence in the propositions put forward by their peers, reinforcing the potency efficacy (Audia, Locke, & Smith, 2000), and with it agreement. Research has shown that the more involved individuals become the more committed they are to the decisions and processes (Bass, 1981; Locke & Schweiger, 1979). Such collective efficacy creates an environment where there is a general awareness that the group understands the cause-effect relationships associated with the decision (Sundaramurthy & Lewis, 2003). When a group believes it has discovered the right formula board members may however

overcompensate and view change as inconsequential and temporary (D'Aveni & MacMillan, 1990).

Like satisfaction, the cognitive process of identification connects individuals to an organisation's ideals. It is strong when board members believe that preserving the organisation's identity is important which in turn links to fulfillment of individual needs (Erez & Earley, 1993, cited by Weick, 1995; Sundaramurthy & Lewis, 2003). At the same time, board members' actions that maintain both the individuals' and the organisation's identities strengthen respect between team members (Golden-Biddle & Rao, 1997). This suggests that in highly collaborative settings collective efficacy is strengthened when members experience a positive association with the organisation (Dutton et al., 1994) as well as with their peers. Such associations are said to be reinforced when a group has worked together for a length of time: the longer a group works together the more efficient it becomes (Watson, Michaelsen, & Sharp, 1991). As groups tend to preserve the collective structures they create (Weick, 1979), cohesiveness has the ability to influence future board processes (Forbes & Milliken, 1999).

In a similar way to group potency, social ties can become individual mediators and influence the decisions made or shape the action. The conclusion drawn is that friendship or social ties between directors and powerful individuals have the potential to persuade and influence the actions of others (Brass, 1984; Pfeffer, 1992). As Knackardt and Stern notes, such "friendship implies trust" or the expectation of personal loyalty (1988:12). Respect, trust and understanding of others not only builds cohesiveness, it also assists directors to develop mental maps, and agree on the way they want to consider information (Lindsley et al., 1995 cited Sundaramurthy & Lewis, 2003).

Clearly a board's cohesiveness depends on the board members' ability to "trust each other's judgment and expertise" (Forbes & Milliken, 1999:496). In this sense, trust becomes an enabler of cohesiveness and collaboration among directors as well as building an open environment for thoughtful interactions (Westphal, 1999). Organisational literature distinguishes between calculative and non-calculative trust. Trust associated with the self-interest and opportunistic nature of individuals, (behaviour that aligns with the agency theory) is essentially a calculative phenomenon concerned with ensuring that individuals understand the constraints and sanction

mechanisms that enforce trustworthiness. Non-calculative trust, on the other hand, is a willingness to be vulnerable to the actions of another party (Mayer, Davis, & Schoorman, 1995), and is based on an assessment about who and what can be trusted. Thus non-calculated trust refers to a person's belief that another is making a sincere effort to uphold commitments and is not taking advantage of any given situation or opportunity (Cummings & Bromiley, 1996; Rousseau, Sitkin, Burt, & Camerer, 1998).

Ethical behaviour and the ability to deliver on assurance are widely acknowledged as the two essentials for people to earn the trust of others, especially in business-related situations (Lane & Bachmann, 1998; Sheppard & Sherman, 1998). In this way non-calculated trust is commonly accepted as having a variety of positive effects (Kamer, 1999; Kamer & Tyler, 1996). These were demonstrated conclusively by Dirks and Ferrin (2001) when studying 43 empirical studies, all of which showed that trust results in benefits. Teams high in characteristics such as cohesiveness and trust can exert a powerful influence on individuals within a team to conform (Baron, Vandello, & Brunsman, 1996). It is non-calculative trust that is implied in organisational base theories of corporate governance. In spite of the effect that trust has on attitudes and perceptions where it has been found to produce consistently positive group behaviours, the effects of such trust on behaviour and performance have been found to be "weaker and less consistent" (Dirks & Ferrin, 2001:455).

Trust extends beyond the boardroom. Shareholders' behaviour is driven, not only by the amount of risk they are willing to take, but also the extent of trust they have in the board, as well as trust in the efficiency of the market (Ryan & Buchholtz, 1998). Roberts (2001) conceives trust is therefore an outcome of ongoing processes and practices in and around the corporation. Powell argues that such trust "is neither chosen nor embedded, but is instead learned and reinforced" (1996:63). This could explain, at least in part, why trust has less direct effect on performance related outcomes than it does on attitudes and perceptions. In this vein trust acts as a moderator.

Cohesive boards also contribute to the effectiveness of the company through the procedures, processes, strategies put in place in the course of the decision-making process (Miller, 1994; Milliken & Lant, 1991). When directors experience high levels of cohesiveness, a willingness to direct their energy and effort on behalf of the corporation is more likely (O'Reilly et al., 1989), suggesting the procedures, process and strategies

are more likely to be collectively agreed on and adhered to. Within a collaborative and interactive board members seek greater input from all directors as well as advising and working with the management team (Westphal, 1999). As this is an environment that supports management who in turn value board members for their expertise (Baysinger et al., 1991) social ties between the board members and management foster trust, which in turn helps management to seek greater input from the directors (Westphal, 1999).

Similarly, directors may be more open if they are confident that senior management will accept their views. Thus, when management and the board work in a harmonious, collaborative way it not only engenders trust, the groups begin to reinforce a common bond, particularly with management feeling its ability to deal with the operational issues is acknowledged, or with shareholders when there is open communication. Equity ownership has been said to promote trust signaling an enduring board-management relationship (Dalton & Daily, 1999). Several authors have suggested that such friendships represent a potential mechanism for co-opting board members (Fredrickson et al., 1988; Mace, 1971; Pfeffer, 1992; Wade et al., 1990).

7.6 Group Interaction

A core question raised by researchers e.g. (Amason, 1996; Schweiger & Sandberg, 1989) seeks to find if conflict is beneficial or detrimental to group process and to cohesiveness. Literature relating to cohesiveness, agreement and conflict point to behaviours that impact on decision-making. Very high levels of cohesiveness have been purported to prove detrimental to the quality of a board's decision-making process, as such cohesiveness could either generate *agreement without interaction*, thereby not improving the quality of the decisional outcome, or it could encourage *interaction* that by its presence only may not facilitate the application of reasoning (Sundaramurthy & Lewis, 2003). This suggests that cohesiveness has the ability to detract from or constrain the proliferation of exchange of ideas and opinions (Forbes & Milliken, 1999). Over time it is said this can induce complacency and entrenchment by board members (Lindsley & Brass, 1995). Yet Janis and his colleagues (1972), as outlined in Chapter Three, reveal conflict plays a critical role in reducing process losses (Janis, 1972; Janis & Mann, 1977). This intimates that although cohesiveness is the most prominent and frequently commented antecedent of "group think" it is not sufficient on its own to lead to groupthink. To do so, it must be accompanied by a some level of cognitive conflict

(Janis, 1983; Mullen & Anthony, 1994), for as Janis' (*ibid*) work strongly purports it is through tension and interaction that the quality of decision-making can improve. Early Schmidt (1974) found that conflict has the capability to enhance decision-making quality and lead to better decisions in the short-term. This line of reasoning suggests that conflict has the capability to aid decision-making and therefore is not always a negative intervention. When appropriately controlled may even stimulate more reasoning-oriented arguments.

Despite the fact that trust can heighten confidence and contribute towards cohesiveness, trust also requires risk: without risk, trust would not be necessary (Chiles & McMackin, 1996). As the threat rigidity hypothesis (described in Chapter Two) asserts, an individual's level of trust leads him or her directly to the amount of risk he/she perceives is relative to the decisions taken and expected return. Some decisions made in a cohesive environment may therefore result in a more risky strategy. This comes about because directors, rather than challenge the views of others or turn attention onto reducing the risk or uncertainty associated (McLain & Hackman, 1999), chose to remain silent. Thus a high degree of trust can become a further contributor to process loss. Clearly, trust is difficult to sustain on boards with very low levels of interpersonal attraction (Forbes & Milliken, 1999:496). A further example shows that declining performance may be overlooked as commitment to failing courses of action is fostered (Kisfalvi, 2000, cited by Sundaramurthy & Lewis, 2003) or worse remain undetected.

The work of Sundaramurthy and Lewis' (2003) provides further insight illuminating that when directors experienced shared collective efficacy as described by Janis (1983) they can adopt a false sense of ability and security and as a result often ignore environmental changes or do not carry out critical analysis. Thus, groupthink has the capability to fuel threat rigidity type responses during times when things were not going as well as anticipated, for instance, when performance is declining or when the wrong strategy is adopted (D'Aveni & MacMillan, 1990). Even when declining performance is recognised boards may exert energy and effort in defending the current course of action, even though it may not always be the most desirable way forward. In such situations the lack of cognitive conflict has the ability to inhibit effectiveness.

Thus groupthink is easier to defend when an organisation is doing well but more difficult when performance is in decline, for when performance and cohesive factors are

low, the collective efficacy turns towards face saving (Staw, 1976). This may extend to blaming others (Sundaramurthy & Lewis, 2003, citing Boeker, 1992), rather than resolving the issue, thus internalising defenses and propelling a downward spiral (Sundaramurthy & Lewis, 2003). The value therefore of cognitive conflict is that through it the status quo and collective thought of the group can be challenged which may in turn change the course of action (Maier, 1967). While positional forms of conflict may prolong debate or worse stop a decision being reached dialectic inquiry (Mason, 1969; Schweiger et al., 1989; 1990) has the ability to act as such positive contributor to the process. Equally, process loss applies to the facilitation of the decision-making process, where time and effort is lost if the discussion is not directionalised or purposeful.

Literature on interactive decision-making provides further insight. Deutsch and Gerard (1955), identified individuals who either *comply* with other group members' preferences and expectations (normative influence), or are *pressured to accept* the statement of evidence presented by others (informational). Fisher and Ury (1981) contrasted ways of negotiating as being either *principled* (interest-focused) or *positional* (position-focused). In a similar way Hastie, Penrod, and Pennington (1983) when studying juries proposed that input is either *evidence-driven* or *verdict-driven*. Likewise Innami (1994) claimed interaction can be classified as being either *reasoned* or *positionally* oriented. These suggest that facts by way of evidence or principles are synergic as are positioned, verdict and judgemental responses.

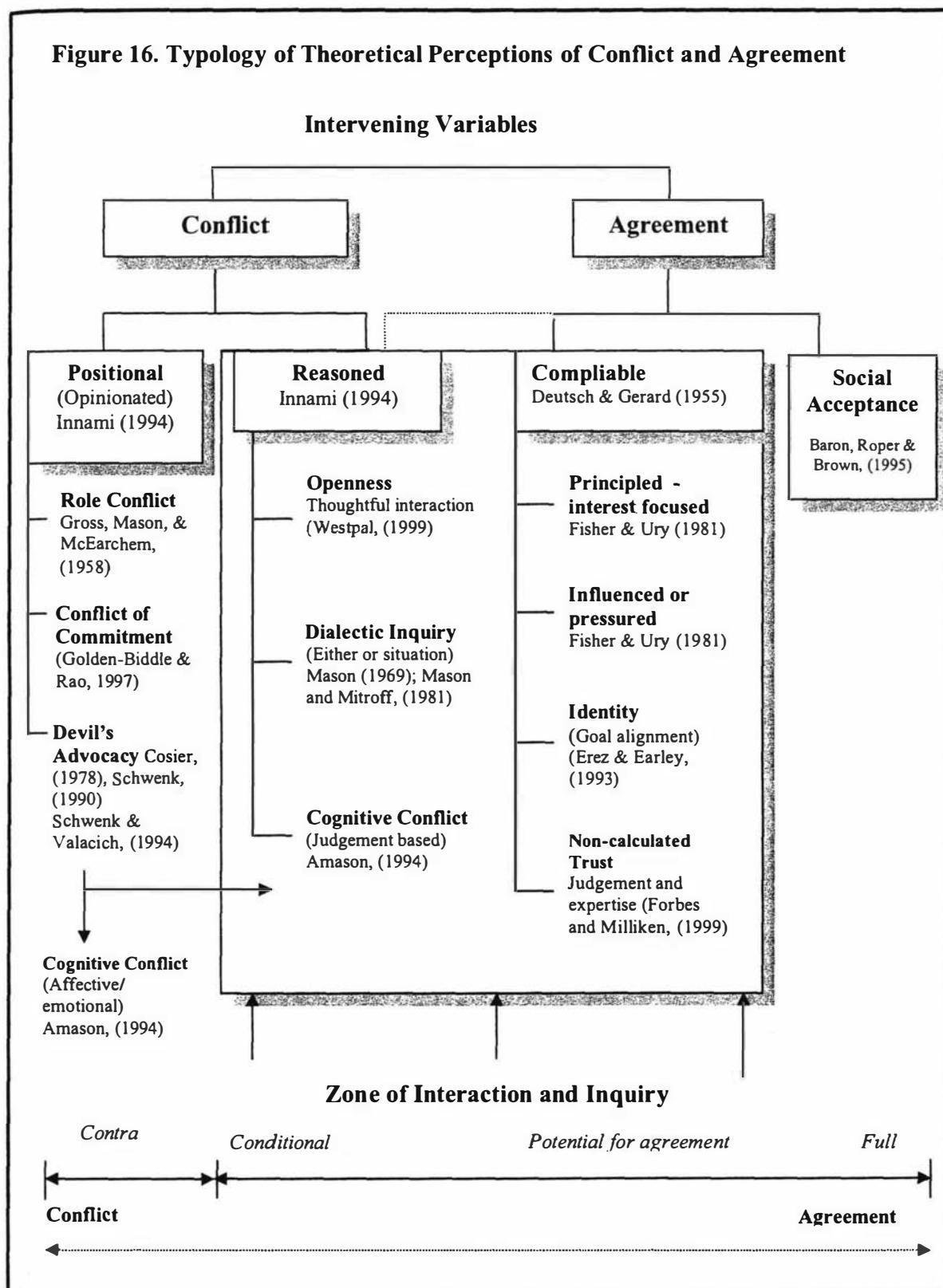
Robustness of debate can be affected by such responses. Atkinson and Salterio (2002) suggests that, on average, experts will only state their view once or twice in a group discussion and if it is not picked up that knowledge can be lost thereby as Hoffman (1978) advocates preventing the adoption of a solution or seeking a premature consensus. Jehn (1995:258) in referring to task-oriented differences, defined them as cognitive conflict where "disagreements about the content of the task being performed, including differences in viewpoints, ideas and opinions". Whereas positional or ideational conflict, as discussed earlier, captures the notion behind Amason's work (1994) it also can evoke defensive argument (Garvin & Roberto, 2001), causing other group members to refute the argument and provoke 'I win, you lose' situation. Instead Stasser and Steward (1992) contend that better judgements are reached when groups share critical, pertinent and unique information through in-depth reasoning. Such

reason-orientation being “the degree to which group members exchange ideas, facts and reasons” (Innami, 1994:412) involves the application of knowledge-based logical argument that substantiate group discussions.

Alternatively, interactive decision-making has been viewed as *group polarisation* (Abelson, 1973) Davis (1973), Kogan and Wallach (1967), and Burnstein and Vinokur (1975; 1977). Group polarization has been defined as, “a procedure where individuals consult with others but make their final decision alone” (Heath & Gonzalez, 1995:306). In essence it challenges the notion of persuasive argument theory in that the individual considers rather than is automatically persuaded by the opinion or views of others.

As this literature review points out, there are a number of theoretical propositions on which to operationalise a board’s decision-making role and the individual contributions board members make. This suggests that a typology, built on the premise that theoretical perspectives can be categorised as either being conflict or agreement based, provides a means to consider the various theoretical perspectives and their relationships. Such a typology is set out in Figure 16.

Figure 16. Typology of Theoretical Perceptions of Conflict and Agreement



7.7 Facilitating the Decision-making Process

If leadership is a key determinant of group potency (Guzzo et al., 1993), therefore the facilitator of process gains or process loss is critical. This suggests that chairs of boards,

in dealing with such behavioural issues, must recognise the contributors to, and pernicious effects of, the biases associated with groupthink and take steps to avoid them.

Clearly, the chair and chief executive, as the axis or synthesis, hold key leadership roles. Cadbury (1992) argued that a clear devision of responsibility should be in place suggesting that how these dual leaders work together is an moderating variable to board decision-making (Cadbury, 1992). As the duality debate continues was has been acknowledged that when the roles are separated a harmonious relationship is desirable for the reasons that it has the potential to reduce “the potential of entrenchment and to check omnipotence with the routine of regular accountability to others” (Roberts & Stiles, 1999 p.47). Yet, as these academics point out, little is written on this relationship or how it works in practice.

When two individuals hold these roles, role theory (Belbin, 1981) may explain the relationship between the chief executive’s position and the board of directors, and the structural issue of the chief executive/chairman’s role. This turns attention to leadership styles.

Managerial behaviour literature, particularly relating to egocentric management (Bourgeois, 1985), emphasises that the leaders’ or organisational elites’ personal belief systems guide decision-making (Johnson, 1998; Shrivastava, 1994). In a similar manner Pawar and Eastman (1997) propose that when group members socialise to achieve self-interest or social acceptance and one charismatic personality begins to dominate the groups behaviour, members can quickly become receptive to transformational leadership. Thus charismatic leaders are said to be very persuasive, having the ability to gain commitment to an idealised vision (Conger & Kanungo, 1987, 1988) through influencing other team members (Bryman, 1992; Conger, 1990). This suggests such a leader will exhibit confidence and develop fresh approaches to long-standing problems in a way that promotes his/her cause over opposition. In doing so he/she will inspire others to support the initiative (Bass, 1985; Bass & Avolio, 1990; Yammarino, Splanger, & Dubinsky, 1998). Transactional leaders, on the other hand, are those primarily concerned with subordinates’ task performance in pursuit of meeting organisational goals and objectives (instrumental behaviours). With their attention drawn to task analysis, coordination, financial control, and monitoring internal

processes in a search of productivity and efficiency, such leaders gain the commitment of followers through the processes of contingent reward (reinforcement of desired behaviours) and management by exception (identifying and punishing subordinates' errors (Bass, 1985; Bryman, Stephens, & Campo, 1996).

7.8 Chapter Summary

Literature suggests converging of views, ideas and thought between the way individuals on a board behave and the decision-making framework take three forms: agreement, disagreement or consensus. It is these forces that come together that shape the interactive process.

Cohesiveness is viewed as a positive step towards consensus yet amongst the group it can bring extreme outcomes. Not only has it been found that a high level of cohesiveness may be dysfunctional, high levels of disagreement are associated with high performance. Notwithstanding these, not all forms of disagreement or the means with which they are applied improve decision-making performance and thereby effectiveness. Thus disagreement inevitably becomes an important consideration, as it is interaction or the process by which knowledge is agreed on or disagreed with. This suggests that debate can be operationalised through the presence of agreement, interaction or disagreement.

Normative-influence, interest-focused, evidence-driven reasons have strong affiliations with *inquiry*, an open-group process that encourages multiple alternatives, fosters ideas and produces well-tested solutions. *Inquiring*, therefore, is process of examining and testing information rather than accepting it. It also encompasses the proposition of verbal behaviour being *reasoning* rather *positional*-oriented (Innami, 1994:412).

The chair-chief executive clarifies where the decision-making authority lies, can reduce role conflict, and reassure shareholders (Finkelstein & D'Aveni, 1994). Thus, the question of leadership styles and the working relationship between the chair and chief executive appears important to effective governance.

Chapter Eight Emerging Model and Research Propositions

8.1 Emerging Model

Agreement, inquiry or conflict lies at the centre of decision-making and these behavioural inputs form the decisional outcome and take one of three major forms: consensus, inquiry or conflict. Both individual and group decision-making processes influence the way the decision is made, which in turn is shaped by individual qualities: social connections; competencies, skills, leadership style and specialist knowledge, the way an individual perceives and acts out his/her role and the information gathered and presented.

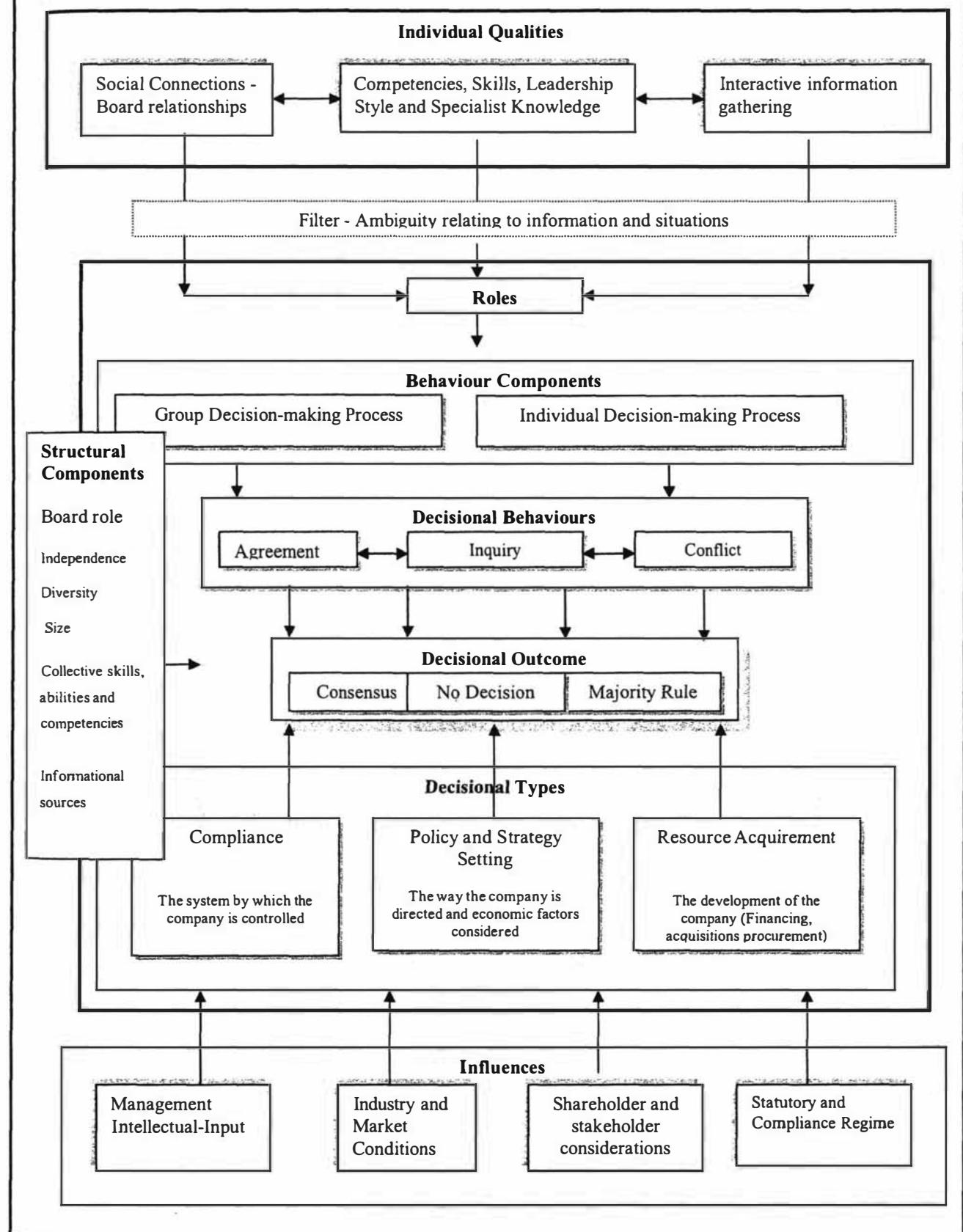
Information including data brought into the boardroom can be described as: compliance, policy and strategic setting or for acquisition procurement.

Such intervening variables are moderated by the composition of a board. Size, presence of skill-sets, knowledge and experience and/or independence of board members are shown in governance literature as key structural variables. Less often referred to in literature are the informational sources, even though decisions are based on information available to the decision makers. Such information can be influenced and/or shaped through the source it is secured: management, industry and markets, shareholder and stakeholder considerations or viewed as compulsory because of statutory and compliance regimes.

Although the component parts have been discussed in literature what is not known is how the various components influence the decision-making process or how they shape the way effective decision-making. In trying to answer the question as to what determines effective decision-making at board level, literature illuminates the interrelationships of six constructs. Expressed in Figure 17 these constructs are ripe for exploration.

Board effectiveness, as presented by Forbes and Milliken's (1999:492) and described in Chapter One, means exploring a performance related criterion defined "as a board's ability to perform its control service functions effectively" and the "board's ability to continue to work together, evidenced by cohesiveness within a board". Setting a number of propositions is a starting point.

Figure 17. Conceptual Model of Functional Activities of a Board



8.2 Emerging Research Propositions

The twelve theoretical perspectives set out in Chapter Two illuminate that a board's role is perceived differently by a number of academics. Similarly, as shown in Chapter Three, corporate governance literature is increasingly reinforcing the perception that boards of directors do more than merely ratify and monitor strategic plans set by management (Hendrick & Struggles Inc, 1990; McNulty & Pettigrew, 1999; Worthy & Neuschel, 1984). Instead it is now being argued that boards set the strategic course for an entity along with a shared obligation of accountability for the delivery of it (Hambrick, 1989; Henke, 1986; Ingle & Van der Walt, 2001; Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999; Zahra & Pearce, 1989). Thus the first theme emerging is that the fiduciary obligations of a board are still being debated.

When viewed as a continuum the traditional perspective of approving, monitoring and reviewing tasks that reflect compliance with legislation and best practice would be at one end, and at the other end the active participation of formulating and initiating strategic initiatives (Ingle & Van der Walt, 2001). However literature is weak in pointing out which end or point between the two ends, is associated with effectiveness. This gives rise to the first two propositions.

Proposition One: Effective board decision-making focuses not only on compliance, regulations and best corporate practice but adopts a wider role that includes setting strategy and policy.

Proposition Two: An effective decision-making board would possess characteristics, which distinguish it from an ineffective decision-making one.

This theme opens a number of sub themes: structural, decisional and behavioural, both present further propositions.

The second theme emerging from the literature relates to *the structural composition of a board* that takes into account the size, diversity of the collective skill-sets, knowledge and experience present in addition to access to information. As Chapter Five shows that although the optimal size of groups and boards has been debated in theoretical literature

by academics and business advisors (Dalton & Rechner, 1989; Finkelstein & Mooney, 2003; Korn Ferry International, 2004), current trends suggest the size of boards may be decreasing. In seeking a resolve to the many contextual issues an increased presence of independent directors has been advocated. Coupled with the notion that each director brings unique experiences, varying levels of knowledge, as well as differing sets of skills and expectations (Tricker & Lee, 1997; Lee & Phan, 2000; O'Higgins, 2002 as discussed in Chapter Five) suggests resource, size and diversity may be pivotal to effective decision-making. Structural considerations give rise to a third proposition aligning structural variables with decision-making effectiveness.

Proposition Three: An effective decision-making board would be relatively small in size and its demographic base would comprise mainly independent directors with a diversity of skills, competencies and experience, as well as judgemental and analytical styles present in the boardroom.

The differing perspectives of a board's role open up the notion that differing types of decisions, as illuminated in Chapter Six, are associated with the differing roles: narrower compliance focus or the wider strategic focus. It therefore follows that the decisional types and interactive process could take different forms. This third theme shapes Proposition Four and links the decisional framework with behaviours:

Proposition Four: Responses required to meet the compliance regime would be more compatible with deterministic principles associated with rational (Bernoulli, 1793), intellective (Laughlin, 1980; Innami, 1994), and principled (Fisher & Ury, 1981) decision-making. Likewise, boundedly-rational (Simon, 1947; March & Simon 1958), judgemental (Laughlin, 1980; Innami, 1994), or evidence-driven behaviour (Hastie, Penrod & Pennington, 1983) would be more compatible with the task of strategic decision-making.

Chapter Seven, introduces a fourth and behavioural theme implies consensus and conflict are the two intervening variables of interaction. Whereas agreement can be viewed as decision-making that is devoid of cognitive conflict, consensus is agreement reached after deliberation. Cognitive conflict with an emotional or incompatibility element can have a negative impact on decision-making. Cognitive judgemental

differences, on the other hand, have been viewed as adding to the quality of the decision (Amason, 1996). This theme leads to the fifth proposition.

Proposition Five: that dialectic conflict, introducing cognitive judgemental differences, (as opposed to positional or affective conflict), is a necessary prerequisite of consensus decision and is evident in effective decision-making.

A fifth theme which is entwined with the decision-making process reflects *the level of effort* each director brings to the task and the influence they exert over the behaviour of other board members. One proposition emerges from this theme.

Mace argued many board members fall short of realising their potential, due in part to their lack of preparedness (Mace, 1986). This 'effort construct' suggests that individual members of should i) ensure they are informed on issues and, ii) have given consideration to the issues on the agenda prior to the board meeting.

Proposition Six: Effective decision-making reflects how members are informed on issues and their level of preparedness.

The sixth theme which reflects the climate in which decisions are made turns attention to interactive nature of the debate, the decision-making process and facilitation ability of the leader. Being both an individual and a group-level construct, behaviour can be associated with the varying roles: chair, chief executive officer or directors. By employing role theory the behaviours of each could be considered both from an individual perspective and also how each role holder works with other board members. This gives rise to two propositions.

Proposition Seven: Board members behaviour is related to the role they hold and how that role is perceived by other board members.

Proposition Eight: The nuances of chairman/chief executive relationship impact on the decision-making process.

What is not often emphasised is that the Cadbury Report (1992) also called for unfettered decision-making. As a theme unfettered decision-making implies information flows are not constrained suggesting information from various sources. This seventh theme gives rise to the following proposition.

Proposition Nine: An effective decision-making board would consider information from a number of information streams.

As Chapter Two illustrates, the twelve theoretical perspectives of corporate governance contain varying levels of trust with the more recent theoretical evolution acknowledging the value of a relationship based on trust. It challenges the more traditional theoretical perspectives of a board that advocates management is opportunist and therefore its power should be limited. This gives rise to two propositions.

Proposition Ten: Trust would be a dominant characteristic of effective decision-making.

Proposition Eleven: Instead of just obeying a board, management works with the board and demonstratively brings appropriate information into the decision-making area.

8.3 Chapter Summary

Testing the eleven propositions would provide a fresh view of decision-making in a boardroom and provide a means to identify differing characteristics between ineffective and effective boards. At the same time this approach would allow academic thought and previous research findings to be aligned or disputed.

Part Three: Research Methodology, Method, Findings and Conclusions

Chapter Nine: Methodology and Method Employed

9.1 Introduction

High profile failures and corporate concerns starkly highlight the risks associated with weak boards and the consequence of poor decision-making at board level. Leblanc (2001) points to a well-founded concern which is that research into boards may not be telling the whole story, nor do we know why and how corporate failures occur.

As mainly quantitative research has been conducted, many of the visible aspects considered as outputs of the governance process have been collected through extensive use of secondary data with a significant number employing archival data gathering techniques (e.g., Finkelstein & Hambrick, 1996). Some studies into corporate governance have relied, at least partially, on primary data (e.g., Daily, 1995; Pearce & Zahra, 1991; Zahra, 1996; Zahra, Neubaum, & Huse, 2000), but again these are rare; most of the data and information has been collected outside the boardroom. The lack of empirical knowledge relating to such board practices has been noted by several commentators (e.g., Stake 1999 citing; Pettigrew, 1992). It calls for a naturalistic study (Lipshitz et al., 2006) but made difficult due to obtaining access to activity within boardroom under normal working conditions.

Even though academics such as Clarke (1998) and Forbes and Milliken (1999) remind us that boardroom observation is related to access problems, legal considerations and confidentiality, researchers (e.g., Pettigrew, 1992; Finklestein and Hambrick, 1996; Clark, 1998; Leblanc, 2001) stress it is a way to observe group dynamics and the decision-making process as they are happening. Hence comparing characteristics of ineffective and effective board decision-making of a normal board working conditions would give clarity to determinants associated with effectiveness.

Corporate governance research has traditionally centred on the relationship between board structure, size, composition and leadership structure (Leblanc, 2001). Studies of boards have in the main employed a quantitative methodology even though in 1969 Zald raised awareness of the lack of empirical evidence in the field of corporate governance. Calls from many researchers (i.e. Clarke, 1998; Daily et al., 2003;

Finkelstein & Hambrick, 1996; Leblanc, 2001; Mintzberg, 1987; Pettigrew, 1992; Pettigrew & McNulty, 1998; Zahra & Pearce, 1989), have continued to question whether quantitative studies are effective methods through which to draw meaningful conclusions on board process. Instead they point out that qualitative research would provide a richer description of the dynamic complexities. Pettigrew (1992) articulates this concern by saying that in many studies of boards:

...the study of boards and their directors has not been helped by over-ambitious attempts to link independent variables such as board composition to outcome variables such as board and firm performance...great inferential leaps are made from input variables such as board composition to output variables such as board performance with no direct evidence on the processes and mechanisms which presumably link the inputs with the outputs.

Pettigrew, A. (1992). On studying managerial elites.
Strategic Management Journal, 13 (Special Edition), 171.

Finkelstein and Mooney (2003:103) believe that "If you want to understand board process and effectiveness you have to talk to the people who sit on boards". After studying 146 published articles, books and chapters, published between 1980 to 1994, Finkelstein and Hambrick (1996:327) suggested there is "likely to be increased difficulty in ascertaining primary data relating to directors' behaviour", particularly in their role as strategic leaders. However, as Innami (1994) asserts, it is through analysing group behaviour that effective groups can be differentiated from ineffective ones. In this vein understanding how the decision-making process is operated, the types of decisions debated, the interactive manner that is adopted by board members, and the way input from, and impact of, external forces are handled, become central to understanding decision-making at board level. Boards, however, differ in the way their members interact and how the decision-making process is managed (Zahra & Pearce, 1989). It is this access to the intricacies of human behaviour and the possibility of fine-tuned studies that, according to Clarke (1998), is absent in the corporate governance field yet it appears the most appropriate way to gain a greater understanding of the practical application and implications of decision-making.

The work of Forbes and Milliken (1999) provides a model of characteristics, process and effort norms referred to consistently throughout this thesis that could be applied,

while Samra-Fredrick's (2000) ethnographic study within the boardroom showed that access can be gained. The same study demonstrated that a systematic and rigorous methodology can produce meaningful results. This suggests qualitative research is an appropriate methodology to study decision-making as it is being actioned.

9.2 The Qualitative Paradigm

This thesis adopts the general definition of 'qualitative research' put forward by Creswell (2003), when he describes qualitative research as an inquiry in which the researcher seeks to establish the meaning of a phenomenon from the views of several participants. As Creswell (2003:20-21) points out one of the key elements when collecting data is 'to observe participants' behaviours by participating in their activities'. Although the approach differs from that of non-participative quantitative research, the ultimate purpose is the same: to facilitate the advancement of knowledge and paradigmatic development within the field of decision-making.

9.3 A Case Study Approach

A case study, defined by Anderson and Arsenault (1998:293) as is an "empirical investigation...[and]...a qualitative form of inquiry, relies on multiple sources of information". This suggests that, when conducting case studies, researchers can typically use up to seven sources of evidence: documentation, file data, interviews, site visits, direct observations, participant observation, and physical artifacts (Anderson & Arsenault, 1998:155). While Anderson and Arsenault contend the interview is the prime source of case-study data, research supporting this thesis draws heavily on data collected through observation, with data derived from interviews and other sources supporting the findings and adding a further dimension to the study. This approach is consistent with the work of Nicholson and Kiel (2003) who adopted a case method to investigate board composition and corporate performance.

Qualitative case studies can be characterised as being "particularistic, descriptive and heuristic" (Merriam, 1998:29), meaning that the focus can be on a particular situation, event, programme or phenomenon. Yin (2002) suggests a case study should be defined as a research strategy, an empirical inquiry that investigates a phenomenon within its real-life context. An alternative definition, proposed by Wilson (1979, cited by Merriam, 1998:29) argues that it is "a process seeking to describe and analyse some entity in complex and comprehensive terms (not infrequently) that unfold over a

period". A case study has also been defined by Stake (cited in Denzin & Lincoln, 2000:436) as "having quality-specific characteristics: single focus; patterned behaviour; coherence; sequenced and bounded, in which the researcher collects detailed information using a variety of data collection procedures over a sustained period of time". Stake (1995:45) also puts forward the notion that "qualitative inquiry is subjective and, therefore, unless researchers subject their work to rigorous protocols to eliminate subjective misunderstandings, their study may be invalid". One way to remove subjectivity is to seek external review of the material collected.

Stake, cited in Denzin and Lincoln (2000), identified three types of case study: An *intrinsic* case study undertaken for in-depth knowledge of that case; a *collective* case study, which extends to a collection of cases to investigate a general phenomenon, and an *instrumental* case study, which examines a particular case to provide insight into an issue to reframe a generalisation. It is suggested that the case study approach viewed as suitable for gaining a greater appreciation of boardroom decision-making is instrumental. Firstly by adopting such an approach, the external interest of study could be pursued and the case itself would become of secondary interest. Secondly, given the sensitivities associated with boardroom decision-making a single case study may reduce the fear of any competitive information being central to a study. These lend support to the primary function being to study decision-making as it occurs in practice by working with only one company. Nevertheless, a single case study still provides important insight, because through its aspects of the study can be explored in depth, its context can be scrutinised and its ordinary activities detailed (without revealing competitive information). By these means, a case study facilitates "the search for greater understanding" (Stake, cited in Denzin & Lincoln, 2000:437). The end product would be an extensive description of the decision-making phenomenon, enriching, in turn, the readers' understanding.

A further advantage presents itself. By connecting existing academic thought with recently observed behaviour, such a study would capture the essence of Aleksandr Solzhenitsyn's (1993:3) intention when he quotes that: "no new work of art comes into existence (whether consciously or unconsciously) without an organic link to what was created earlier" (cited in Denzin & Lincoln, 2000:57).

From a scholarly perspective, observing the intricate facets of how decisions are reached in a boardroom, is ethnographic in nature (Garfinkel, 1967; Hertitage, 1984, 1997) as it looks at the cultural and processual aspects of a group as the group carries out its accepted practices. Ethnostatistics, as introduced by Gephart in 1988, are described by Smith, Gardner and Boje (2004:3) “as the qualitative study of how researchers (or practitioners) employ quantitative metrics to persuade”, and were defined by Gephart (1988) as “the study of the construction, interpretation, and display of statistics in quantitative social research” (Gephart, 1988:9). This definition implies that “almost any numerical summary that is the outcome of the application of rule-governed calculations. For example, the number of runs batted during a baseball game are statistics in this meaning of the term” (Gephart, 1988:10). Numerical representations of day-to-day activities of an organisation can therefore be analysed using ethnostatistics.

Ethnostatistics involves three levels. The first level uses qualitative and ethnographic methods to observe the naturally occurring actions and activities, providing a basis for assessing these. In this case study the number of meetings held by the board, the number of board members serving as directors, the skills, abilities and knowledge possessed by directors, characteristics ascribed by the directors relating to boards and the behaviours and actions demonstrated in the boardroom are outcomes of this first level process. Whether presented in a textual form, a numerical data format, or a combination of both, the meanings ascribed are specific within the context of this study. The second ethnostatistic level investigates the content of basic technical and practical assumptions made in statistical analyses. Accordingly, the adequacy of the assumptions illuminated in the first level analysis is considered with the aim of discovering limitations that may exist. In this analysis, the actions demonstrated in the boardroom have been categorised. The third level looks at statistics and table presentations as rhetoric of quantitative justification (Gephart, *ibid*). Thus the three levels provide a way to construct, interpret then display and discuss the findings.

Collectively, the three ways to analyse data through employment of this methodology provides a way to make sense of activities and interactive constructs that occur in a dynamic and turbulent context by providing a descriptive account and analysis of what happens in reality. It achieves what Weick (1993:635) argued is the basic idea of sensemaking, where “reality is ongoing accomplishment that emerges from efforts to

create order and make retrospective sense of what occurs". It is thus, as Berger and Luckmann (Berger & Luckmann, 1967) purport, a process of social construction.

Another consideration is the length of time spent carrying out research. The importance of time spent in action can be drawn from Innami's work (1994) in which he found that a shorter time limit when imposed hampers even potentially effective groups from substantiating their discussions. Hirokawa's (1980) study took 20 minutes compared with Innami's which took 40 minutes (Innami, 1994:426 cited both studies). This intimates that respondents need time to explain or clarify the rationale behind their response.

Verbal interaction through interviews or recorded from observation and notation, as shown by Samra Fredrick (2000), can provide input data. As ethnostatistics has the ability to convert such qualitative data into quantitative findings allowing interpretive analysis to be made means that constructs such as structure, decisional types, and behaviours, can be investigated and considered. This strand of research appears appropriate to investigate boardroom decision-making as the outcome provides a descriptive perspective of board decision-making.

In summary the findings of such a study would add to the growing body of literature relative to both corporate governance and decision-making, to be developed in a way that would incorporate the views and calls made by academics such as Mintzberg (1987), Pettigrew (1992), Finklestein and Hambrick (1994), Clarke (1998) and Finklestein and Mooney (2003) for it would provide what Eisenhardt and Zbaracki (1992) allude to as a richer version of strategic leaders' decision-making processes. From the outcomes derived from observing boardroom decision-making-in-action investigative areas for further study could emerge. From a pragmatic perspective, this approach opens up debate on boardroom behaviour.

However it also has limitation. A study of more than one board in search of the characteristics that align to behaviour and process is, as outlined in the previous chapter, inherently fraught with biases and therefore could provide inconsistent results. For instance, if the findings of randomly selected boards were analysed, inconsistency would most likely occur due to the differences between industry sectors, the nature, purpose and timing of information as well as activities associated with each board.

Alternatively, to compare corporate boards in the same industry would place any researcher and the boards being studied in an ethical dilemma due to the competitive nature of the organisations. Although the degree of difficulty would depend on the sensitivity of the competitiveness it may limit the reporting of findings. Instead to overcome such inconsistencies a particular case study methodology as outlined in previous chapters was viewed as appropriate to examine a board that was acknowledged as being an effective decision-making body as the research sought to investigate a general phenomenon, in this case boardroom decision-making in action.

The limitations of examining a particular case study by adopting an instrumental approach were also acknowledged. Although the method allows observation and semi-structured interviews to be conducted and the findings compared with current literature it lacks the comparative dimension possessed in a collective study. Therefore it could neither be shown to represent other cases although it may be seen as typical of other cases, nor would be employed for theory building. However, to overcome this weakness the knowledge, experience, conscious beliefs, opinions, attitudes and values of the individuals possessed by the case study respondents when captured provided a means of gaining a deeper understanding of the phenomenon being researched. This technique transfers the task of making comparisons from the researcher to the board directors. In this way a common point of reference (the board being observed) forms a benchmark from which the characteristics of other boards they served on can be considered and commented on. With the aforementioned methodological limitations in mind, the adoption of an instrumental case study, employing interpretive methodologies appears appropriate as it enables a board to be studied as it made decisions that impacted on the organisations. Thus intervening variables and their influences can be observed, then quantified, to some extent.

With eleven years experience as General Manager and attendance at board meetings the researcher had formed an understanding as to how the processes at board level can operate, how culture of a board is formed and influenced by individual and group behaviour. Such experience reinforced the difficulty of access to a boardroom yet provided contacts and connections to those who sat on corporate and SOE boards. During many of the board meetings attended the sensitivities associated with decision-making at board level became apparent. However, the most marked observation was the impact that decisions arrived at had on the way the organisation functioned: from

both an internal and external perspective. For example, when decisions made were clear, directional and communicated in a meaningful way, individuals were more likely to work at achieving them. When the decisions were neither put forward by management nor fully understood by staff the conversion of the decision to action often became arduous. While observation raised this aspect little research was found in the literature. Such a notion led the researcher to consider not only process and behaviours but to explore the part trust plays in decision-making and the value of management input.

9.4 Method Adopted

To advance this study three aims were identified. To select a corporate board perceived by corporate leaders as possessing a strong board decision-making capability was the first. The second was to ensure that the processes occurring within such a boardroom were observable and able to be operationalised. The third was to draw on the collective wisdom and expertise of the participants who would firstly be observed making actual decisions and then interviewed to gain an insight of their experiences and perceptions of effective boardroom decision-making. An eight-phase qualitative approach involving multiple sources, techniques and analysis tools was employed. In chronological order the phases described more fully below were: (1) identification of a board to study, (2) gaining insight into the corporation, (3) observing the board in action, (4) interviewing members of the board and senior management, (5) analysing data (6) reporting back to the board, (7) cross-method data analysis, and (8) model compilation.

9.4.1 Phase One: Identifying a Board to Study

Information from public records provided a profile of suitable organisations that could be worth approaching. In discussion with two professional governance advisors criteria were devised and associated weights, based on the perceived importance of that factor compared with the other selected factors, were agreed on. For example, as the aim of the exercise was to identify determinants of effective decision-making at board level the general perception of each board as an effective decision-making body was weighted higher than the maturity of the market that it operated in. The criteria used for short-listing entities are set out in the following table.

Table 2. Selection Criteria

Condition	Rationale	Weight
Operated in a competitive environment with a profit-orientated approach to business.	Having a profit motive would suggest the findings could be aligned with decisions made by other commercially oriented entities.	15
Perceived as an effective decision-making board by members serving on other New Zealand boards.	Studying an effective decision-making board would provide insights as to what processes and behaviours enhance decision-making at board level. It would allow effective processes to be observed, investigated and better understood.	30
Believed to have stability in the board in terms of directorships and leadership.	Little change expected during period board under review would provide a degree of consistency in the way board meetings occur.	15
The ability of the chair, directors and chief executive was known and respected by other professional board members.	Observing respected individuals would allow their experiences and perceptions gained from serving on other boards particularly to identify roles and associated behaviours exhibited to be outlined.	24
Accessed significant or specialist service providers.	Understanding how advice was offered, considered and the value place on it would reveal if and how such information influenced decisions made.	8
Operated in a mature market.	As a mature market could dictate operational considerations it was seen to overcome the difficulty of making comparisons between boards in same industries.	8

Discussions with one of the governance advisers allowed the proposed research methodology to be considered in light of finding a suitable corporation. Being a General Manager with the New Zealand Institute of Chartered Accountant (the Institute) provided the researcher with a unique access to a number of high profiled members who serve on boards. Likewise it was understood by those approached that the researcher worked under the Institute's Code of Ethics. Each freely gave time and advice as to the appropriate corporations to study and people to contact. In addition a past employer, heading one of New Zealand's leading State Owned Enterprises at that time, also gave both moral support and shared his thoughts as to effective corporations and effective chairs. From such discussions three high-profile chairmen, six directors and two chief executives were considered and approached to see if there was a possibility of observing one of the boards that they served on. In total 11 boards were considered.

The reasons for eliminating six corporations was that those interviewed believed the chair or collective board would not agree to being observed, or that the board was not considered as a good decision-making body. Of the remaining five, one board was eliminated as the director believed the board he served on could at best be described as ‘rubber stamping’ most operational issues that were raised at board meetings, preferring instead to spend considerable time analysing the changing share-market price. Another interviewee declared that the corporation’s governance structure was under scrutiny and, as a result, would shortly be restructured. The chair of two of the remaining three boards was interviewed; each sought and received a formal proposal. The approach to the third board differed in that a member of the Institute presented the research concept to the chair. The intent of this initiative was to seek the chair’s opinion as to the viability of such a study before a formal research proposal was presented. On receiving a verbally presented proposal the chair took the request to the full board, which conferred and approved in principle. Chairs, chief executives and directors interviewed had indicated that this board had made sound decisions during its lifetime. As late as June 2006 this corporation was still “being held up as the poster child for the ability of SOEs to make smart decisions” (Editor, 2006). A meeting with the chief executive, held in February 2002, confirmed the terms under which a study could be conducted. Two conditions were sought. Firstly, not to disclose commercially sensitive material and secondly, to ensure the content of debate could not be contributed to any one board member unless it was given during the planned interviews.

9.4.2 Meridian Energy Limited: The Case Study Company

Meridian Energy Limited, the organisation giving approval for its board to be observed has limited liability and is New Zealand’s largest SOE (in terms of shareholder equity). Established in 1999 under the State-Owned Enterprises Act 1986 “the principal objective of an SOE is to operate as a successful business which is: profitable and efficient as comparable businesses not owned by the Crown; A good employer; [and] an organisation which exhibits a sense of social responsibility having regard to the interests of the communities in which it operates and by endeavouring to accommodate or encourage those interests when able to do so” (Meridian Energy Limited Annual Report, 2004, 61). The 2004 surplus of \$132.9 million (after tax) reflects the company’s ability to manage its hydrological and risk management projects.

The board comprises of eight members: a chair, deputy chair and six directors. The collective experience of board members arises from an involvement with no less than 60 boards. In terms of the State-Owned Enterprises Act 1986 the board's responsibilities includes the preparation of and compliance with the Group's Statement of Corporate Intent, the overall management of the group through the appointment of the Chief Executive and the monitoring of his performance, and stakeholder perception. In general terms the board reviews and approves the strategic and business plan and corporate strategies, reviews corporate performance, considers and advises on business opportunities, risks, financial and dividend policies and management's performance against approved goals and plans, including the remuneration of the chief executive. Audit and Finance; Risk and Compliance, remuneration and Human Resources and Executive represent the four standing committees. A further project committee at the time of observation was responsible for considering matters related to Project Aqua. However, due to a number of factors this initiative has not been advanced.

At the end of 2004 Meridian Energy Limited had a full time staff of 391 and employed a further 199 people full time in the capacity of contractors or working within subsidiary companies. Meridian Energy now has operations in New Zealand and Australia. The New Zealand operations include nine hydro plants situated in Tekapo, Ohau, Benmore, Aviemore, Waitaki and Manapouri, and two wind farms one in Wellington (Brooklyn) the other on the hills behind Palmerston North (TeApiti). Total plant capacity is 2,538.23MW). In 2003-04 a further development proposed was for a wind farm to be situated in the lower South Island (White Hill) that would produce 70 MW. A wind farm at the Oharia Valley is at present under negotiation (Meridian Energy Limited Annual Report, 2004). In Australia there are 15 plants: Burrendong, Copeton, Glenbawn, Pindari, Yarronga, Dartmouth, Eidon, McKay Creek, West Kiewa, Clover, Rubicon, Lower Rubicon, Rubicon Falls, Royston and Cairn Curran producing 570.7 MW of electricity. The three future developments proposed in Wattle Point, Dollar and Banmboula planned to add a further 181.2MW to the national grid. This successful foray into Australia's South Hydro has to date netted the Government \$600million (Editor, 2006). It is Meridian's investment into Australia and Whispertech that according to the same writer, that illustrate the corporation's ability to made "smart decisions".

9.4.3 Phase Two: Gaining Insight into the Organisation

Data collection commenced in November 2002. With approval of the Chief Executive, a tour of all major operational sites was arranged. To be immersed in the life and culture of the organisation, as well as to gain a greater understanding of the organisation's operations, the chief executive offered the opportunity to spend three days in the corporation, visiting major sites and operational centres. Mixing with staff from across a range of organisational activities, gaining an appreciation of the operational aspect of the business, learning corporate jargon, understanding strategic initiatives under consideration and discussing the various functions that staff carried out provided a contextual montage of the organisation prior to observing the board in action. The organisation did not place restrictions as to whom or what the researcher saw. This enabled a considerable amount of unbiased information to be gathered and a valuable insight into the organisation to be ascertained.

Further knowledge of how the business operated was provided by way of the corporation's intranet and access to the 'director only' section, in addition to past annual reports, minutes of the previous two meetings and promotional material. The corporation's legal counsel and his direct administrative support became the first points of contact.

9.4.4 Phase Three: Data Collection

Heedful of time and sequence, the period of study agreed was to cover all planned full day board meetings, occurring over four consecutive months; a total of four. During the agreed period an environmentally centric jolt occurred. As the board allowed attendance at all meetings during that time this occurrence (discussed in more detail later in this Chapter) substantially increased the observation period to cover two half-day and seven full meetings accumulating just over fifty hours of observation, over a five-month period. Thus the findings from this research have been constructed from data that derived from observing and/or scripting nine meetings of the board in action, including: two strategy planning meetings, two special meetings to consider a crisis, one special meeting to consider resource acquisition and four regularly held meetings.

Table 3. Board Observation Schedule

Board Meeting	Type
February 4 th - full day meeting	Regular
March 4 th - full day meeting	Regular
March 13 th - full day meeting	Special – Resource acquisition
April 1 st - full day meeting	Special – Strategy
April 2 nd - full day meeting	Regular
April 14 th - half day meeting	Special – Jolt Management
April 17 th - half day meeting	Special – Jolt Management
May 6 th - full day meeting	Strategy
May 13 th - full day meeting	Regular – Pre-programmed

Conducted in tandem with board observation were semi-structured interviews with individual members of the board and semi-structured interviews with individual members of the management team. However these occurred towards the end of the observation period so that matters and areas for investigation identified during the board meetings could be explored during the interviews. The interview process is explained more fully later in this chapter.

9.4.5 Preparing for the Study

In accordance with Massey University's Ethics Guidelines access to appropriate documentation was prepared and presented both to Massey University and Meridian Energy prior to observing the board in action and conducting the interviews. A confidential agreement between parties ensured anonymity of issues and commercial sensitive material. Meridian Energy sought the two supervisors of the research to also enter into a confidential agreement. Only the researcher completed the scripting and analyses. As initial notes were held in a locked cabinet no other person, other than the auditor, was shown the raw data. In line with the terms of the agreement a confidential agreement was put into place between the researcher and the auditor. The reason for the auditor is outlined later in this chapter.

To ensure that no technical issues would disrupt the interviews two tape recorders, working on different time sequences, were tested and used as recording tools. Given the anticipated length of the interviews and the limited time professional directors and

senior management can make available this precaution was seen as important to ensure the total interviews were captured and no follow-up or repeats were required.

The timing of the study was important. Within a month of beginning the observation stage a situation arose that was not foreseen when consent was given for the study to commence. With Te Apiti underway and a proposed purchase of the Australian plants being considered the corporation, like other New Zealand electricity suppliers, found they were facing a potential energy shortage. For Meridian Energy the issue centred on falling lake levels and the weather forecasts indicating low rainfall predicted in their catchment areas. The following extract from Meridian Energy Limited's 2004 Annual Report illuminates the environmental shock faced by this corporation.

In Autumn 2003 the electricity system faced a shortage of both hydro and thermal fuels.... During the year we participated in a number of industry initiatives.

- Working closely with the Ministry of Economic Development to prove assurance of the measures we were taking to contribute to security of supply if New Zealand had a dry year.
- Partnering with other retailers to produce advertisements in the upper South Island about how people could save electricity when it appeared there might be involuntary shortages due to network overloading.
- Close involvement in establishing a short-term electricity hedging market with other retailers, with prices and trading information publicly available after trading had finished, providing greater transparency of pricing and trading level to the market.

(Meridian Energy Limited. (2004). Meridian Energy Limited's Annual Report, 28)

During the time the board was being observed (November 2002 – June 2003) a scrapbook of press-related material, pertaining to activities of Meridian Energy, was kept. No least than 61 articles appeared in the New Zealand print media. In additional 8 situations vacant and 2 requests for information/registration of interest were printed. Of the 61 articles, 40 related to the energy crisis facing the country and Meridian Energy's responsiveness to it. Such intensity of media exposure, over a short period of time, illuminates the interest the media had in the energy crisis.

The timing of the survey was also important from a differing aspect. Meridian Energy Limited, being a State-Owned Enterprise (SOE) operating under the corporate model outlined in Chapter One (under Organisation of the thesis) and in Chapter Five (under Contextual Issues), is subject to requests from the Government's monitoring unit (CCMAU). In response to such a request a representative of CCMAU had, during the latter part of 2002, observed the board in action. As this was only two months prior to the commencement of the planned study, the researcher saw this as assisting to reduce the effect of an observation bias.

9.4.6 Board Observations

With no defined hypothesis to test an ethnographic approach was adopted. For commercial and legal reasons the company disallowed the taping of conversations in the boardroom. This meant all board conversations had to be recorded in shorthand. This was an arduous task given the length of each meeting but important for without the key words, phrases and meanings further analysis would have been difficult. Though the researcher joined the board members for lunch no discussion relative to topics under discussion took place until the interviewing phase. Instead the debate was noted as it evolved. All commentary even those relative to social interaction that occurred in the boardroom were noted. Care was taken to capture all key words and phrases. Drawn primarily from observations and supported by data generated from scribed conversations and notations this data set representing over 50 hours of boardroom activity provided a basis for classifying data relative to behaviour and process. Later in this chapter the outcome of this work is described in more detail.

9.4.7 Phase Four: Interviews

Interviews began with members of the management team after the fifth meeting and with the board members after the seventh meeting. As stated earlier this timeframe was deliberate to ensure that matters arising out of the boardroom debates could be further tested or explanations gathered.

To ascertain the mental models possessed by each board member and member of the senior management team, semi-structured interviews were selected as the appropriate research tool for they would firstly provide a systematic and consistent approach and secondly would allow each respondent to openly express their views on a range of

topics. The consistency of the questioning format provided a framework that meant only introducing topical and relevant matters in a manner that would later allow responses to be compared and/or used to support or dispute other findings. Calling on previous experience in designing questionnaires and relating this to boardroom experience, the researcher designed a question hierarchy that would not only open up topics for discussion but also would allow the interviewee to describe mental models he or she possessed.

It was recognised that the weakness of such an approach lay with interviewees and their ability to stay focused on the topic. Steps were taken to reduce this weakness. Prior to the interviews, the semi-structured questionnaires were tested for reliability: one for senior management, one for directors and the third for the chief executive and chair. Two independent commercial research companies agreed to test the questionnaire design. These were Andrew Fletcher Consulting and MMR Research, both Wellington based companies. As experienced researchers and board directors they spent time reviewing the structure and flow of each questionnaire. Given that both were independent of the research their trialing of the questionnaire was considered of value. The outcome saw the order of two questions in the directors' questionnaire changed and the introductory question rewritten to remove a level of duplication. This testing process was regarded as imperative in establishing an interviewing strategy that firstly established rapport, secondly guided the interviews and thirdly, maximised the time directors had made available.

The questionnaire for directors was designed in four parts. The first was designed to capture the director's view of the role of a board and its key components. This line of questioning constituted a measure of the different structural elements and the skills, competencies and knowledge of a board. The second part drew on the interviewee's experience by asking each to identify the characteristics of ineffective, effective and highly effective boards. Respondents were asked to select and describe various boards they served on, or had served on, and to describe the characteristics each possessed. The third part aimed to determine where each board described sat along a continuum. The final part sought responses to two questions: (1) where could boards make improvements, and (2) what factors distinguish an effective decision-making board from any other?

All members of the board were interviewed: the duration of each interview extended from one to nearly three hours; with a mean of two hours. The Chair and Chief Executive were interviewed independently and then collectively. Instead of considering other boards and benchmarking them against Meridian Energy the emphasis was directed to investigating process and behaviour occurring in the boardroom, responsibilities held and shared, and the organisation's stakeholder representative process.

The questionnaire for the senior management team was constructed in three parts. The first part sought to establish the respondent's position and areas of responsibilities. The second part was designed to ascertain how information presented to the board was gathered, compiled and checked. In the third part, the respondents were asked their perceptions of the board. Each manager was also asked to indicate the trust he/she had in the board and his/her peers. A seven-point Likert scale was selected for this purpose as the range encouraged the interviewee to think carefully about the level of trust without creating difficulty in giving a response. Both research experts when reviewing the questionnaire gave support to using a seven-point scale.

Consistent with the semi-structured nature of such interviews, it was not always necessary to use every question scheduled as there were times in interviews when the topic of accessing critical information has been raised in response to an earlier question. Even though the directors were concerned about confidentiality, board members spoke candidly about their experiences on other boards.

Thereby two representative sets of data become available for analysis. The first representative data set, represented by speaking episodes occurring in the boardroom, were used to illuminate types of decisions made, decision-making processes and the demographics of an effective board. The second representative data set used to substantiate the characteristics of decision-making behaviour and processes derived from commentary relative to twenty-nine companies, independently selected by the directors.

9.4.8 Phase Five: Content Analysis

The analysis process began the day after each board meeting. The immediacy was seen as vital allowing recall of the conversations. The collection of observed data drawn from individual *speaking episodes* (in notation form), was recorded, transcribed and entered into an excel spreadsheet. All speaking episodes relating to each meeting were represented by one spreadsheet.

Each speaking episode and topic was numbered according to the order in which it had been raised. To ensure anonymity a coding was applied to board members, members of management and external consultants participating at board level. Thereby spreadsheet cells recorded the response or reply (in narrative form) that corresponded with the speaker's identification code, the topic under discussion, the meeting reference and order of proceedings.

Acknowledging that qualitative research is typified as being inherently less reliable than quantitative research, considerable care was taken to ensure reliability of data by use of a rigorous two-step verification process. The first verification stage generated from the Legal Counsel's notations taken as background reference for writing up the minutes. This independently collected information, which arrived some weeks after each meeting, was entered into the spreadsheet. Each topic or notation was placed alongside the corresponding reference made in the researcher's notes. Thus a second group of columns recorded the commentary provided by the Legal Counsel aligning with corresponding responses or replies noted. This process allowed the speaking episodes from two sets of notes, collected by two independent attendees, to be compared.

Such an iterative process, as outlined by researchers (e.g., Glaser & Stauss, 1967; Turner, 1981), generated considerable data. In total 3133 speaking episodes were recorded by the researcher whereas 1168 individual notes were taken down by the Legal Counsel. Although the speaking episodes recorded were significantly more than those of the Legal Counsel examination of the data reveals that there were 37 notations made by the Legal Counsel that could not be directly match with those in my notes. Further examination showed that these only denoted agreement, reminders or future action points and therefore were peripheral to topics under discussion. Comparison of the content of the two data sets illuminated that the researcher had recorded nearly every

conversation, whereas the Legal Counsel had made notations relevant to topics under discussion. Thus a number of speaking episodes recorded by myself could be matched against those taken by the Legal Counsel. The comparison of the topics and responses that formed a first stage data validation produced a 98 per cent match.

The second data verification stage took place when the topics discussed and outcomes recorded by both myself and the Legal Counsel were compared with the information provided in the draft minutes of each meeting. As the confidentiality agreement limited the type of data that could be revealed (in this situation the conversations that had taken place) a professional auditor verified the three data sets (researcher's notes, Legal Counsel's notes and draft board minutes). The draft minutes were viewed as appropriate firstly for they represented the initial interpretation of the meeting and secondly the final minutes would not have been available for two months and then usually reflecting only small grammatical changes. The auditor's report is attached in Appendix C.

Each 'speaking episode' was then coded according to its contentual nature and intent. To ensure an appropriate coding system was applied each speaking episode was considered in light of the discussion that took place not just the notation made. Thus the contextual element was given due consideration. Drawing on the phraseology, contribution to the debate and topic allowed the data to be quantified. Spreadsheet analysis allowed this to occur.

To create frequency tables from the data held in the spreadsheets each speaking episode was considered and classified using a single coding mechanism. Against each entry and in the appropriate column a '1' was placed, signifying the category this entry would fall under. Only after all entries were considered were they grouped into eight grouping of behaviour associated with three primary decision-making categories: agreement, inquiry and disagreement, each constructed from a number of sub categories. This approach was seen as important for if the types were decided on first a 'fitting' process may have emerged. Instead the approach adopted allowed a variety of responses to be considered independently and the categories to emerge according to what was said/contributed. Two months later the exercise was repeated and results compared. Where an entry differed a further analysis was carried out. Difficulties arose when the speaking episode could be classified as fitting into one or more types. Where this occurred the topic under discussion was revisited and the overriding contribution made to the topic was

considered to be the principal type. This important application, though difficult and time consuming, could have proven even more difficult if the researcher had not been present during the meetings, nor had embarked on a familiarisation exercise before carrying out the study, for the intent of the discussion in some cases could have been misconstrued.

The spreadsheet allowed each '1' to be connected by a line. Rotating the '1' and using the drawing facility in Microsoft Word the points were joined. From this a time series was compiled showing the decision-making behaviours that had occurred over the period of observation. The sample in Appendix D illuminates the 'activity pulse' that was present in meetings. This graphic depiction was then broken down into decisional types (samples are shown on page 213-218). In Chapter Twelve these five graphics are used to illustrate the activity pulses occurring in each of the decisional types researched. The aim of the exercise was to see if different types of decisions reflected differing interactive patterns and if so were they markedly different. An emerging phenomenon is discussed in depth in the Findings section of this thesis.

The same data used to create the time series was reemployed to compare the different types of board meetings. Demographic analysis was achieved by aligning the coded board members' behaviour with their skill sets, competencies, outside connections and experience. The process also facilitated the generalisation of categories of meanings as they emerged from the data. The emergent categories provided a conceptual framework for further exploration and discussion of the findings (Martin & Turner, 1986). For example, speaking episodes that fell within the agreement and disagreement category, when further deconstructed, identified whether they were *intellective* or *judgemental* (as described in Chapter Six). A further analysis considered if they *principled* (interest-focused) or *positional* (position-focused) as outlined in Chapter Seven.

From the complete representative set of data involving the Meridian Energy board in action, five decision types, four decision outcomes and eight primary behavioural categories were identified. The five decision types were: strategic initiatives; resource acquisition; review of business; compliance issues; and crisis resolution. Whereas decision outcomes were classified as: adopted or endorsed; noted and received; challenged and refocused, deferred, no decision, decision deferred, or more work required; and declined. The eight behavioural categories were: agreement; providing

information; gathering information; influencing; giving a personal opinion/perspective; pressuring; dialectic inquiry; and positioning.

The second representative data set was drawn from interviews with members of the board and senior management. Content analysis methods, consistent with guidelines offered by Strauss (1987) and Strauss and Corbin (1990), were adopted to identify themes and concepts so as to discover how the participants, individually and collectively, perceived decision-making in a boardroom, and to discover how they interacted within the decision-making process. The software package NVivo was used to manage and analyse the data collected in the first, second and final sections of the questionnaires. The outcome of this work is provided and discussed in the section entitled 'Findings' in this thesis.

The information collected in the third part of the interviews with board members was recorded against a 0 to 7 Likert scale, with 0 being a totally ineffective decision-making board and 7 being a highly effective decision-making one. Discussion with individual board members revealed characteristics associated with each of the 29 boards referred to. These were assigned to the point marked on the Likert scale. This exercise allowed three broad categories to be identified: ineffective, effective and highly effective. As all board members served on the Meridian Energy board at that time Meridian Energy's board acted as a common point of reference. In this way each board member used the same corporation board to benchmark other boards against.

Data collected through this grounded methodology, then transcribed, produced a two-fold outcome. Firstly, the experience and perceptions of board directors (who collectively served or had served on more than 64 private, public and governments boards) was gathered. Secondly, it allowed board directors to make direct comparison of decision-making characteristics drawn from boards they had been, or were still serving on, to be made against the decision-making characteristics of the board observed and which they were all serving on. The findings are discussed further in the Chapter on Findings. The ineffective to highly effective decision-making continuum gave relevance to the board being observed as it indicated where the Meridian Energy's board sat on the continuum.

Similarly, the information pertaining to the process, provided by management during the interviews, was structured into a flow diagram. This diagram is set out in the Findings section of this thesis. Six dominant themes emerged from the analysis of interviews: the role of the board; composition of the board; skills and knowledge of directors; individual behaviour; the working relationship between the chief executive and chair, and informational sources and sharing.

As the sensitivity and the confidentiality arrangement prevent revealing the matters that were the subject of discussion it was viewed that verification of data held within the three sources was necessary to ensure the material recorded and transcribed was correct, the speaking episodes recorded by the researcher reflected the summary notes taken by the legal counsel and in the minutes of the meeting; and the data recorded could stand up to rigorous examination. This step was deemed necessary as the non-disclosure of actual discussion points could make it more difficult to substantiate a point or claim in the findings. An audit by an experienced auditor with no connection with, or not having a client or not serving on the board in competition with Meridian Energy Limited was sought. This external verification of the extracted notations (made during the observation period) was conducted by an independent and professional director, who was previously an auditing partner in Deloittes and being a member of the New Zealand Institute of Chartered Accountants a person who operates under that body's Code of Ethics. Before commencing the work he signed a confidential agreement.

9.4.9 Phase Six: Data Triangulation

Triangulation has been broadly defined in Denzin as “the combination of methodologies in the study of the same phenomenon” (1998:291) or “a process of using multiple perceptions to clarify meaning, verifying the repeatability of an observation or interpretations” (Stake 2000). As observations or interpretations are not perfectly repeatable, triangulation effectively serves to clarify meaning by identifying different ways the phenomenon takes place. Triangulation can take any one of four basic types: data, investigatory, theory, and methodology (Denzin & Lincoln, 2000). Three types, data, theory and methodology, labeled by Denzin (1998:302) as being ‘between’ or ‘across methods’ or providing an alternative to validation (Flick, 1998), are present in the analysis. For example, corporate governance and decision-making theories outlined in the literature review are compared against the findings thereby providing theory

triangulation. Data analysed primarily collected as qualitative data, has been converted into quantitative form through ethnographic application providing method triangulation. Triangulation of source data derives from various speaking episodes with experts in corporate governance, chairs, directors and chief executives of other boards, in addition to observation of decision-making in action and individual interviews with board members and members of senior management. Triangulation relative to the methods employed has also been achieved by way of entry into a ‘word’ programme (Microsoft Word), spreadsheet comparisons (Microsoft Excel), time series analysis, NVivo and ethnostatistic-constructed analysis.

9.4.10 Phase Seven: Reporting back to the Board

The data collection phase concluded in August 2003. In January 2004 a 38-page report was prepared and submitted to Meridian Energy board. At this early stage of analysis high-level findings showed time series flows and outlined the decision-making behaviour analysed with only minimal comparison made against theory. At the request of the chair a presentation was made to the Board in February 2004. This presentation had a two-fold purpose; firstly to advise the board of the findings to date and secondly to show them the direction the research was taking. This gave them an opportunity to ensure the form that the findings were taking fell within the terms set out in the Confidentiality Agreement. Although considerable analysis had been conducted prior to presenting the board report the analysis process continued, extending over the following two years.

9.4.11 Phase Eight: Compiling a Model of Boardroom Decision-making

The research embedded within this thesis adopts a grounded research approach in relation to two aspects of the methodology. Firstly, it calls on individual perspectives of the practising directors to describe board characteristics and secondly, it draws on Drawing on theories, observations, interviews and source documents, a model of decision-making in a boardroom explaining how the variables interact has been developed. With reference to Forbes and Milliken’s model (*ibid*) effort, a product of motivation, referring to the intensity of an individual’s task performance (Kanfer, 1992), was viewed from the perspective of preparedness, interactivity, and application of skills, knowledge and abilities. The model is explained on page 246 of this thesis.

9.5 Chapter Summary

The staged approach provided a way to study a board working under normal conditions, during its strategic plans, when faced with a crisis and when preparing to make substantial investments. Interviews with management and individual board members provided additional means to collect data and question action observed.

As little research has been conducted in a boardroom this methodology, as shown in the next chapter, allowed two data sets to be collected and analysed.

10.0 Chapter Ten: Findings

10.1 The Corporate Researched

As earlier described, this journey began with a three-day visit to all South Island sites. Besides providing a valuable insight to Meridian Energy's operations it offered a chance to appreciate the corporate's culture as well as to understand the corporate reference points. The researcher met all direct costs incurred.

Staff members on these site visits who were chosen by management, represented a diverse range of corporate roles and a mix in terms of length of time individuals had spent working for the organisation. Of the 15 staff chosen only six had joined the organisation in the past year. Management at the various operating sites explained how each plant functioned. More importantly management outlined impacts of proposed strategic change. For example, the proposed Aqua scheme was described, material provided and the environmental and political implications outlined. The proposed extent of the generating system was also viewed from a five-seater plane. This visual perspective later assisted the researcher when observing the board in action for it gave meaning and provided reference points relative to the discussion.

As stated earlier the company provided access to its intranet, and of particular interest was the secured section relating to governance matters. In addition direct access to management was opened up, and the Governance Administrator was appointed as a contact person. During the year all requests for information or for access to people were not only met but if there was information that was thought of value it was offered. For example Merv King, the South African author of the King Report, held a half-day session for the board on corporate governance where the researcher was invited to attend and encouraged to participate.

Trust and respect for others appeared to permeate throughout the organisation. In particular the board and staff's respect for the chief executive was undeniable. A noteworthy illustration of how he openly communicated trust to his staff occurred during a site visit when employees at various levels produced corporate credit cards. That by itself did not show trust, but the chief executive's message did: "*before you spend, ask yourself, if this was your company would you spend the money*". Staff appeared well informed on strategic initiatives and eager to find out more. On a number

of occasions they were observed seeking answers from fellow staff members regardless of their level in the organisation. Similarly, it was noted general management explaining a strategic initiative or detailing how an operation took place to the receptionist or new staff members, either in the office or over dinner. A diary note made, dated on November 7 2002, linked trust with pride and the sharing of knowledge: “all three infiltrate the organisation”. This notion was reinforced by the researcher’s attendance at board meetings – something academics (e.g. Clarke, 1998; Forbes & Milliken, 1999) say is difficult to achieve.

When interviewing the senior managers (six months after the site visits) each was asked independently to indicate the level of trust he/she had in his/her peers and also in the Meridian Energy board. On a Likert scale of 1 to 7, where 1 was low and 7 was high, the collective rating given by management to the board was 6.75 compared with 6.0 given to their peers. Both outcomes indicated high levels of trust in both the board and their peers, suggesting trust may be correlated with effectiveness.

Observing the boardroom in action disclosed behaviour patterns that appeared to have a level of consistency. For example, besides keeping the meeting moving the chair provided opportunities for each board member to contribute. After most of the board members had had a say, the chair consistently tested to see if a decision was emerging. When this occurred, the chief executive invariably followed up by providing additional information (Table 22, page 185 quantifies this observation). Similarly, directors did not only respond and provide input, but appeared well versed on issues, suggesting sound decision-making may be more closely aligned with ‘information sharing’ than ‘board composition’.

Corporate governance and management literature, as shown in Chapter Five of this thesis emphasises the need for skill sets and competencies. However, what became evident and remained consistent throughout the observation period was how individual directors presented their responses differently, signifying that directors have individualistic styles. Thus the group arrived at decisions not only through individual board members applying differing competencies (as defined by Spencer & Spencer, 1999), and described by Dulewicz and Herbert (1999), but also ‘thinking’ approaches. Such distillation appeared to reflect accumulated knowledge and experience, yet the difference in approach was profound. For example one director could hold the attention

of others by giving an historical account or through adopting a philosophical approach. In this way when presenting his rationale, he was framing his conceptual thought and opening the topic up for discussion on alternatives as opposed to seeking a response. At the regular meetings another director produced a book full of notes. As the meetings progressed the notes were referred to. Clearly this director conducted an in-depth analysis prior to entering the boardroom and had noted points that needed clarification in the material previously mailed. Compared to the philosophic style of her fellow director, this director's enquiries required direct answers. Another director demonstrated an ability to crystallise an issue by delivering in a precise yet authoritative manner so that when he spoke a sense of logic prevailed.

It appeared those with engineering backgrounds contributed freely and openly, yet were likely to present a constructive response. Financial issues were raised by most directors not just the member holding a professional accounting designation. The differing responses sometimes sought agreement and other times teased out more detail, or sought additional information. Rarely were positional stances taken. Flow of the discussion and how it was facilitated appeared paramount. During boardroom interaction, it became apparent some topics were subjected to considerable discussion, and others were more readily resolved or moved forward. This implied that there could be an association between the types of decisions and the length of debate. Throughout the decision-making a singleness of purpose, respect for fellow directors, trust in the judgement and ability of peers, and a strong sense of pride prevailed.

Literature often refers to two groups: management and the board. However, observation suggested that five different contributing roles can be classified: (1) directors; (2) the chair; (3) the chief executive; (4) the management team; and (5) external consultants. It was from these observations that the questionnaire was structured and areas to investigate were identified.

10.2 Effectiveness of Meridian Energy Limited

When categorised into the three broad groups (based on the board members individually held perceptions of the board he/she described), 12 of the 29 (including the Meridian Board) boards fell into the ineffective category and 17 into the effective category. In the effective category only five (or 15%) were perceived as being highly effective.

Although one board was ranked by a director as being as effective decision maker as Meridian Energy the Meridian Energy's board was viewed by all other directors as being the most effective decision making board they had served on. When board members were asked to rank the overall decision-making effectiveness of boards described (including the Meridian Energy board) on a 1 to 7 Likert scale (where 1 indicated a very ineffective board and 7 a highly effective one) the perceived decision making effectiveness of the Meridian Energy board relative to other boards became apparent. From the individual ranks given on the Likert Scale the means of all categories were calculated. These are set out in Table 4.

**Table 4. Decision-making Effectiveness Means
(calculated for ratings provided by board directors)**

Classification	Mean
Ineffective boards	3.00
Effective boards	4.42
Highly effective boards	6.02
Meridian Energy	6.50
Overall mean (including Meridian Energy)	4.10
Overall mean (exclusive of Meridian Energy)	4.01

As Table 4 illuminates, although the individual Likert scale rankings for Meridian Energy varied from 5.50 to 7.0, producing a mean of 6.50. This finding gave some support to commentary collected as it reinforced that all members of the board perceived the Meridian Board as being a highly effective decision-making board. This statistic became more meaningful when the collective mean (4.0) relative to other companies (exclusive of Meridian Energy) was calculated. The inclusion of Meridian Energy only slightly increased the collective mean to 4.1.

This result mirrored the image that Meridian Energy appeared to enjoy in the market (at the time when an organisation was being sought for this study). The significant mean and the anecdotal evidence (provided earlier by professional directors and consultants)

offered a level of confidence that analysis, derived from one organisation, Meridian Energy, could be generalised as being associated with an effective board.

10.3 Role of a Board

The primary objective of a board set out in formal documentation often indicates who it acknowledges as its principal(s). Shareholder accountability, which dominates theory and best practice principles and a key component emphasised within the Cadbury Report (1992) was present in Meridian Energy's primary objectives. Similarly consideration to the interest of stakeholders was also prominently given. One director's comment, that reflected commentary stated in the company's 2004 annual report, provides a succinct summary:

For Meridian [Energy] the principal objective is two fold; firstly to ensure the sustainability of the power supply to the New Zealand [the stakeholder], and secondly, to grow shareholder value.

As discussed in Section 4.2 of this thesis there are at least twelve different theoretical perspectives of the role of a board. To ascertain which, if any, of the theoretical perspectives align with the mental models held by board members commentary collected through the interviews was analysed, using NVivo. The findings gave some support to the notion that a board's role is to ensure the organisation chooses the right chief executive. One director said: "*probably the most important job that the board has is appointing the chief executive or managing director*". Conversely another director commented that: "*The most important function of the board is its ability to fire the chief executive*". Such findings are symptomatic of the agency theory in that it expresses a board's role to both to appoint a chief executive and to exit a non-performing chief executive. Interestingly, monitoring of the chief executive's performance was not raised. In its place all directors raised 'overseeing the business activity'. In this regard, board members acknowledged their responsibility for operating and financial performance, changes to any major process that could impact on performance, and internal control. Compliance issues, chief executive remuneration and stakeholder relationships were described as key components of a board's role. Despite the importance placed on having the right chief executive and ensuring the business is operationally functional, the first consistent message generated through the interviews

was that the primary role of a board is to formulate strategy on which to develop the business. Supporting commentary provided by the directors interviewed included:

“... its [the board’s] real purpose is strategy...the ability to set strategy and to confirm or lead in policy matters”; “The strategic considerations involved setting the direction for the organisation through having a clear vision, mission, values, ethics and culture”; “Boards need to look forward as they can not add a lot of value on things that have already happened, but they have to review performance against objectives to assess whether the strategies are working, so there is a certain amount of feedback loop necessary.” “...boards shouldn’t be spending a lot of time reviewing. I argue that a board meeting should be about 75 per cent focused forward and 25 per cent reviewing what has happened.”

A single purpose approach emerges as a derivative of the strategic planning process. As the chair stated:

Meetings are driven first of all by the strategic and business plan, they set the agenda. Underlying all we talk about is a robust, credible, acceptable strategic plan and business plan, which implements the desired outcomes. They drive the decision-making and when it’s done credibly it enables you to adopt a sound process.

In this case study deliberation and approval of the strategic plan involved two stand-alone board sessions. The aim of these sessions was to provide directors with a forum to consider and question each other, and to allow the chief executive and legal counsel to present their perspectives on both intrinsic and external forces impacting the operations and the future of the business. One of the two strategy planning meetings included presentations from management. The chair, the key driver of such sessions, expressed the relevance of these meetings by saying:

It is important when you are deciding on a key strategic issue that you have buy-in from the members [of the board]. The board needs to have confidence that the picture they are going to get is going to be commercially viable and acceptable and is going to meet the strategic requirements.

Without exception board directors acknowledged involvement in formulating a strategic plan as a key differentiator between effective and ineffective decision-making boards.

"Ineffective boards are very poor on the strategy side, they have lost the plot"; "... the resource issues get lost because the day-to-day is the focus of the meeting"; and "... meetings tend to be historical review meetings, rather than looking forward".

Similar to the strategy planning meetings a special meeting was called to consider the acquisition of strategic resources. External advisors attend this meetings and presented their positions and recommendations. Likewise dedicated meetings were called when an environmental jolt occurred. Scheduling of board meetings in this manner strongly emphasised the importance this board placed on strategic decision-making, the acquisition of strategic resource processes and dealing with crisis.

Whereas a characteristic of a highly effective decision-making board was said to be its continuous involvement in the strategic arena, an effective board, rather than a highly effective one, was said to at least, consider the strategic approach being proposed by management and, at best, actively work with management in the strategy setting process. Such a proposition aligns with the resource-based and trust-based theories in that effective boards are more than ratifiers of management-generated decision-making. Instead they exist to reduce the likelihood of corporate failure by rigorously testing 'strategically oriented' or 'outside of business-as-usual' propositions facing the organisation.

Board members interviewed were also consistent in their commentary that a common characteristic of ineffective boards is their lack of attention to strategic issues, implying instead that management carries out the decision-making task, or in Chia's terms 'the decisiveness of action' (Chia, 1994:789) as well as ensuring the decisions made are converted in to action, in Chia's terms 'actionalising of the decision' (Chia, 1994:789).

Thus involvement in strategic issues emerged as a characteristic of an effective board. The question that then arose was 'what do ineffective boards turn their attention to?' Five of the seven directors indicated that, in contrast to effective boards, ineffective boards being less strategically orientated, place compliance and reviewing business-to-date activities high on the agenda. A director serving on an ineffective board provided insight into how one such a board emphasises its compliance role:

We were checking the chief executive papers and saying yeah, and we were dealing with the details of the monthly financials instead of being involved in the strategic thinking process.

Qualitative support, provided by way of four ethnostatistic analyses, evidences the strategy-compliance balance in the company studied. The first table considers decision-making classifications relative to the number of topics raised. The second reviews speaking episodes that fell within each decision classification, the third looks at the intensity and rigour of debate occurring within decision classifications and graphic depictions illustrate boardroom behaviour add a further dimension, while the fourth addresses the intensity of the debate in dedicated meetings.

Table 5. Topic Classification Relative to Strategic Input				
Topic Classification	No	% of Total Number		
		Strategic	Non-strategic	One-off
Strategy Setting	44	27.5	-	-
Strategic Resource Acquisition	12	7.5	-	-
Compliance	37	-	23.1	-
Business Review	61	-	38.1	-
Jolt Management	6	-	-	3.8
Totals	16	35.0	61.2	3.8
	0			

Each of the 160 topics covered during the observation period were first broken into the topic categories. As the above table shows, each cell could then be viewed as a percentage of the total.

Given that all resource acquisition decisions were, in this case, strategic in nature analysis of strategic topics, when measured by the number of topics discussed, showed that strategic related topics represented 35 per cent of agenda items. When jolt management (given its strategic implication) was added this percentage increased to 39 per cent.

This finding did not align to what was observed. When observing the board in action, strategic matters appeared to attract greater debate and discussion with more extensive and intensive discussion being pursued. Compliance, on the other hand, did not appear to attract a high level of debate even though regular or repetitive topics were considered. To investigate this further a second group of analyses reviewed the number of actual 'speaking episodes'. Table 6 below shows that of the 3133 speaking episodes just less than two thirds (64 per cent) were strategically focused (Strategy Setting and Strategic Resource Acquisitions), twenty five per cent of speaking episodes related to compliance or reviewing existing business activity, with the balance (11 per cent) generated from unplanned activity.

Table 6. Speaking Episodes per Topic Classification

Topic Classification	Speaking Episodes				
	No of Speaking episodes	% of total speaking episodes	% with Strategic Focus	% with Non-Strategic Focus	One-off
Strategy Setting	1373	43.8	43.8	-	-
Strategic Resource Acquisition	630	20.1	20.1	-	-
Business Reviews	633	20.2	-	20.2	-
Compliance	159	05.1	-	05.1	-
Jolt Management	338	10.8	-	-	10.8
Total	3133	100.0	63.9	25.3	10.8

When the speaking episodes associated with the unpredictable environmental jolt (a one-off event) were removed from the calculation the effort this board contributed to strategic issues represents nearly 75 per cent of the total speaking episodes. Considering the findings in Table 5 and Table 6 together suggest that although less strategic topics were raised more speaking episodes were directed at strategic matters. Thereby the intensity and rigour (defined as the number of speaking episodes contributed to the debate on the topic) could be said to be greater when strategic related matters illuminating the group effort directed to understanding and addressing strategic matters. To look at the statistical relevance of this finding a third analysis was conducted. It employed the same data set but used SPSS to calculate the statistical

means, standard error and standard deviation for each of the five topic classifications. Cell counts in Table 7 present the statistical interpretation of intensity (as defined above) of such debate.

Table 7. Statistical Relevance of Topic Classification			
Topic Classifications	Statistical Relevance		
	Mean	Std Error	Std Deviation
Strategy Setting	152.44	57.40	172.20
Strategic Resource Acquisition	70.00	38.70	116.10
Business Review	70.33	30.33	90.98
Compliance	17.77	9.36	28.08
Jolt Management	37.55	25.25	75.76

As Table 7 shows, the number of speaking episodes relating to strategic matters: strategy setting (with a mean of 152 and standard deviation of 172) or strategic resource acquisitions (with a mean of 70 and standard deviation of 116) were significantly more intensive than when compliance related matters (with a mean of 18 and standard deviation of 29) were raised. Business review (with a mean of 70 and standard deviation of 91) closely aligned to strategic resource acquisition matters.

Whereas jolt management with a mean of 38 and standard deviation 76 was less intensive than strategy setting, resource acquisition or business review yet more intense than when compliance matters were raised. These findings gave support to the observed behaviour in which debate on strategy attracted greater participation from board members therefore more speaking episodes.

10.4 Decisional Outcomes

A review of the board minutes and scripted notes revealed that of the 160 topics raised 126 were adopted (noted and received, unanimously agreed to, endorsed or adopted), 23 sought additional information, only 11 were challenged and refocused (no decision, decision deferred, more work required before decision), and none declined.

Table 8. Discussion Outcomes for each Topic Classification

Topic Classification	Discussion Outcomes								
	Papers	No Decision	Decision Deferred	More Work Required	Noted and received	Unanimously Agreed	Endorsed	Adopted	Total
Strategy	44			4	18	12	10		44
Resource Acquisition	12		1	1	2	8			12
Business Review	61		2	2	29	25	1	2	61
Compliance	37	1			27	7		2	37
Jolt Management	6				4	2			6
Total	160	1	3	7	80	54	11	4	160

Further analysis of the 126 *agreed to* classification shows that of the 80 *noted and received*, 23 papers were categorised as *informing*, in readiness for a decision in the near future, therefore could be classified as *progress* papers. When these papers are deducted from the total discussion outcomes the majority of decisions were classified as either *noted and received* (43.0 per cent) or *unanimously agreed to* (49 per cent). Only 11 decisional outcomes (8.0 per cent) were categorised as producing *no decision*. This finding purports that this was a decision-making board.

Further analysis of the same data shows ‘progress’ papers relative to strategic related matters were progressive inputs to the decision process and were more likely to be presented more than once; on ten occasions the topic was raised and progressed three times before the final decision was made. The pattern of evidence through observation was that the first paper informed board members of the status of the project, the second presented further information ready for a decision to be made. When a third paper was required the paper was succinctly presented (given the board had been previously informed on the subject matter), making it easier to arrive at a unanimous decision. Compliance and business review papers, on the other hand, were presented once, considered and commented on before being *noted and received*. Matters relative to resolving the environmental jolt attracted more immediate response. When the

environmental jolt occurred observation revealed that discussion focused on the size of the concern and what alternative solutions could be considered. For example the initial debate considered one specific alternative, the debate that followed eliminated it. In its place the board made a decision to resolve the issue through adopting a less radical solution. Such outcomes were *noted and received* in the minutes. In reality the urgency of the matter meant that less emphasis was placed on having background papers and more on sharing information as it emerged and recording decisions.

All analyses confirm that this board extends its governance obligation beyond simply reviewing business-to-date or employing/deploying the chief executive. Instead this board dedicates significant energy and debate to the strategic process, with strategic issues dominating its decision-making portfolio. Such observations and the analyses support the notion that effective decion-making boards adopt a strategic focus and are involved in seeking resolution to issues. It aligns with commentary from directors and emphasises that involvement in strategy is likely to be a characteristic of board decisiosn-making effectiveness.

10.5 Structural Characteristics of Boards

As outlined in Chapter Five, boards are often discussed in literature from the perspective of their size, balance of non-executive members versus executive members and the heterogeneous nature of directors. The findings of this study, outlined in the following section of this chapter, suggest that structural characters impact on effectiveness and therefore can enhance or inhibit a board's decision-making capacity.

i) Size of Board

The first structural characteristic investigated was the size of a board and the first theme emerging was that the size of boards in New Zealand differs significantly. One Meridian Energy board member served on a board of 27, whereas another served on a board of five. The Meridian Energy board, made up of seven directors and the chair, is at the limit advocated by Jensen (1993) and falls within the preferred size. The chief executive is not a member of the board although he and his legal counsel attend all meetings. Four years ago the board comprised six directors and the chair; it has increased by one since the organisation was incorporated four years ago.

A second theme that emerged was that directors consider larger boards as being ‘ratifying units’ rather than ‘decision-making bodies’; summed by one director when he said:

...if the board is too big, without a doubt, it is a less effective decision-making body. I am on a board, which is there by statute and has 22 members. It can not operate as a board it can operate as a sort of advisory group but it can't operate as a board. We spend probably half to three quarters of the day getting through what Meridian can get through in 20 minutes ...because of its size the board can be manipulated by the managing director.

Another director indicated that a 15 director board is too large saying that: “*The number just makes for very long board meetings [that are] unstructured and unfocused. It's just hard to control that many people and many opinions*”.

A question that therefore arose was; what is an appropriate size for a board? Although the smallest board mentioned had five directors, the general consensus of Meridian board members was that a six to eight member board is more likely to be an effective decision-making body. According to three board members when Meridian Energy’s board had seven members it was very effective, whereas with an eight-member board meetings took longer. Directors estimated the extra time required for each meeting was one hour for every additional director. This is lengthened even further when there are first time directors. “*It [additional time of meetings] is obvious when there are newer members who need time to familiarise themselves with the business operations as well as board procedures*”. It became evident this additional time is necessary: “*to ensure all board members contribute to the discussions*”. Conversely, two directors stressed that not all members make a contribution to the debate. Therefore boards that are too small have only a few directors making decisions. The directors referred to the non-contributors as ‘unfit’ directors as they transfer considerable pressure and accountability on to the contributing directors. Impacting further on a board’s decision-making process is: “*the lack of appreciation of what a commercial board was all about*”. Such commentary suggests the effective functionality of the board reflects the number of members on the board with the ability to contribute. In this case study all board members contributed. Their contribution is discussed in this chapter under the various roles the incumbents held.

ii) Skill Sets

Each director of the Meridian Energy's board was observed as possessing a wide range of skills, challenging issues from various perspectives, and individually rationalising matters under discussion quite differently. When interviewed each director was asked for their comment on skills, competencies and experience that directors should possess in addition to their own connections and the perception of other directors analytical and judgement styles. The following commentaries are extracts from responses given.

The importance of legal and accounting skills was summed up in the following context.

“...having someone with legal training can be [useful] as legal training and experience trains people to think analytically about problems”, and, “...you would like to see some accounting type, finance skills [and] you would like to see some legal skills”, and “You have got to have some expertise at board level in a very general sense without a doubt whether it is accounting or legal. Actually we got by [on one board] without having a lawyer on the board for quite a long while because we had member of management with legal skills sitting there”, or “Technical skills will vary by the type of board but most would be financial skills, legal skills, governance skills, and maybe some skills relevant to that particular business”.

A consensus was that all directors should be competent in all financially related matters and specifically understand how and where funds are generated and what the level of fund sustainability was. A director emphasised the importance of this skill set by describing a scenario:

I have been on a few boards in which a couple of board members expressed concern about where the dividend was coming from ... In one case it was almost entirely the result of foreign exchange benefits, but what about the operational benefit derived from the business. You were met with talk from your colleagues such as ‘cash is king’, after all we have cash for [named project] so it doesn’t matter how we produce it.

Although there was unanimous support for board members to possess strong financial skills there was also a call for caution in that:

A board should not have to be sitting around occupying itself or the full board drilling too deep into the finances, but you do need to have one or two people on the board who are forensically literate and who can drill in behind what would be the original sort of bottom right hand questions.

And:

Just applying numbers in a context can be devoid of values.

And:

Some projects can be more accurately costed and therefore simply viewed as a whole series of small units that the bean-counters can actually comprehend.

Instead a call made was for “*virtually every participant around the board table to possess general business acumen [attained through] general business experience*”. A further comment advocated that an essential skill “*is having an understanding of how to grow a business*”.

Whereas accounting skills were considered in terms of understanding how funds were generated, governance skills were expressed in terms of “*legal compliance and accountability for the stakeholders*”. At one end of an ineffective-highly effective continuum highly effective boards were viewed as having board members who possess well-developed governance skills. Conversely, ineffective boards were less likely to have a group of experienced governance experts. A reason given was that “*in terms of the governance role there is often no training which means they [ineffective boards] were always down here*”. The lack of training in preparation for a governance role emerged as a recurring theme throughout the study. Yet the attention to governance training at Meridian Energy was said to be much more than in other boards.

A genuine understanding of human resources issues was purported by three directors as necessary. One director said; “*If you have got people who have held CEO roles they have this skill set. If not you would need a specific HR expert on the board. IT skills are often overlooked*”.

As another director put it:

There are some specifics that have to be understood though they [directors] don't have to have been involved in the actual business. But if they have been involved in the industry they would have an understanding of the processing cycles, the seasonality and the types of issues and how people have to work inside the company. For instance as a board member of another company that has got a big IT system which is being completely replaced with a new architecture we have no one on the board with any IT skills at all.

Directors readily acknowledged that one Meridian Energy director possessed an in-depth knowledge of both marketing theory and practice while another had gained specific marketing experience through management and director roles. Although marketing was seen as a useful skill it was one that four directors advocated for strongly when the company's product was undergoing development or when there was a heavy reliance on market forces. For example a director said:

Marketing may not be required for core business but if we are going to get our product out in the wider market then we need someone [on the board] with marketing type skills and an understanding of distributors' relationships.

Similarly directors viewed as critical four factors: (1) knowledge as to how the business is run; (2) knowing what key forces impact on the industry; (3) what forces the organisation may face in the future; and, (4) an understanding of the infrastructure in which the company operates. Instead it was said that: "*industry specific skills are obviously required and generally provided by the executive directors or CEO*". Two directors serving on other boards where industry expertise dominates say such boards:

"...[they] are quite unbalanced boards, it occurs when shareholders put a lot of warranties on having representation", and "they are all back-end focused, because that is where their skill base is, and most of their focus in the board meeting is in the areas they know, rather than taking a wider perspective [of where the organisation is going]".

From the data provided during the interviews and using third-level ethnostatistics a ranking table was produced (refer Table 9). The ranking applied was based on the number of times directors nominated a skill set. The table illuminates the diverse composite of skill sets present in the Meridian Energy boardroom.

Table 9. Ranking of Skill Sets Perceived as Important on a Board

Ranking	Directors' List	Evidence on Meridian Board
1 st =	Financial	Yes
1 st =	General business	Yes
2 nd =	Legal	Yes
2 nd =	Governance	Yes
3 rd =	Industry knowledge	Yes
3 rd =	Technical	Yes
4 th =	HR	Yes
4 th =	Marketing	Yes
4 th =	Relationship expertise	Yes
4 th =	Management	Yes
5 th =	Entrepreneurship	Yes
5 th =	Risk management	Yes

The value of possessing a balanced set of skills became even more apparent when viewed as a determinant of board effectiveness. Within ineffective boards: “*Skill sets often do not marry up with the business’s strategic intent.*” At the other end of the scale highly effective boards “*were more likely to have a complement of skills sets,*” and “*the right mix on people in tune with the business’s strategic intent*”. These common themes were only challenged once when one director spoke of a board he was serving on: “*I serve on an effective board which is very unbalanced [in sense of skillsets] but works as the partners have got their own reputation, livelihood and superannuation on the line and their product is in high demand*”.

iii) Competencies Viewed as Important

Diversity of competencies was also associated with a board’s ability to perform. Common competencies directors recognised as necessary included common sense, sound judgement; the ability and willingness to ask questions; the ability to listen; the ability to be collegial; and, once an issue has been debated, the willingness to adopt a collective responsibility for the decision taken. In a similar way, two directors stressed the importance of: “*the ability to participate in a rigorous debate without becoming heated or agitated*”. Collectively directors advocated a board should have some directors who can think outside the square. Tolerance was also viewed as an advantage

as a board needs people: “*who will interact with colleagues and not become a lone wolf*”. Six directors stressed the value of a sense of humour. In order to connect strategy with accountability it is necessary to have change-perspective competencies. For example: a valued competency purported was the ability to test information from a strategic perspective rather than just the day-to-day issues facing the company, and being aware of sustainability values. All directors viewed this imperative when considering large and long-term resources. As one director put it:

It was important that a board has a collectively-informed view of their strategic role and status that leads us to make decisions at times which might be a bit dubious in terms of the conventional financial analysis but which are absolutely sound in terms of a long-term economic analysis for the company and indeed the country.

In adopting such a view five directors advocated that, if an organisation is to be viewed as a going concern, the board presumes there is a successor to the chief executive. This calls for sound planning capabilities at board level. Aligned with sustainability, future-proofing, relational governance and corporate citizenship is the ability “*...to have an understanding of the place and responsibilities of your company in terms of the overall infrastructure of the national economy*”.

Skills and competencies undoubtedly impact on a board’s decision-making ability:

If you take it as a given that you have got the right skills and competencies around the board table then the ability for the board to interact appropriately and to be able to make decisions is improved.

Governance experience is also important for there are times when, “*You can have a very rigorous debate and actually walk away without having taken a decision and sometimes that is appropriate, but you have to get to that point*”.

The following table compares the competencies directors perceived Meridian Energy board possessed with those purported by Dulewicz and Herbert’s (1999) supra competencies as described earlier in Section Five page 90 of this thesis. Although many of these overlap the application of Dulewicz and Herbert’s 40 base competencies and the context in which the responses were given assisted during the categorisation phase.

Table 10. Mix of Competencies
(classified by the content in which the commentary was framed)

Competencies viewed as important and expressed as:	Alignment with Dulewicz and Herbert's Supra Competencies
<ul style="list-style-type: none"> - Industry knowledge - Connectedness with business - Political assertiveness - Broad national and international knowledge - <u>Adopts a helicopter view</u> 	Strategic Perspective
<ul style="list-style-type: none"> - Demonstrates commercial nous - Knows how to grow the business - <u>Is socially responsible</u> 	Business Sense
<ul style="list-style-type: none"> - Focus on strategic goals - Ability to match CEO with strategic intent - Succession-planning 	Planning and Organising
<ul style="list-style-type: none"> - Applies own judgement - Analytical thinker - Thinking outside of the square - Can work with crude measures - Ability to consider issues - <u>Demonstrates strategic thought</u> 	Analysis and Judgment
<ul style="list-style-type: none"> - Judgement of people's ability 	Managing Staff
<ul style="list-style-type: none"> - Tolerance - Diligent - <u>Applies common sense</u> 	Persuasiveness
<ul style="list-style-type: none"> - Political assertiveness - Has ability to question - Applies knowledge - Prepared to put own view on the table - Prepared to make a decision 	Assertiveness and Decisiveness
<ul style="list-style-type: none"> - Team player - Interpersonal skills - Ability to laugh - Trust in fellow directors 	Interpersonal Sensitivity
<ul style="list-style-type: none"> - Ability to listen - <u>Ability to participate in rigorous debate</u> 	Communication
<ul style="list-style-type: none"> - Takes a collegial approach - Prepared to have view challenged - <u>Displays courage</u> 	Resilience and Adaptability
<ul style="list-style-type: none"> - High intellect - <u>High energy</u> 	Energy and Initiative
<ul style="list-style-type: none"> - Driven to perform - <u>Seeks personal development</u> 	Achievement-Motivation

The question then, succinctly posed by one director, is:

... how important is the ability and contribution of one individual, given that we have situations with some boards where you have got participants in one scenario who are on very successful boards and you have got scenarios where that same person makes it on another board which could be a classic example of ineffectiveness.

Rather than look at particular competencies, the interconnectedness of the competencies was put to the directors. The consensus board members presented could be summed up in the words of the chair: “*...we look for people who are going to harmonise, but not group-think*”.

iv) Board Members’ Experiences and Connections

The third component of the collective composition of a board was said to be experience and the fourth, connectedness. The findings from first-level ethnostatistics show that directorships held by Meridian Energy’s board members were extensive: collectively they served on more than 60 boards holding 29 directorships at the time of the study, 22 past directorships, with a further nine relating to directorship of national associations. In addition many directors in this study serve on subsidiary boards and board committees. Four of the nine directors had been chief executives in major New Zealand companies, in various and diverse industries. Two directors had served on boards within the energy sector although not on boards of competing companies. Such board experience was highly valued: “*One of the advantages of being on 10 boards is that you learn something on each and you can bring those skills and governing practices to the others*”. Such linkages align with the concept of board legitimacy and reputation (Certo et al., 2001; Daily & Schwenk, 1996; Hambrick & D’Aveni, 1992).

Theoretical propositions suggest that directors’ external linkages play a critical role in future strategy formulation and accessing new opportunities. Although it was difficult to gauge the importance or value of it, observation then analysis of data collected provided some insight through reference made to other boards. This was achieved by measuring the number of comments relating to (1) other board processes and, (2) marketplace activity. Of the 3,133 speaking episodes recorded, 353 (11 per cent) were classified as ‘providing information’ and only four (1 per cent) made reference to activity or process relative to other boards the directors serve on or have served on. Similarly, only 64 speaking episodes, (or 2 per cent of the total speaking episodes), were bringing

marketplace information relative to the topic under debate. Who carried out these functions is expressed in the next chapter.

All directors emphasised the value of having experienced board members, and of particular note was the structural alignment. For example, having knowledge of the political structure (i.e. shareholders intent, regulatory issues) in which the board operates was considered of more value than simply bringing industry experience to the board table. This differs from industry knowledge which, when the organisation was facing an environmental jolt became critical to the debate. Nonetheless, what became more evident was how the lack of board experience can hinder the decision-making capability of a board. One ineffective board was noted for its chairman's lack of significant directorships and board members not holding other directorships. Thus one ineffective decision-making board characteristic was viewed, by all board members, as generally lacking governance experience.

Closely aligned to board experience was the cross-board involvement. Such involvement was said to negatively impact on the board's functionality and can generate fettered decision-making. This situation is said to emerge particularly when investor or political representatives are board directors because such board members often have difficulty separating the organisation's interests from those of their vested interests.

...we [the board members] know how we are supposed to act in the best interest of the business, but it is sometimes very difficult to divorce that from the investor or political interests that we are supposed to be representing.

An appropriate declaration was said to assist: "*You have got to act in the interest of the business or declare I am making this statement on behalf of my investor/shareholding or to declare a conflict of interest*". However, such a move effectively removes the person from the decision-making role, thus placing more weight on the views of fewer directors.

v) Analytical and Judgemental Styles

An ethnographically derived conclusion was that individual members approach issues from quite differing perspectives. For example, one director challenged whether

numbers alone should be accepted as the appropriate tool to form measurement when he said:

...if you're going to have a big resource in which you are going to accumulate water and hold it there on a completely sustainable basis over time it's almost impossible to put numbers around it because you can't put numbers around it, it is often difficult to conceive the economics of the issue other than in terms of financials.

Conversely:

...there are some who bring rigorous, almost bloodless analysis and that is essential.

Whereas:

Some people approach things from quite an emotional perspective, which I don't think is all bad. It is a valuable thing to bring to the mix.

Alternatively others weigh up the issues by applying objectivity or rule of thumb:

...I tend to go right back to first principles. I listen to the debate and then say to myself, what is this really about. I have some crude rules of thumb. I apply a personal calculation generally speaking [particularly] if it's primary sector production. I divide the world up into what I call the 30/30/40 model, which generally takes at the primary end 30 per cent of the dollar of cost of sale. At the processing end another 30 per cent of the cost of sale, and at the marketing and sales end 40 per cent of the cost of sale. Bearing in mind that nearly always, nearly all the risks are carried in the first 30 per cent that is why people prefer to sell computers rather than to make them. Now if you are making something, growing something, catching something that rule of thumb is there. And so I tend to look at this sector and use my basic little rule and say 'what's the structure of the cost of sale'.... I tend to pull it back to that sort of little paradigm. And I work out my percentage frame for a business like this.

Out of the 3133 speaking episodes only 11 were philosophical in nature, or in Cutting and Kouzin's (2002) terms 'imaginative aesthetic'. Memorable instances concerned climatic patterns experienced over the past thirty years and water collection alternatives.

10.6 Chapter Summary

Structural characteristics provide some insight into board effectiveness. Commentary provided by the board members interviewed (refer Table 11) indicate structural comparisons can be made between ineffective and effective decision-making boards.

Table 11. Structural Descriptions Associated with Decision-making Effectiveness		
Ineffective Decision-making Boards	Effective Decision-making Boards	
	Effective Boards	Highly Effective Boards
Often very large (15-27)	6-9 members	6-8 members
Technically unbalanced – often comprising industry players	Technically unbalanced – but more balance than an in effective decision-making board	A balance of skills, experiences and competencies
Independence lacking	Some independence	Values and seeks independence
Lacks general attributes – often industry or politically focused rather than skill-based appointees	Varies	Differing analytical and judgemental styles
Investor representation	Investor representation	No investor representation
Lack of board experience	Board experience variable	Experienced board members with external connections

This commentary suggests that a small board works when there are solid contributors, whereas large boards become ratifying, rather than decision-making, bodies. A smaller board of six to eight comprising a balance of skills, competencies, experience, market connectiveness and analytical and judgemental styles appear to provide a structural framework on which open discussion and shared contribution can take place. A performance-driven structure would ensure a sufficient calibre and number of board members are appointed to a board so that matters and issues are viewed from varying perspectives.

Commentary relative to skill sets, competencies, experience and ‘thinking’ approaches suggest board fitness could be related to the ability of its members, not just the number of individuals required around the table. Such a proposition opens up debate on how to

adjust the balance at the time of recruiting for a new board member and if such a balance is better achieved by having non-executive board members. It also challenges the notion of independence of directors instead advocating mix of skills, competencies and experience could be more important than the ratio of independent to executive directors. This latter could not be flushed out in this study, as an SOE board comprises solely of non-executive directors.

Chapter Eleven: Effort Contribution

11.1 Introduction

A perspective, drawn from literature on social-psychological processes, dominates discussions in this chapter: individual and collective behaviours that are intertwined through the decision-making process including the effort and energy directed to an issue or activity. Forbes and Milliken (1999), referring to the work of Wageman (1995), call such behaviour ‘effort norms’ Thus the concept of contributed effort, in reference to a boardroom, implies the transfer of knowledge, possessed by the individual, into the decision-making process.

Role theory, or the perception of how a role ought to be and how it is carried out, served as a means to investigate effort norms and associated behaviour; firstly as it allows roles to be identified, and secondly it takes into account perceptions held by others in respect to contributions made by individuals. When observing the board five different roles, each contributing to boardroom debate, were identified. Interviews with board members reinforced the differences associated with each role. These are outlined in this chapter.

11.2 Directors

While the role of board members reflected the role the board adopted, the conclusion drawn was that the role of directors (board members excluding chair and chief executive) is not only to decide on the strategic direction but also to provide a guidance mechanism for the organisation. In the words of one director:

...to bring experience to the table in order to make decisions at a governance level. It is not hands on unless you include crisis situation: more instructing the chief executive primarily as to direction required, setting performance goals and then monitoring those.

To consider the individual contributions made by each director (measured by the number of times that director spoke), predefined codes were used to protect their identities. D1, D2, D3, D4, and D5 were directors with years of board experience, serving on more than five boards, while D6 and D7 were categorised in another group as they were the newer and less experienced board members.

First-level ethnostatistics analysis showed that collectively directors generated nearly half (49 per cent) of the total speaking episodes. That said, the means per director varied from 24 to 69 and standard deviation (as highlighted in the following table), varied significantly from 15 per cent up to 69 per cent.

Table 12. Statistical Relevance of Speaking Episodes per Director							
Statistical Result	Relevance to Each Director						
	D. 1	D. 2	D. 3	D. 4	D. 5	D. 6	D. 7
Means	32.4	56.6	62.6	63.2	39.8	28.2	24.6
Std Deviations	15.37	69.07	51.35	43.38	26.17	30.99	21.17

Table 12 shows that with the exception of one experienced director the contribution made by the experienced directors (D2, D3 D4 and D5) were considerable. Interestingly, their peers perceived three of these directors (D2, D3 and D4) as ‘big picture’ thinkers. The other two experienced directors (D1 and D5) were perceived as being directors who adopt an analytical approach to issues. Interestingly the means relative to speaking episodes and associated with the newer members (D6 and D7) were even lower. These analyses do not imply the quality of the input, but suggests that experienced directors are stronger contributors than less experienced ones, particularly when the directors are perceived as ‘big picture’ thinkers.

The type of contribution from each of the seven directors became even clearer when third-level ethnostatistic analysis was applied. The findings, given in Table 13, show the contributions as a percentage of the total speaking episodes relative to the topic classifications.

Table 13. Percentage Contribution per Topic Classification								
Topic Classification	% per Director							%
	D.1	D.2	D.3	D.4	D.5	D.6	D.7	
Strategy Setting	6.1	24.75	19.89	18.22	11.82	11.13	8.07	100
Resource Acquisition	11.31	12.04	28.10	23.36	9.85	9.12	6.20	100
Compliance	33.77	11.69	9.09	16.88	23.38	1.30	3.90	100
Business Review	16.84	14.48	15.49	21.89	11.78	9.09	10.44	100
Jolt Management	6.47	11.76	23.54	25.29	22.00	4.71	8.24	100

Such analysis allowed the effort made by all individuals to be considered: first from the perspective of input into each topic classification and secondly from the alignment with skills and approaches perceived (by their peers) as being exhibited. For example the qualified accountant (Director 1) made a dominant contribution in relation to compliance and business review. The directors with a marketing and general business background (Directors 2, 3 and 4) contributed across the board although making a greater contribution to strategy, acquisition and to discussion relative to the environmental jolt. The legally trained (Director 6) contributed when compliance-related issues and environmental jolt (where risk was present) were being addressed. Industry knowledge and engineering skills possessed by Director 5 were more active when compliance related topics and jolt management were being debated. Though Director 7 also had knowledge of the industry the behaviours of each varied considerably. For example the more experienced director (Director 5) made a significant contribution to compliance and risk (when jolt management was under consideration) whereas the less experienced director (Director 7) was more active when the business of the day was under review. This finding supports the early supposition that experience may be correlated with input levels.

During the observation stage the researcher noted differing styles and ways individuals presented and responded to matters. After considering the data from both number of speaking episodes contributed by each director and from the dominant skill set each possessed the data was again reviewed to seek out if the differing styles were more

applicable to topic classifications. It was found that two of the three ‘big picture’ thinkers (Directors 2 and 3) made a significant contribution to strategy with the other ‘big picture’ thinker (Director 4) contributing freely to debate pertaining to acquisition, business review and environmental jolt management. At the same time those directors recognised by their peers as possessing analytical skills (Directors 1 and 5) were more likely to contribute into the compliance (particularly best practice and acquisition) domains. Interestingly the two newer members (Directors 6 and 7) who were also perceived by their peers as analytical thinkers displayed dissimilar patterns: making a greater contribution to strategy and business review than they did to compliance-related matters. This finding may suggest that the issues relative to compliance could be correlated to experience and analytical thinkers.

Four of the directors had chief executive experience. The same set of data was analysed to see if their contributions showed any interesting patterns or similarities. With the exception of the newest board members, experienced directors with chief executive experience (Directors 2, 3 and 4) all made a significant contribution to strategic related (strategy setting and resource acquisition) and collectively dominated these discussion classifications.

11.3 Preparation for Boardroom Debate

Mace (1986) argues that a board can fall short of realising its potential, due in part to board members’ failure to ‘do the homework’ thereby not fully comprehending corporate issues being debated. As an effort construct, preparedness suggests that directors on effective boards prepare and have formed an opinion as to the relevant details and intrigues of the issues prior to the meeting. Directors on this perceived highly effective board pointed out that they are not only prepared for meeting but kept up to date on environmental conditions and industry matters through selected reading mainly across technical and business press, newspapers and internet, coupled with networking. Nonetheless all directors posited the most important information source was the board papers, illuminating that the quality of the information they contain is imperative to good decision-making. To ascertain the value of board papers each director responded to three questions. The first sought to establish what sources they use, the second how they read the papers and the third how they verified information contained in the board papers.

All interviewees assimilated material in readiness for boardroom debate and viewed this as a board member's key responsibility. It was also viewed as a determinant of effective decision-making. The qualitative findings drawn from interviews show directors reduce the ambiguity and irrationality of information by adopting a three-phased approach to boardroom preparation. In the first phase information, provided by management, was independently considered. Phase two was where board members sought clarity on a matter, or gained an appreciation of the views of their peers. In phase three each board member becomes part of the collective decision-making mechanism. Thus a continuum starting at the first phase where individualism dominates to stage three where collectivism prevails begins to emerge.

Preparation by way of board paper review (carried out in phase one) varied from six hours through to two full days. The board and chief executive both asserted that this effort became clearly evidenced in the boardroom where directors demonstratively distill issues and show they have arrived at a position on specific issues prior to debate. Correspondingly directors expected their peers to be prepared to put a view forward. In the chair's words:

They are utterly rude to people who have not read the board papers. We have only faced that on one or two occasions and that is not because people are lazy, it's just been because of pressure of work. But given that when you are on the board you have to manage your time and meet your obligations.

When asked how they comprehend information provided in board papers a variety of approaches emerge. One director explained:

I work from the back to the front deliberately because what I like to do to start with is the conformance information. I see it as good scene setting. I then read the issues papers in quite a degree of detail ... and the last thing I read is the Chief Executive's report because that tends to be a summary of the major issues papers. I find that if I read the chief executive's first I don't take the care that I would otherwise take in reading the issues papers. This approach helps me with my objectivity. And the last thing I read is the minutes from the last meeting. I confess that I seldom look at the minutes other than the action side of it. I know that two other members are going to troll through the minutes, dot the I's and cross the T's, so there is no need for me to repeat it. I have my own innovation ... that is to have the

double up agenda, which is the last page and I fold it and put it in front of me. I then scan for the things that interest me most. I generally avoid a re-run of the minutes because I am absolutely confident that two others will do that in detail.

Another director, recognised by his peers for his business acumen, believed that if reference to a topic is not made in the chief executive's report then it did not justify reading time. Others start by reviewing the minutes first. One, otherwise only scanned this section monthly. In whichever order the papers were read, the key document was undoubtedly the chief executive's report.

The second phase was when either additional information or clarification was sought from either the chief executive or through intermediaries in the market. Nearly all directors tended to test a lot of the presumptions relative to the regulatory environment with their marketplace connections and personal networks. Two directors with strong political and business associations used such connections discreetly while others use their networks (when necessary) to see if they could understand what was actually happening from a political or marketplace perspective. Rather than making direct inference one board member talked of her personal networks saying; "*the thing I enjoy most is the ongoing relationship with thinking people who think at quite a high level, people with high intellect who are involved in many things*". Such commentary suggests that networks provide not only a means of information gathering, a way to understand governance processes and practice, a means to test any assumptions or recommendations put forward, but also involves high-intellect dialogue. In this way networking provides a stimulus for individual analysis and assessment: a time when an individual's cognition occurs. In spite of networks publicly available information was drawn on regularly. For example one director said:

For industry-specific information I scan the media every week and pick up any related story. I do the same for other boards I am on. I make sure that I am up to speed as to developments in the industry and throughout Australasia probably as well as anyone.

Interestingly, only occasionally did board members seek additional information from the chief executive who said:

Some do, but not generally. Very early on in the piece I asked them whether they wanted me to give them a fortnightly phone call between board sessions and the answer to that was no. Only if there is something that is important give us a ring. I think that is good otherwise you are picking up small-scale issues and you are getting into employer-type activities.

According to director commentary scrutinising material in readiness for any debate is more prevalent in highly effective boards. “*There are boards with a few second-hand dealers but you need directors that are sufficiently literate to ascertain or to be able to recognise what is [really] being said.*”

The length of time directors took to distil and comprehend material in board papers to verify marketplace information as opposed from seeking verification from the chief executive supports the notion that non-executive directors bring considerable dispassionate objectivity and vigilance to the information provided in board papers.

The third individual phase relates to discourse contribution and behaviour in the boardroom. Table 14 shows the results of analysis of director generated comment.

**Table 14. Frequency of Director-led Dialogue
Relative to Topic Classification**

Topic Classification	Director-led Dialogue		
	Total Topics	Director-led	% of total
Strategy Setting	44	7	15.91
Resource Acquisition	12	1	8.33
Business Review	61	14	22.95
Compliance	37	12	32.43
Jolt Management	6	0	0.00
Total	160	34	21.25

Analysis of the contributions showed that directors in this study were less likely to lead debate. When they did it was less likely to be on strategic matters and more significant when compliance and business propositions were being reviewed or considered. Examples included a senior management member explaining matters, when

enhancements to a retailing system were tabled by management, when movement in the lake storage levels were queried, and when an approach to business was being reviewed. An observed phenomenon gave further credence to directors leading debate only on selected matters. During the observation stage the chair appeared to seek out a director, recognised as the group ‘expert’ by their peers, to lead certain debates. That director framed the discussion in a way that crystallised the issue before deliberation began.

To understand director behaviours even further each speaking episode was classified according to its main thrust. The results are shown in Table 15.

Table 15. Number of Director Speaking Episodes per Behavioural Type per Topic Classification

Topic Classification	Contribution Type									
	Agreement without Debating	Providing Information	Information gathering	Influencing	Personal Perspective	Pressuring	Dialectic Inquiry	Positioning	Total	Opening Speaker
Strategy Setting	62	244	286	9	82	-	11	25	719	7
Resource Acquisition	23	54	152	2	40		1	2	274	1
Business Review	23	102	118	7	34	1	3	9	297	14
Compliance	6	34	33	3	1	-	-	-	77	12
Jolt Mgmt	15	50	67	-	1	1	6	10	170	0
Total	129	484	656	21	158	2	21	46	1537	34

Of the 3,133 speaking episodes 1537 (49 per cent of total) were classified as ‘information gathering’ and the most dominant group behaviour. Interestingly directors made 656 of these speaking episodes. The second dominant behaviour was ‘providing information’ of which collectively the directors contributed a total of 484 speaking episodes. Thus ‘information gathering’ and ‘providing information’ represented 74 per cent of the collective director input.

When the number of speaking episodes made by directors was placed on a continuum, ranging from agreement with little discussion through to positioning (adopting a positional stance), the results illuminated an interesting pattern. As Table 15 shows directors on the board studied were more likely to seeking out more detail or provide information than to demonstrate any other type of behaviour. Interestingly they rarely took on a personal perspective, tried to pressure others or adopted a positional/devil's advocate position. This suggests they were seeking out facts and endeavouring to fully comprehend the issues rather than debating a point.

To explore this issue in more depth an analysis of the 67 speaking episodes classified as a form of conflict (dialectic inquiry or positioning) showed that all were task-oriented differences in judgement (as described in Chapter 7.4 of this thesis) as opposed to ideational conflicts evoking defensive argument (also described in Section 7.4). Interestingly such responses were more prevalent during strategy planning and jolt management sessions and less prevalent when strategic acquisitions were being considered.

Observation revealed that directors was seen as adding their views or fleshing out information but little appeared to refer to information relative to the activities of other board or occurring in the marketplace. Although Table 16 shows, with the exception of compliance, that externally-referenced information was relatively even-spread across the decision categories, observation suggested the need to investigate the level of externally-referenced input brought into the boardroom.

The starting point was to identify how many of the number of director-generated speaking episodes (1537) provided information (484) and then to seek those in which directors presented externally-referenced material, before considering which topic classification each speaking episode fell within. Two sub-themes emerged: providing externally sourced data and referring to shareholder/stakeholder meetings. When these sub-themes are aligned with topic classification the following data, as shown in Table 16 and 17, provides some interesting behaviour.

**Table 16. Market Referenced Commentary
Relative to Topic Classification**

Topic Classification	Externally Referenced Commentary				
	<i>Total providing information speaking episodes</i>	Theme One: Presenting Market-sourced information	Theme Two: Briefings meeting on shareholder/ stakeholder discussions	<i>Total per discussion type</i>	Percentage of total externally-referenced to total director <i>providing information speaking episodes</i>
Strategy Setting	244	40	13	53	21.72
Resource Acquisition	54	5	8	13	24.07
Business Review	102	15	17	32	31.37
Compliance	34	0	0	0	0.00
Jolt Management	50	4	12	16	32.00
Total	484	64	50	114	23.55

As Table 16 shows market-referenced commentary was relatively low. Of the 3133 total speaking episodes only 484 commentaries (15 per cent) were classified as externally-referenced. Only 114 were classified as boundary scanning activities (bringing information discovered from the marketplace), as the other 50 were briefings or updates relative to current or proposed business (as opposed fresh thought). Table 17 shows directors brought 54 of the 64 externally-referenced comments to the table, and 11 relative to stakeholder activity. In additional three times directors referred practices occurring on other boards. These are as shown in Table 17.

Table 17. Frequency of Externally Referenced Information made by Directors

Market-related information	Stakeholder (not shareholder) Briefings	Reference to other Boards	Total
54	11	3	68

Noteworthy was that the directors did not reference shareholder meetings. Only the chair gave such briefings.

11.4 Currency of Directorship

Concerns raised during the interview phase, in respect of ineffective boards, pointed to education deficiencies and lack of readiness for taking on a directorship. Conversely, highly effective boards were seen as those seeking out training opportunities and encouraging directors to attend appropriate courses. Attention to governance training was encouraged by the Meridian Energy Board's chair. According to directors, the level of training at Meridian Energy was not only encouraged but actual in-house training was much more than with other boards. The importance of such training was given support by the following comments made by one director:

"On the general governance side last year I attended the IoD [Institute of Directors] five-day course". "You have to have an eye to the general ongoing utility in that area to keep yourself developed so I try to read more widely than just the material IoD recommend", and "The other way to keep yourself useful and relevant is by doing ...the more experience you have in the governance environment where you are reporting to a board the more open minded your interactions are and the better you get [at dealing with governance issues]."

Although all board members interviewed called for boards to place more emphasis on greater governance education, directors praised the chair of Meridian Energy for encouraging continuous professional development in this area. For example, during the period under observation an in-board training session led by Merv King (author of the South African report on Corporate Governance) provided a half-day seminar on governance practices.

As pointed out in the literature review skills, competencies and experience of directors can be viewed as a structural consideration or as effort norms (Forbes & Milliken, 1999). To find out if the effort and energy associated with decision-making was viewed as being markedly different in an effective board compared to an ineffective one, data gathered from interviews with board members was again analysed, using NVivo. From the information provided a number of general descriptions were given, showing different characteristics relative to effective or ineffective boards. Such qualitative commentary, set out in Table 18, illuminates the key differences.

Table 18. Descriptions Associated with Directors

Ineffective Decision-making Boards	Effective Decision-making Boards	
	Effective	Highly Effective
<ul style="list-style-type: none"> - Many directors lack board experience - Little depth of SCE Little ongoing training - Lacks commercial acumen - Do not contribute strategic thought - Unable to see the big picture - Lacks understanding of the rules - Followers - Puts forward personal views - Often appointed to represent others - Can not differentiate between management and governance 	<ul style="list-style-type: none"> - A portion of the directors lack board experience - Width of SCE Limited training - Little commercial acumen - Little strategic thought - Mid-term thinkers - Know rules and process - Active participants - Different personalities - Skill-sets good but could be improved - Experienced business people - Knows the difference between management and governance but can cross the line 	<ul style="list-style-type: none"> - Common objectives - Width and breadth of SCE Annually upskilled - Commercially focused - Strategically focused - Long-term thinkers - Clear as to rules and process - Proactive participants - Passionate about their role and the organisation - High degree of integrity - Natural thinkers - Experienced business people - Holds the CEO accountable for all management behaviour and decisions, does not cross the line - High respect for fellow directors and senior management

11.5 Characteristics of Chief Executives

The second role identified was that of the chief executive. Having a good chief executive was seen as the second most important imperative of good decision-making. “*When the chief executive isn’t performing, the board directors have had to roll up their sleeves up and in one way or other they got the thing done. These are appalling situations.*” Similarly “*If you have a chief executive out of sorts with the board it is just hopeless*”.

Qualitative evidence provided throughout the research reinforced that skills and competencies identified with a highly effective chief executive were viewed as closely aligned to those of a highly effective director. Characteristics possessed by an ineffective chief executive, on the other hand, showed three dominant descriptions: Firstly, he/she does not utilise skill sets available; for example; “*he is not taking advantage of the skills that his board has and is not making representation with the shareholder to get the appropriate skills mix*”. Secondly, information asymmetry appears to be associated with a chief executive either because he/she is providing only the information that he/she wants the board to see, or making decisions outside of the boardroom. In the words of board members: “*not having the facts or not putting the facts in context [before the board]...*” and “*If you have a chief executive who’s got a big ego and is dominating an organisation he’s a command chief executive and will do what he wants to do, and will drive the board to the conclusions he wants*” and “*a dominant chief executive decides what information is going in front of the board this time and what is held back for other times thus scheduling the information flows*”. Thirdly, the chief executive may lack strategic nous: “*He will not place the strategic planning function on the agenda*”.

A number of other traits were identified as associated with ineffective chief executives. Examples include:

“*Too heavily involved in the day-to-day operations of the business*”: and “*is not able to delegate*”; “*approaches the entity as if it is a local government job as opposed to a quarter-of-a-million dollar business*”; and “*essentially the chief executive was able to dominate a lazy chairman and lead him around by the nose*”.

Chief executives also shape the management team. Age heterogeneity was viewed by directors as an advantage in the team management, whereas at board level it was not. An ineffective chief executive was more likely to hire senior management within an age bracket, often younger than him/herself. For example the prevalence of “*35ish*” group was raised and associated with an ineffective chief executive’s way of retaining power.

Analysis of data also illustrated that, of the 24 effective and ineffective boards discussed (this figure excludes highly effective boards), 19 chief executives were described as making many business decisions without board input, with a further five having a tendency to be heavily involved in directing initiatives. This meant that such chief executives were not utilising the skills available on the board or within their management teams. Ineffective chief executives were also those seen as presenting information without their management team present. For example one director described an ineffective chief executive by saying, *“We have said to the chief executive that we want to see the members of your management team but he doesn’t allow them go to come in [to the boardroom].”*

Conversely a weak, as opposed to a dominant chief executive, was distinguished by the way he/she did not make decisions, seeking instead for the board to decide on the issues, thereby avoiding accountability for the consequences. Concern expressed can be summed up in the words of one director. *“These traits often reflect an inexperienced and insecure chief executive. It is a recipe for total disaster: dysfunctional communication between board and management, no real accountability by management and no follow up by the chair”*. It also contributes to fettered decision-making, as critical information is not subjected to rigorous debate. On the other hand, highly effective chief executives appear to have a number of key traits, summed up by directors as:

... to know what he [or she] is talking about and to be well rehearsed on it. To have one or more of his executive team members there [in the board room when appropriate] to help with the technical issues. This gives a balanced review of opportunities and risks. And then to non-defensively take questions.

There was a general consensus that the chief executive should possess highly developed facilitation skills: “*a chief executive has got to be good at managing a board*”. In addition: “*You need someone who knows the responsibilities of management*”.

A related trait is the way he/she creates empathy with directors and his/her management team, something that was seen as being hard to do:

A management team can get itself hyped up before a board meeting. It's gone through heaps of hurdles and knows it has one big hurdle to jump, and that's the board. It therefore may see the board as an unnecessary obstacle for its role in life. Sometimes the questions can be quite peripheral and quite de-motivating for the management team because you have some directors around the table that do not add a lot, certainly on a given topic, yet management has got to be seen to be taking them seriously at times or the questions are off-the-wall. However, the chief executive has to be able to handle such situations. If he has got a really tricky issue to get through the board and he knows somebody has got some real skill in that area calling that director beforehand to say this is where I am coming from, this is what I think assists. So you have already cleared or taken away some of the barricades, and you know where board members are going to come from.

Emerging as prerequisites were “*passion and ownership for all tasks and strategic initiatives*”. In addition highly effective chief executives ensure strong business cases are prepared and relevant information is made available to board members: “*Both the presentations and the papers are clear, succinct, not overly verbose*” and “[the chief executive], has the facts and then put the facts in context for board members”. “*He involves management.*”

High reliance on relationships was a further theme. Respect for board members and management, openness and information sharing, not just providing the facts but encouraging ‘thought processes’ and building a collective ethos on relationships were dominant comments. “*When there are strong relationships the chief executive has a good idea of how the board will react to a particular thing*”. It is this ability to relate to directors that builds directors’ confidence in the chief executive.” On the Meridian Energy board it was said to be “*far more than I have seen in many other boards*”. To ascertain how a chief executive actually demonstrates this behaviour, four analyses, using the same set of data (drawn from the total speaking episodes) were conducted. The aim was to see if the contribution made by the chief executive could be aligned

with certain behaviours. The first analysis, shown in Table 19, considered the number of contributions made per topic classification.

Table 19. Contribution by the Chief Executive per Topic Classification (measured by number of speaking episodes)			
Topic Classification	Contributed by Chief Executive		
	Total Topics	Number contributed	% of total
Strategy Setting	1372	433	31.56
Resource Acquisition	630	119	18.89
Business Review	633	199	31.44
Compliance	160	18	11.25
Jolt Management	338	51	15.09
Total	3133	820	26.17

The finding illustrates the chief executive's contribution was significant. His input represented just over a quarter of the total speaking episodes. The contribution made was primarily by providing information across all categories of subject matters, and was notably more predominant when strategy was being debated or the current business was being reviewed. Given the above finding a second analysis was conducted to see if and when the chief executive led the discussion.

Table 20. Frequency of Chief Executive-Led Dialogue per Topic Classification			
Topic Classification	Chief Executive-led		
	Total Topics	Number Contributed	% of total
Strategy Setting	44	26	59.09
Resource Acquisition	12	7	58.33
Business Review	61	26	42.62
Compliance	37	3	8.10
Jolt Management	6	4	66.67
Total	160	66	41.25

The total number of topics raised compared with the number of topics led by the chief executive was used for this purpose. The findings set out in Table 20 show that of the 160 topics raised the chief executive led 66 (41.25 per cent) of the total topics. Although these fell across all decisional categories the most notable finding from this analysis was that the chief executive was less likely to lead when compliance matters were raised. Given that the chief executive could be described as a dominant contributor a further breakdown was conducted. Each of the chief executive's speaking episodes (as opposed to number of topics) was categorised according to the associated behaviour type to see if there was a predominant type or style of input associated with the chief executive.

Table 21. Frequency of Chief Executive's Speaking Episodes per Topic Classification per Behavioural Type

Topic Classification	Frequency of Chief Executive's Speaking Episodes per Behavioural Type									
	Agreement without Debate	Providing Information	Information gathering	Influencing	Judgemental Perspective	Pressuring	Dialectic Inquiry	Positional Stance	Total	Opening Speaker
Strategy Setting	15	387	14	7	7	3			433	26
Resource Acquisition	5	105	5	1	3					7
Business Review	3	186	4	2	4					26
Compliance	1	15	1		1					3
Jolt Management	4	43	2	1	1					4
Total	28	736	26	11	16	3			820	66

The findings in Table 21 illuminate the type of contribution made by the chief executive, which could be classified as being predominately *provision of information*. When this finding is considered alongside analysis provided in Table 19 it can be said that of 820 times the chief executive provided information to the board, only 66 (or 8%) was when he was *opening the subject matter up for debate*.

Thus nearly 90 per cent (736 of the 820 speaking episodes) included *opening the subject matter up for debate* or *providing the board with information*. The remaining 10 per cent (or 84 speaking episodes) fell into *agreement without debate* (28), *information gathering* (26), *influencing* (11), *judgemental perspective* (16) and *pressuring* (3) categories. Interestingly none fell into the *dialectic inquiry* or *positional stance* categories (categories of behaviour referred to in 2.7).

As these analyses emphasise the type of input made by the chief executive was that of *providing information* they strongly support the notion that the chief executive was ensuring board members were well informed – a notion that challenges the self opportunism associated with agency based theories. In fact directors during their interviews stressed the fact that they placed heavy reliance on information provided by management making the point that information was mainly gathered or came to the table through board papers or by way of the chief executive. Although these points are further expanded on in Section 10.6 of this thesis both were viewed by directors as effectively reducing the ambiguity surrounding a topic as well as contributing to the strategic satisficing process, thereby assisting the assessment process. Directors also pointed out that they had a high degree of trust in management-generated (delivered through the chief executive) information. Such a finding, points to trust based theories being relevant to effective decision-making and management being a key contributor to governance.

An interesting pattern of behaviour became evident during the observation phase. When the chair first sought closure on a topic: it was generally the chief executive who spoke next. In all cases he provided information that had not been considered. To flesh out why this occurred, the observation was raised with the chief executive. In acknowledging this behaviour he expressed that it was his way to ensure the directors had the same relevant information that was available to the chief executive before they made a decision. Third-level analysis in Table 22 quantifies this behaviour by showing that of 35 occasions when the chair sought closure for the first time, the chief executive followed-up 20 times (or 57 per cent of the time), providing additional information on the topic.

Table 22. Provision of Information after Closure Call per Topic Classification

Topic Classification	Closure Calls				
	Total Calls for Closure	Total Called by Chair	Closure by Chair on first call	Closure not achieved after first call	Followed-up the by CEO
Strategy Setting	40	33	17	16	11
Resource Acquisition	11	11	5	6	3
Business Review	35	29	29	9	5
Compliance	9	7	2	5	0
Jolt Management	3	3	1	1	1
Total	98	83	54	35	20

These findings give support to the notion that the chief executive's role is critical to information symmetry, suggesting that chief executive was the dominant information provider to the board in addition to being the compiler of the most highly-valued source of information. Thus the chief executive, to all intents and purposes, became the controller of the quality and volume of information. The noteworthy aspect of these findings is that in carrying out this task the behaviour of the chief executive was not self-seeking as purported in the agency theory, but more in line with the trust and managerial hegemony theories.

The researcher felt that this finding called for further exploration and therefore using NVivo drew together qualitatively-collected commentary provided by board members during the interview phase. From the data a list of descriptions relating to chief executives was ascertained.

Table 23. Descriptions Relating to Chief Executives

Ineffective Chief Executives	Effective Chief Executives
<p>Working with the Board</p> <p>Dominates others and unlikely to delegate evidenced by:</p> <ul style="list-style-type: none"> - Making decisions outside the boardroom or - taking issues to the board for them to make the decisions - Board not trusting the information provided 	<p>Working with the Board</p> <ul style="list-style-type: none"> - Work is complementary to that of others evidenced by: - Seeking balance and timeliness of issues/matters for board consideration - Presenting strong business cases - Ensures board members are well informed on issue being debated - Board having trust in information provided
<p>Working with Management</p> <ul style="list-style-type: none"> - Creates a homogeneous management team that thinks as he does or, - Seeks out individual who will be followers 	<p>Working with Management</p> <ul style="list-style-type: none"> - Leads a strong, heterogeneous senior management team - Places a high reliance on relationships, both with board members and senior management - Demonstrates passion and ownership for the business

Even though there was a significantly high level of agreement as to what was expected of the chief executive, a less common view put forward by an experienced director provided a variation of a chief executive's role.

A board meeting is only partly chaired by the chair; it's secretly chaired by a good chief executive. A good chief executive can chair the board without the chair even knowing what is going on. I think there is a role for the chief executive to run all meetings, [and] structure the agenda. A chief executive has [already] got all the papers and has ordered them. I find that style actually quite good as long as you are not being led up the garden path, and that means you still need good directors to see what is going on.

The chief executive in this study demonstrated transactional leadership qualities when establishing agendas, managing the day-to-day operations of the business, and adhering to codes of best business practices but also exhibited transformation leadership by motivating others to set the strategic vision and direction and ensuring vitality was maintained throughout the organisation and building stakeholder relationships.

11.6 The Ability and Function of Chairs

The third role became that of the chair. His role was to preside over meetings, balance individuality and collegiality, strategic initiatives and current business, information gathering (demand) and information provision (supply), as well as to orchestrate interaction between all parties. Drawing on the two data sets, five analyses support this notion.

Qualitatively-collected evidence showed that board members have firm perceptions of what they expect the incumbent to demonstrate. For example:

“He has to be good at managing small groups of people and he has to be an advocate for the company with the stakeholders.” “The chairman’s job is to manage the board. He doesn’t need to have a lot more skills than that.” “I don’t think each chairman has to be technically skilled in the industry that he is chairing a board of, but he’s got to know how to manage a board and that means his people skills have got to be pretty highly tuned.” “He’s got to be very good at reading people, reading body language, to know where people are coming from, looking for conflict of interests.” “...has to have a very good working relationship with the chief executive and be able to look through the chief executive to the organisation and the chief executive’s direct reports”.

Possessing listening skills was another theme. The chair’s effort should be directed to facilitating process not making decisions. The chair summed up his role when he said:

... through the whole board meeting I am throwing out little comments all the way through that are designed to encourage both participating and closure...I get a sense from the board where I can go or not go. The last thing I want to do is to be unclear about my mandate. But if you are trying to get value out of a board and trying to utilise the wisdom you have got sitting around the table you can do that in many ways not just about the papers and issues you are talking about. But it does

mean that you have got to keep doing it all time or the board members start to get a sense that they are being manipulated.

Interviewees, both directors and senior management, identified strongly with the chair's facilitation role, particularly when setting and reviewing strategic initiatives. In this case study the chair's ability was seen as exemplary. Three themes were associated with an ineffective board. Firstly, the chairman will lack appreciation of the strategy-setting obligation of a board; secondly, his/her input takes on one of two dominant forms: lazy or dominant, and thirdly demonstrates an inability to facilitate the meeting.

The characteristics of a lazy chair were noted. As described by one director such a chair gives little consideration to directors' viewpoints, instead:

Meeting by meeting when there is an issue he is likely to bring up the recommendation and pass it through unless a director puts her/his foot down and says hang on we need to have the board's contribution on this. The chair and the chief executive need to know what the board actually thinks so a lazy chair is not facilitating the thinking discussion - he is doing the processing of the things on the agenda and very happy to go page by page through the monthly financials.

Such ineffective chairs appear to display a number of 'lacking assertiveness' characteristics. He/she "*is able to be led by the nose*" [by a chief executive or directors]. "*...takes what he is given compared to proactively going out there and saying what we need*", or brings problems to the board for consideration transferring "*a collective responsibility to the board for what should probably be the chair's functions*". Neither prioritising or concentrating on the important things nor seeing where others want the discussion and organisation to go was a further observation supported by commentary such as:

*"He is not taking advantage of the skills that his board has and is not making representation [entering discussion] to the shareholder to get the appropriate skills mix" or "doesn't appropriately handle strategic thinking". "Board directors need to know what the other board members actually think so he's not facilitating the thinking discussion", instead, *he is doing the processing of the things on the agenda*", and "*couldn't read what is going on*", or "*cannot read the mood of the meeting*".*

Another characteristic noted was not establishing demarcation between management and board activities, thereby not giving due consideration to structural responsibilities. An example given was that; “*a board member was also a staff member reporting to the chief executive*”. Lack of commercial experience was raised as a general characteristic. On the other hand, when there was a dominating chair, the decision-making was often done by the chair and/or the chief executive before coming to the board. Therefore “*director input is not sought*”. “*Directors even though strong and quite well qualified are constrained when they allow the chair to play a role that exceeds his/her capabilities because he/she is the incumbent*”.

Undoubtedly a chair displaying a lack of appropriate competencies impacts on board performance, but his or her behaviour also builds towards a culture of distrust: “*when the board has a weak chair there was a total lack of trust and the board has to get in and do it itself*”. The notion of removing an ineffective chief executive was a recurring theme throughout the interviews:

The chair has got to support the chief executive until he fires him. It is difficult when you have got a slightly deficient chief executive who needs a lot of help especially if it is getting to the stage [when the question is asked] do we keep this person or should we not.

Emphasising the difficulty of this task, directors stressed there is an onus on a chair to work diligently within New Zealand contract law. It was said “*this becomes an imperative when a chief executive’s deficiencies moves towards a dismissal situation. If not handed correctly when first evidenced it can become a drawn out process*”.

Conversely, directors acknowledged that a strong chair is one strictly averse to the notion of separation of management from the functions of a director. Such a chair knows the strengths of each board member and their particular interests, and utilises these in the decision-making process.

Board members unanimously placed importance on the board creating a vision for the organisation, employing directors who not only have the right skill sets and/or competencies, but also a passion for achievement, building and maintaining infrastructure and systems. These motivational tasks were viewed as part of the chair’s

role. “*To carry out this role, the chair has to be a team member, and a mentor to the chief executive, yet at the same time has to retain a degree of distance*”.

In a similar manner to the analysis conducted relative to the directors and the chief executive’s behaviour the behaviour of the chair was also explored. This was achieved by firstly considering the speaking episodes and the contribution the chair made towards differing topics, as shown in Table 24, secondly reviewing the number and type of topics the chair led (refer Table 25), and thirdly, considering the type of decision-making behaviour displayed (in Table 26) by the chair.

Table 24. Frequency of Speaking Episodes by the Chair per Topic Classification

Topic Classification	Speaking Episodes		
	Total Speaking Episodes	Number Contributed by Chair	% of total
Strategy	1372	92	6.7
Acquisition	630	51	8.09
Business Review	633	99	15.63
Compliance	160	42	26.25
Jolt Management	338	48	14.2
Total	3133	332	10.59

The results of the first analysis showed that the chair was more likely to contribute to compliance-related matters. Conversely he contributed significantly less when strategic issues and acquisitions were tabled.

To study chair-led dialogue the number relative to each of the five topic classifications as ascertained. The results are outlined in Table 25.

Table 25. Frequency of Chair-led Dialogue per Topic Classification

Topic Classification	Chair-led Dialogue		
	Total Topics	Chair-led	% of total
Strategy Setting	44	6	13.63
Resource Acquisition	12	1	8.33
Business Review	61	16	26.22
Compliance	37	20	54.05
Jolt Management	6	2	33.33
Total	160	45	28.12%

When the findings of the second analysis were compared with the findings produced from similar analysis carried relative to the chief executive the results showed that of the 160 topics raised over the nine meetings (referred to in Table 25) the chair opened the debate less often than the chief executive (45 and 66 respectively), yet when he did it was more likely to be when opening up debate relative to compliance, the review of business topics or when a crisis was being dealt with.

Observation had shown that he adopted a different approach *when opening up the debate* from the chief executive in that instead of providing information he invited board members to give their views, particularly when the topic was strategic in nature. This suggests he was more likely to open up debate when the nature of the topics was intellective in nature and seeks others to open the debate when the dialogue called for judgemental responses. This does not imply he was not involved in strategy but rather that he was seeking out the opinions of the board members and facilitating the meeting so that members were aware of the implications of any matter before a decision was made.

Table 26 shows the number of contributions made by the chair as 332. To investigate the behaviour associated with these contributions a further analysis of each speaking episode (being preceded) was sorted by topic classification.

Table 26. Frequency of Contribution by the per Topic Classification

Topic Classification	Contribution by Chair								Total
	Agreement	Providing Information	Information Gathering	Influencing	Personal Perspective	Pressuring	Dialectic Inquiry	Positioning	
Strategy Setting	19	33	6	30	3			1	92
Resource Acquisition	8	24	4	11	3			1	51
Business Review	9	50	5	34		1			99
Compliance	4	27	2	9					42
Jolt Mgmt	7	32	1	6	1			1	48
Total	47	166	18	90	7	1		3	332

The findings show that *providing information* and *influencing* were the two dominant behaviours. Given that Table 24 shows that the chair only contributed 10 per cent of the dialogue, Table 26 shows when he did he was more likely to contribute by *providing information* or *influencing* the process than presenting a personal view. This finding reinforces commentary made by board members, in which they emphasised the importance of chairs facilitating meetings rather than making decisions without director input.

To gain a greater appreciation of what was provided by way of information a further breakdown of the data was conducted. Each speaking episode was reviewed and four themes emerged.

Table 27. Frequency of Contribution by Chair per Topic Classification

Topic Classification	Chair's Contribution					
	Moving Meeting On		Briefing		Scene Setting	
	Total	Chair	Total	Chair	Total	Chair
Strategy	40	33	13	4	37	6
Resource Acquisition	11	11	8	3	10	1
Business Review	35	29	17	10	36	16
Compliance	9	7	0	0	17	20
Jolt Mgmt	3	3	12	6	6	2
Total	98	83	50	23	106	45

The results, presented in Table 27, show that the chair was more likely *to provide briefings* to board members on shareholder discussions or provide background information of a given topic, whereas *influencing* occurred when the chair decided to move the meeting on or sought closure: influencing process as opposed to the decision-making.

During the observation phase it appeared that conscious action was being taken by the chair to avoid process loss. When the above data was collectively considered the chair's behaviour could be described in three ways: (1) he opened up debate by inviting members to share their views (particularly when topics were subjective in nature), (2) he asked a board member, viewed by others as the expert or the director knowledgeable in the subject matter, to give his/her summation of the situation or he provided background information himself, both alternatives framed the topic, and (3) he sought closure during the debate. When interviewing the chair, after observing this latter behaviour, he acknowledged such behaviour was a deliberate action, saying:

On some occasions I will have actually phoned a board member and said we are going to talk about [...]. I would like you to lead the discussion. I will expect her or him to lead the discussion more often than not. You then have got to make sure that the other board members have an opportunity to weigh up [the issue] and are prepared, at the conclusion of the debate, to support the group decision. I will certainly look at what I regard as an opinion of the expert to put forward a view

for and against the proposition because it is important. I don't want people to think that I selected [...] to lead the discussion because that's the only person who would push it through. If they do that the approach might come unstuck.

...is good in that its leads to people taking over some particular areas of responsibility and in other areas it's less effective as it allows others to shirk responsibility in some areas. Ideally you want somebody who is recognised as the leader of the issue because of their experience but you want others to take some responsibility.

Observation suggested that the chair did not influence the director he had selected to lead such discussion. Directors when interviewed confirmed this. As one said:

On one occasion I invited a board member to lead the charge and was somewhat surprised when he said: "I'm totally against this proposition: we shouldn't do it.

In this way he ensured the discussion was presented from a 'considered' basis and other contributions or inquiry acted to flesh out 'uncertainties', rather than evoke controversial matters. If the chair found he had widely-held views or he had two different factions in the boardroom he said he was more likely to send the issue back to management for more work or alternatively take the issue off-line as a way to try to deal with everyone's issues, then to bring it back later. In the chair's words:

There are times when a consensus is emerging but at the end of the day it may be wiser to pull that issue from the table because the next time round when both management and directors have given it more thought the chances of getting total buy-in is probable. It doesn't harm anyone to have to wait for a month on occasions. One of the unique things when rewriting the paper is that it will be slightly different and will address some of the issues that were raised particularly by the directors. The board will then get a paper that makes it easier for them to agree with the spirit, rather than say yes I agree and think well I suppose this is the best of a bad job.

These techniques avoided an impasse at board level. The rationale to seek closure, when it appeared a consensus was emerging, was described by the chair in the following manner:

It is important that when you are deciding on a key strategic issue that you do have buy-in from the members, yet you want to avoid groupthink. So what I'm testing is: have we got to the stage where we are all heading in the same direction? We might be articulating it differently but nevertheless we are all heading in the same direction. So it's an opportunity for people to say yes, or I'm opposed to this, but I have been unable to get my oar in ...it is an important part of the process. About two thirds or three quarters along the debate I'll be testing to see if a consensus; a durable, logical, sustained consensus, or a view is emerging. Our people have been here long enough that they are honest and will say yes it is or no it isn't. On the odd occasion I have had someone saying I don't agree with what we are doing but I am not going to hold it up and I am not going to be dog in the manger or bloody-minded about it.

As the literature review pointed out some academics suggest boards only get involved during a time of crisis (Clendenin, 1972; Mace, 1971, 1986), such as when there is an environmental jolt. Comments made by the chair during meetings such as; “*what are our alternatives*” and “*as soon as this meeting is over I will get a taxi and talk with the shareholders*” demonstrated that during a time of crisis attention to seek a resolve and to keep shareholders informed was evidenced by the swift action taken. The calling of special meetings within days of the crisis (in this case by teleconferencing) and keeping directors fully informed of events as they unfolded (by teleconference and minutes) gives support to Mace’s (1971) view that board members react to crisis situations. However, as this study illuminated practice may go further than Mace’s theory by showing this board was prepared to call extra meetings to ensure board members were updated and involved in issues. Similarly shareholders were informed on matters as they unfold, as opposed to waiting until the next scheduled board meeting. Board members showed a willingness to attend extra meetings, in many cases making themselves available (by conference call or through the chair) even when overseas, thereby demonstrating that in such situations board members seem to be aware of shareholder value, stakeholder considerations and ready to work through issues as they unfold. Such behaviour emphasises that the effective board studied was not just satisficing, but endeavouring to at least optimise shareholder and stakeholder value as well as manage stakeholder concerns. Similarly in times of crisis board members wanted to be informed on matters as they unfolded. Thus the chair had a vital role to play: being the critical link between the shareholder, board members and matters. In this sense he became the solution mediator.

As the ultimate leader, the chair in this case demonstrated transactional leadership qualities when establishing agendas, updating board members on shareholders' desires, or seeking board members to adhere to codes of best practice. On the other hand, the incumbent exhibited transformational leadership when the strategic direction was considered as he not only motivated directors but gained buy-in to the vision, ensuring vitality of the board was maintained and built strong shareholder and chief executive relationships.

To see if there was qualitative comment that supported such behaviour the comments provided during the interviews were reexamined using NVivo. This qualitatively-collected information showed differences emerging when reference was made to the effectiveness of chairs.

Table 28. Continuum of Descriptions Associated with Chairs

Ineffective chair	Effective chair	Highly effective chair
Acknowledge skills and expertise and works with people rather than seeking out directors with specific skill sets, expertise and experience	Utilises the skills and expertise of directors and often has input into the mix	
Builds the agenda around compliance and transactional issues (e.g. budgets, performance review), with little attention on strategy setting	Establishes strategic thought and demands dedicated strategic meetings in addition to addressing compliance issues	
Instead of bringing the board together as a cohesive unit works the agenda	Exhibits strong leadership and has everyone pulling in the same direction	
Raises some issues and often seeks decision outcomes to be made by the board	Works with and builds rapport with shareholders	
Dominates the thinking of the chief executive, or, is dominated by the chief executive	Facilitates the meetings ensuring all directors have a say	
Leaves management to react to crisis	Works with the shareholder in mind	
	Reacts quickly when a crisis emerges	

The conclusion drawn by the researcher was that the chair, like a chief executive, was a key contributor to the board process, but unlike the directors, the chair facilitated and influenced the process, as opposed to the decisions. Knowledge-input by the chair took a different form than the knowledge-input from the chief executive, in that the chair was

more likely to update the board on shareholder matters, rather than clarify or provide additional information on the topic. Thus, in carrying out the role, the chair was acting as a connective link between (1) governance principles and the conversion of them into action, (2) the shareholders and the organisation, and (3) directors and management.

11.7 Chief Executive-Chair Relationship

The agency theory focuses heavily on the issue of managerial opportunism while neglecting the issues of managerial competence (Hendry, 2002) or the complementary nature of individuals' behaviours and relationships. Contemporary leadership models (i.e., Ireland & Hitt 1999; House & Aditya, 1999; Rowe, 2001) suggest the control ultimately lies with one person. This thesis asserts that discussion on the style of only one role does not give due consideration to the relationship that exists between the chair and the chief executive.

As the findings of this research have highlighted the chair and chief executive have distinct yet complementary roles. The information provision role of the chief executive and the facilitation role of the chair revealed a 'coupling' leadership style containing complementary characteristics. At the same time the boss-employee relationship appeared tensile (able to absorb shocks and containing resiliency) in that the chief executive reported to the chair who in turn sought to stretch the chief executive's and the organisation's performance by keeping pressure, through applying performance measurements, on both. Comment from directors strongly pointed out that when one party dominates the board falls within the ineffective category. Likewise when the relationship has complementary and tensile characteristics the board was more likely to be described as highly effective suggesting this relationship has a crucial bearing on the board effectiveness.

To gain an insight into how this relationship works the starting point was to seek out from both parties how they worked together. In essence, the agenda-setting phase started when the chair and the chief executive considered what they wanted to achieve at a board meeting and deciding how agenda items would fit within the overall context of the meeting. As the chief executive explained:

The board needs to have confidence that the picture they are going to get is going to be commercially viable and acceptable, and is going to meet our strategic requirements. We start with a whole series of discrete issues but what we do is to consider how the issues fit in with what we have agreed to in our business plan. ...I insist that at the back [of the agenda] is a board work programme so that the directors are looking on the one hand at the issues and on the other hand the linkages.

As the chief executive put the next agenda together, the chair drove the current one. In the words of the chair: “*He (the chief executive) has already got a list of issues to talk about...while I start thinking about how we are going to manage that process. So we are thinking two steps ahead most of the time*”.

Both set aside time to be together. According to the chief executive:

...that is one of the chair's strengths. He makes sure that I turn up once a week. We usually meet to prepare the board papers for the management discussion and then to prepare for the board meeting. We get together before a board meeting and go through the big issues. But interestingly enough we do not get into the big issues and debate conclusion: that is a board role. We don't actually debate the recommendations of any board papers. Neither of us is trying to orchestrate the board. We concentrate more on what's the order, what is important and I usually try and give the chair a bit of view on the way I am thinking about the big things that are bothering me. Sometimes that is where I am looking for advice, sometimes it is a discussion where I am trying to convey why I am thinking the way I am.

An example provided by the chair illuminates this behaviour:

Take the discussion on the value of the company. We had agreed that needed some work and that it was the right time to ride. We agreed on how it should be done. There was no discussion between us as to whether it was [a nominated value or \$?]. That's a matter for the board. We are very careful not to go to the board with a start-up conclusion. And there is always a recommendation in the paper. However the board will have no clue whether I agree with it or not.

The structured implications outlined by the chief executive were:

There are the things that I necessarily need approval for if we are to achieve the overall direction. By and large the board supports these. Then there are others items that make up more the tactical stuff. They come along as the issues develop and sometimes beyond our control. There is a list, which says, we will deal with board performance in November so people don't feel inclined to answer questions out of session unless it is really important or critical in their view because they know they are going to have a real lash at it later in the year. They know from that programme that we are going to start preparation in May or June. The routine issues are dealt with on the basis of their annual rolling programme. So to a certain extent the agenda is put together reflecting what the strategic and business issues are, and that's quite a lot. Arising are important issues that we call opera and that's issues like the power crisis that we cannot plan for.

Both the chair and chief executive allowed board members to request papers on specific information although there was little evidence of it during the time the Meridian Energy's Board was studied. When the chair was asked why, he responded:

It says to me that we're got the process right because the directors know that either the issue is going to be dealt with out-of-board sessions or we will fit that in at the appropriate time. Demanding papers though wastes a lot of time as it means that something has to be taken off line even if it might be a priority project, so that the special board paper can be prepared.

In response to questions about ownership of the board papers, the chair and chief executive both emphasised that they do not get a sense that management has control over the board papers. As far as they were concerned the board was totally responsible. Process and structure assisted the communication and board culture. Notwithstanding that the agenda and annual programme were set between the chair and chief executive there were times when: “*Even in the chief executive's report I quite often have an item or two that I put on the table even though I haven't even talked to the chair about them*”.

One question posed to the directors was whether the chief executive or chair was more powerful or exhibited a more predominant style. When the qualitatively-collected data was analysed, using NVivo, the complementary nature of the roles emerged. This strong working relationship was not only viewed as critical to decision-making it also

was an aspect that reportedly made Meridian Energy's board a workable and enjoyable board to serve on.

Table 29. Seven Descriptions used to Express a Complementary Relationship

	Chief Executive	Chair
1	Considers items timing of the board programme – ensures management can deliver	Consults with the chief executive to prepare a board programme.
2	Provides topics for debate – jointly selecting those to be presented	Jointly selects papers for consideration
3	Provides detailed information – strategic and business updates	Facilitates the debate relative to the information provided – both strategic and business to date
4	Manages the management team	Manages the board
5	Decides who will present the topic	Decides who will lead the topic
6	Builds stakeholder relationships	Builds shareholder relationships
7	Reports to the board through the chair	Oversees board and chief executive

In response to the question as to what forms such a strong relationship the chief executive expressed: "*It is the passion to show that we can do things differently that is an important driver for us*".

The chair reinforced this by saying: "*When we are both together, working and thinking about the board we aim to build a really healthy board culture. We have a perception of what we both want.*"

Such coupled leadership was said to be absent in an ineffective board. Thus a further determinant of board effectiveness emerged. Ineffective boards were seen to be more likely to have a transformational chief executive or chair described as being excessively domineering, or a transactional chair often lacking strategic drive. On such boards concentration of the meetings was usually around compliance issues. Although effective boards often have one party (chair or chief executive) displaying strong leadership characteristics it was said that only in a highly effective board did the chief executive and chair work in a complementary manner. Domineering and the lack of

taking ownership of strategy, according to the Meridian Energy's directors interviewed, have the most destructive influences on decision-making, whereas a strong union is infused with trust. The conclusion drawn from such narrative was that when the two leaders work in unison the relationship is entwined with trust a powerful and develops into a solid working relationship: one that has 'connectiveness' with shareholders, board members, stakeholders and management. Yet the difference between the two roles is profound: one manages the business and information flows: the other is accountable to the shareholder and facilitates the decision-making process.

Despite a call by all directors for a strong working relationship between the chair and the chief executive, two board members cautioned that this relationship must however never become too close. In such situations fettered as opposed to unfettered decision-making occurs. A director with chief executive experience provided an example saying that: "*We were close that was why it worked and that's why it went wrong. We went our way [which was] not always the best way*". Closeness, as another director pointed out, can remove governance-management demarcation:

Somehow the chairman negotiated a consulting fee to be involved in this process. He worked alongside the chief executive on a lot of the issues over a three or four year period. ...they were too close, which made the governance-management division unworkable as there were times he reported to the chief executive.

The conclusion drawn is that these two roles are not only critical, they are influential and strengthened with coupled leadership style is present – one facilitates the other is the information provider, yet at the same time a positive tension between the roles is necessary if control, structure and process are to be retained.

11.8 Management Input

The fourth role was that of the senior management team. Implicit in theoretical perspectives is the presumption that directors will have access to the information required to carry out their role. What became apparent in this study was the relevance of, and director reliance on, information provided to directors by management. In this way the responsibility of management to the board appeared to be two-fold: firstly to provide the information on which decisions were made, and secondly to put into action

(in Chia's (1994) terms this would be described as actionalising) any decisional outcome. Three analyses elucidate the contribution made by management. The first shows the overall input, the second the type of contribution, and the third paints the type of behaviour exhibited.

Early in the research the importance of information imparted through board papers and presentations made to the board became obvious. One director summed it up this way:

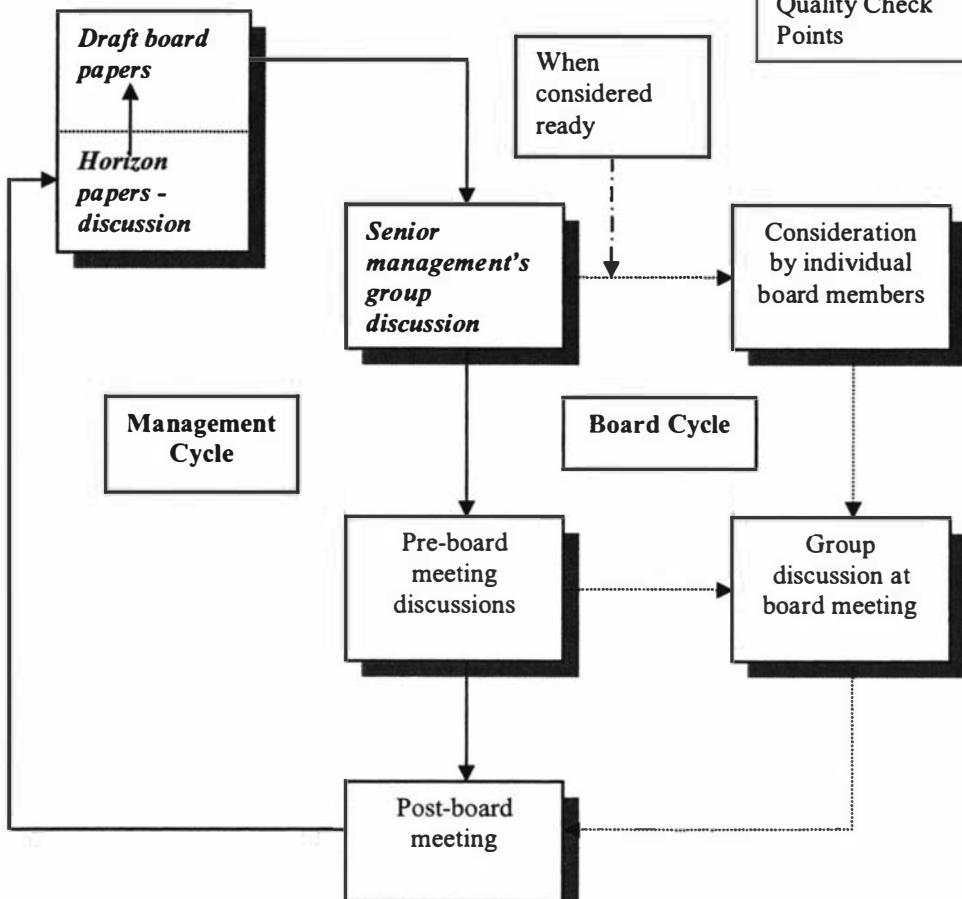
The initiative to make investments and the initiative to undertake things at the end of the day come from our internal resources, the collective resource of human capital held within the organisation.

During the interviews with the senior management team each member was asked three questions relating to the board papers. The first sought to ascertain how decisions were made and which papers go to the board, the second how the process worked, and thirdly the strengths and weaknesses of the process. From these interviews it became evident that the management team, including the chief executive, conceptualised and scrutinised each paper a number of times before it was collectively agreed to be board-ready.

The process was initiated when concepts were developed (either from departmental heads, directors, chief executive or chair). All members of the management team reviewed each paper independently before collectively considering it at a regular meeting. If changes were made, papers were resubmitted for a further peer review before board consideration. Prior to a board meeting the chief executive spent time with the owner of the project making certain that he was fully informed on all detail contained in the paper and its strategic relevance as well as deciding how the presentation would be made. Post-board meetings held by the management team considered comments passed by board members relevant to each paper. Type of further action, if necessary, was decided on. Hence, post-board and pre-board meetings (as shown in Figure 18), in addition to operational meetings, took place between each board meeting.

Figure 18. Board Paper Flow

Key:
Bold/Italicized –
 Quality Check
 Points



As a consequence the board papers, as shown in Figure 18, were subjected to two circular flows: management and the board. In this model the chief executive took the information to the board. A variation in the information flow arose when a senior management representative presented the matter/issue in front of the board. Observation revealed that after responding to questions arising out of the presentation management departed the boardroom allowing directors to express their views, assess the situation and make judgements in relation to the information provided in the absence of management.

Notwithstanding the consistency of this approach, the strategic review session took a different form, with only board members, chief executive and legal counsel in attendance. While management was not included in the special strategic retreat they

attended the all-day strategy-planning session where each head of department outlined his/her proposed strategic initiatives. Despite senior management's involvement for most of the day, the board displayed a similar pattern to that relative to management presentations in the boardroom by seeking time without management at the end of the session to consider and comment on the propositions tabled.

The data notated during the board sessions was again reviewed to gain an understanding of the level of contribution made by management. In the same way that of the directors, chair and chief executive's behaviours had been analysed the data relating to management was also analysed. Using the same methodology allowed comparisons to be made.

Table 30. Frequency of Management-led Dialogue per Topic Classification

Topic Classification	Management-led Dialogue		
	Total Topics	Number led by Management	% of total
Strategy Setting	44	5	11.36
Resource Acquisition	12	3	25.00
Business Review	61	5	8.19
Compliance	37	2	5.40
Jolt Management	6	0	0.00
Total	160	15	9.38

The results show that although the actual contribution (refer Table 30) was relatively insignificant when compared with the total contribution, like that of the chief executive, management involvement centred around the *provision of information*. Of the 15 management-led sessions, legal counsel (a member of the management team who was in attendance during all board meetings) led six. The other senior management contributor was the head of finance who, in the absence of the chief executive, outlined the impact of the crisis and led risk management sessions when resource acquisitions were tabled.

To see what type of behaviour was associated with the management's speaking episodes the topic classifications were aligned to the type of behaviour displayed. Third-level ethnostatistic analysis was used for this purpose.

Table 31. Frequency of Management Behaviour per Topic Classification

Topic Classification	Types of Behaviour									
	Agreement	Providing Information	Information gathering	Influencing	Personal Perspective	Pressuring	Dialectic Inquiry	Positioning	Total	Opening Speaker
Strategy Setting	3	110	2						115	5
Resource Acquisition	3	109	2		4				118	3
Business Review	2	26	1	1					30	1
Compliance	3	17	3						23	2
Jolt Management	3	63	2						68	0
Total	14	325	10	1	4				354	11

Table 31 gives board observations relevance by revealing that, in the boardroom, senior management contribution was primarily made through clarifying the rationale behind new initiatives or presenting a strategic overview as to how management proposed to move any strategic initiative forward. Effective support by management can therefore be viewed as a resource that ensures the information is accurate, relevant and timely, and in line with the strategic intent of the organisation.

11.9 External Consultants Input into the Decision-making Process

Advice, provided by outside consultants, the fifth identified role, brings an additional level of rigour to debate. An example illustrates the usefulness of such input. When the board was considering whether to invest in additional power plants, although the concept aligned well with the organisation's strategic intent, it required the organisation to enter into a contractual agreement, through a substantial tender process. This called for the board to decide if and at what price and conditions they would be prepared to

tender. A dedicated board meeting considered and challenged advice provided by a number of external consultants who attended and presented at that meeting. At this and other meetings the advice provided by the corporation's legal and finance advisors also provided a means to evaluate information already supplied by management or to clarify a point.

During the observation stage an interesting occurrence happened. A third party legal adviser had been asked to give an opinion as to the viability of the advice already received from the organisation's mainstream legal advisors. This action illuminates a further insight that while board members accept management's or legal and accounting advisors view on many issues, when major strategic initiatives were being considered additional assurance was sought. However this phenomenon occurred infrequently as Table 32 shows.

Table 32. Frequency of Consultant Contribution per Topic Classification			
Topic Classification	Consultants' Contribution		
	Total	Number of Contributions	% of Total
Strategy Setting	1372	0	0.00
Resource Acquisition	630	66	0.10
Business Review	633	1	0.00
Compliance	160	0	0.00
Jolt Management	338	0	0.00
Total	3133	67	0.02

All directors were questioned as to the purpose of reviewing expert advice. Commentary provided by one director described the role "...they are peer reviewers rather than analysts". Another provided the purpose when he said:

...all the consultants are really doing is essentially second-guessing what the in-house team had already done. Usually the directors had already made their judgement ... So not really interested in the external consultants' analysis, just want to know that it [the issue] is tidy and the numbers stack up.

An ethnostatistic analysis was conducted to see if there was support for the commentary made. The results (shown in Table 33) reconfirm that external consultants in the boardroom act as information suppliers, or sounding boards from which board members test, challenge, comprehend or qualify specialised or detailed information.

Table 33. Frequency of Consultant Behaviour per Topic Classification

Topic Classification	Consultants Speaking Episodes									
	Agreement without debate	Providing Information	Information gathering	Influencing	Personal Perspective	Pressuring	Dialectic Inquiry	Positioning	Total	Opening Speaker
Strategy Setting	0	0	0	0	0	0	0	0	0	0
Resource Acquisition	0	60	4	1	1	0	0	0	66	0
Business Review	0	1	0	0	0	0	0	0	1	0
Compliance	0	0	0	0	0	0	0	0	0	0
Jolt Management	0	0	0	0	0	0	0	0	0	0
Total	0	61	4	1	1	0	0	0	67	0

The message gained from directors was that their responsibility to the shareholder calls for them to take all appropriate steps to ensure they make sound and unfettered decisions, particularly if the issue lies outside their own expertise. If facts are not confirmed nor clarity sought, their ability to pass judgement would be impaired and clouded by ambiguity relative to the matter. It is about gaining confidence in the information provided.

As the chair puts it:

In essence we are putting together a jigsaw. The analogy is very innocent. The board, because the directors understand the strategic and commercial imperatives behind the project, are prepared to go along putting the pieces of the jigsaw

together. You know this is a new jigsaw ... you have got a pretty good idea of what the picture is going to look like but you are never sure what the final outcome is, until you have got the whole thing finished. And that's what we are really dealing with [the named project]. It [hearing from external sources] is being done in a way in which the board has confidence in the information and likely outcome.

As one director pointed out “*Even if only in one out of ten cases we find something that makes us rethink the proposition then the peer reviews are of value*”.

11.10 Chapter Summary

Contribution to the board’s decision-making process comes from various sources and each role has a part to play in processing the information. Directors bring skills, competencies and knowledge, and experience through which they probe and test information. In this manner they become the decision-makers. Information providers adopt a number of forms, firstly the chief executive who provides information (1) prior to the meetings, either through clarifying matters through the papers distributed to directors, and (2) then again throughout the meeting. Similarly senior management makes presentations at the meeting and works with the chief executive in the preparation of board papers. External expert opinion, sought on occasions, provide directors with additional information mainly building confidence in management’s decision and the advice they give relative to the desired strategic outcome. This latter check viewed by all board members as of value does not imply management is not able to deliver what is best for the organisation or that they are self-seeking, rather it was seen as a quality assurance check carried out for shareholders’ benefit.

The chair’s role was seen as managing the process, allowing intellectual and rigorous debate through encouraging participation and framing of issues. In doing so he overtly assumed the task of shaping the debate as opposed to making the decision.

Chapter Twelve: Interaction and Process in a Boardroom

12.1 The Decision-making Environment

Interaction is viewed in literature as possessing both cognitive and effective conflict (Dutton & Jackson, 1987; Sundaramurthy & Lewis, 2003). Yet ethnographically what became evident was that, rather than challenging the views of others, a significant level of dialogue was aimed at fleshing out detail, testing the proposition on the table, or adding further comment to the discussion. This involved board members interacting and intervening as they cooperated and exchanged information.

At the heart of conceptual propositions of process intervention and interaction is the notion that board members hold different opinions about what the appropriate decision should be (Dutton & Jackson, 1987). This implies that, to balance differing opinions requires the chair to manage three social-psychological inputs: individual conflict with collegial input; agreement with disagreement; and information provision against information testing. Such balancing encapsulates the essence of Wageman (1995) and Forbes and Milliken's (1999) effort norms.

When speaking episodes were grouped according to the intent eight major groupings emerged: providing information, gathering information, influencing the decision, presenting a personal judgement, applying pressure, dialectic inquiry or taking a positional (devil advocacy) stance. These provided a means to understand behaviour and interaction in more depth. In applying these classifications the intent of this chapter is to build on the findings provided in Chapter 10 and 11 to show where and how central force appears. It is from this central point that discussion, responses to questions, seeking additional information or points of clarification appear to generate.

The positive contribution that conflict is said to bring to debate is its ability to bring out alternative arguments or to challenge presumptions made by other members of the group (e.g., Maier, 1967; Schwenk, 1990), the board studied did not show a high level of conflict, yet members believed it to be an effective decision-making board. Instead as observation showed its members were committed and when interviewed board members stated the level of satisfaction and pride in the way the board operated was high, as high as if not higher than any other board they had sat on. Directors also

reinforced that the absence of positional conflict evident was a strong element of the board, one that assisted in the way issues were considered and reached. This lack of positional conflict was seen as differentiating the way this board worked compared with ineffective decision-making boards: where it was said that such conflict often prevailed. This latter commentary gives some support to the finding of previous researchers (Schmidt, 1974; Schweiger & Sandberg, 1989) who advocate conflict decreases commitment and satisfaction. Likewise observation indicated that emotional affective conflict (in the form of devil's advocacy) was even less prevalent than cognitive conflict. Thus, such a climate of consensual decision-making was seen as being primarily correlated with constructive interaction, rather than conflict. To quantify observation and commentary behaviour patterns relative to interaction were analysed using the same data as in previous analyses.

Table 34. Type of Behavioural Interaction per Topic Classification

Topic Classification	Nature of the Interactional Behaviour								
	Agreement with little Debate	Providing Information	Gathering Information	Influencing	Personal Perspective	Pressuring	Dialectic inquiry	Adopting a Positional Stance	Total
Strategy Setting	102	777	313	48	93	3	11	26	1373
Resource Acquisition	40	351	170	14	51	0	1	3	630
Business Review	39	370	130	45	36	2	3	8	633
Compliance	14	92	39	12	2	0	0	0	159
Jolt Management	29	188	72	7	24	1	6	11	338
Total	224	1778	724	126	206	6	21	48	3133

Table 34 illuminates the high level of interaction that took place during the 50 hours of boardroom dialogue. It shows that just under 9 per cent of speaking episodes presented a form of disagreement: presenting own perspective (one that differs from those previously given), pressuring (trying to get others to change their views to that of the

presenters) dialectic conflict (presenting an alternative) and taking a personal stance (sticking to one's own view). The same table illuminates although devil's advocacy and dialectic inquiry represented only 1.5 per cent of all speaking episodes they were more prevalent when strategic issues or jolt management were considered. Similarly, presenting an opinion (either judgemental or intellectual) and influencing were more apparent when strategic issues were being considered. Pressuring, on the other hand, became apparent when business was being reviewed. Agreement, representing 7.5 per cent of the speaking episodes, was forthcoming across all decision types, thus consensus decision-making prevails. Notably over 56 per cent pivoted around 'providing information' and a further 23 per cent in 'gathering information'. These latter two classifications lead to decisions being made and consensus being reached. The chair's view was that consensus was important.

There are times when you don't achieve it. It is important in the overall scheme of things because people become part of the conclusion process and you are getting better decision-making. It is also important for management to know that the board is totally behind them. If they sense that some [directors] are pulling this way and some that way it is natural that they will look over their shoulder and say are we doing it exactly the right way or not. So I think building that consensus, getting it to total buy-in is pretty fundamental to the performance of the board and also performance of management.

Directors' commentary puts forward the notion that pressuring and positioning own views are more closely aligned with an ineffectual board and were more likely to dominate any debate. Similarly consensus in an ineffective board appears to take on a form of its own. One director summed up the generally purported view by saying, "decisions (in an ineffective board) are usually made when one board member ends up taking responsibility for a particular area and expressing a view which becomes the consensus of the board". Thus consensus is not derived at through debate but through influence or pressure.

Board members said that boardroom behaviour can lead to friction or factions. When such behaviour emerges, the onus to seek resolution of issues lies with the chair: "If the chair can't somehow find a way to bridge the gap with some sort of compromise it's a major problem and you end up at the end of the day with a resignation".

As a result:

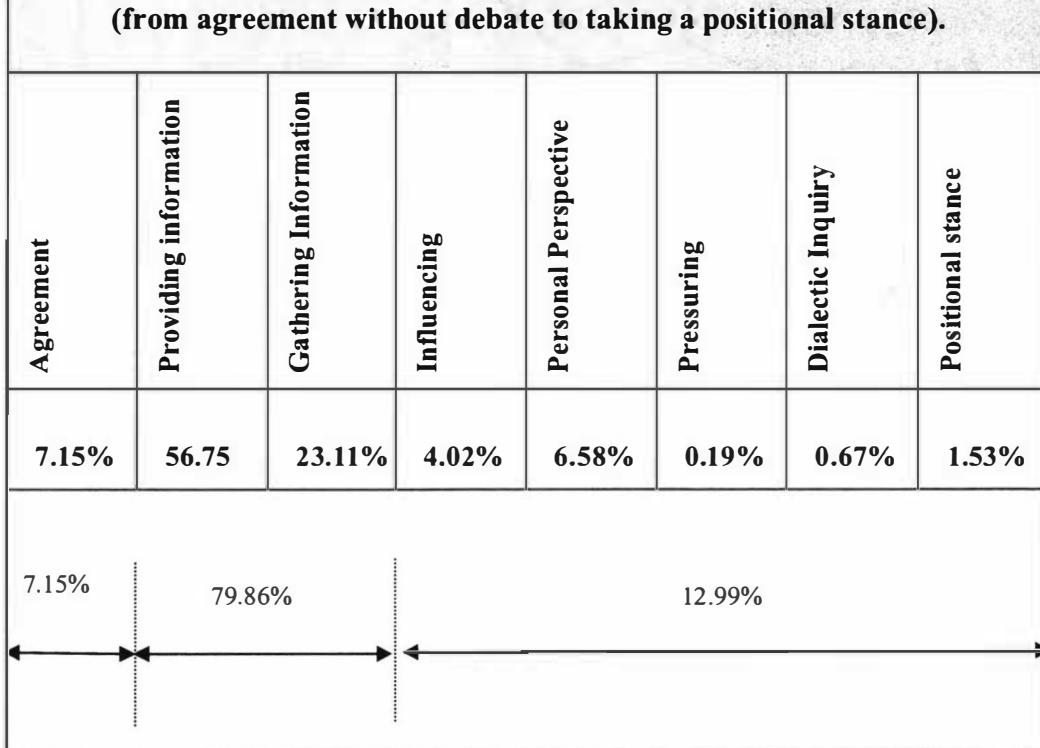
Everyone goes away from a board meeting like that feeling pretty uncomfortable".

"Factions arise and when those factions are talking to one another outside of the board meeting further conflict can prevail.

Interestingly in the board studied agreement without debate rarely occurred and when it did it was more likely when compliance or procedural matters where under discussion. Conversely, consensus was reached only after the views of others had been heard, considered and tested; in this way it became a key contribution of the decision-making process.

Considering the same set of data as employed when creating Table 34, but from an agreement-disagreement perspective an interesting phenomenon emerged. The data analysis that gives rise to this finding started with the review of the percentages across all interactive behavioural groups as shown in Table 35.

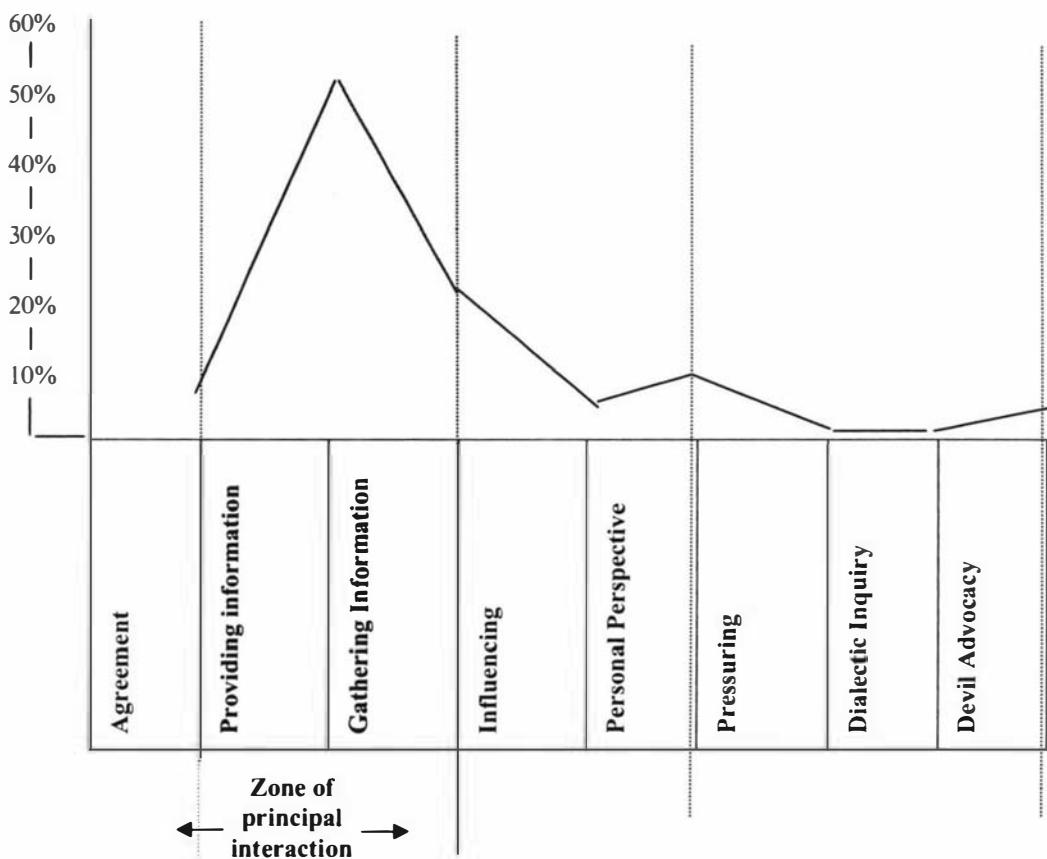
**Table 35. Continuum of Interactive Behaviour
(from agreement without debate to taking a positional stance).**



The findings illuminated that discussion centred on the information provision and information gathering (or inquiry). Converting the same data into a pictorial form emphasises the prominence and centrality of providing and gathering information.

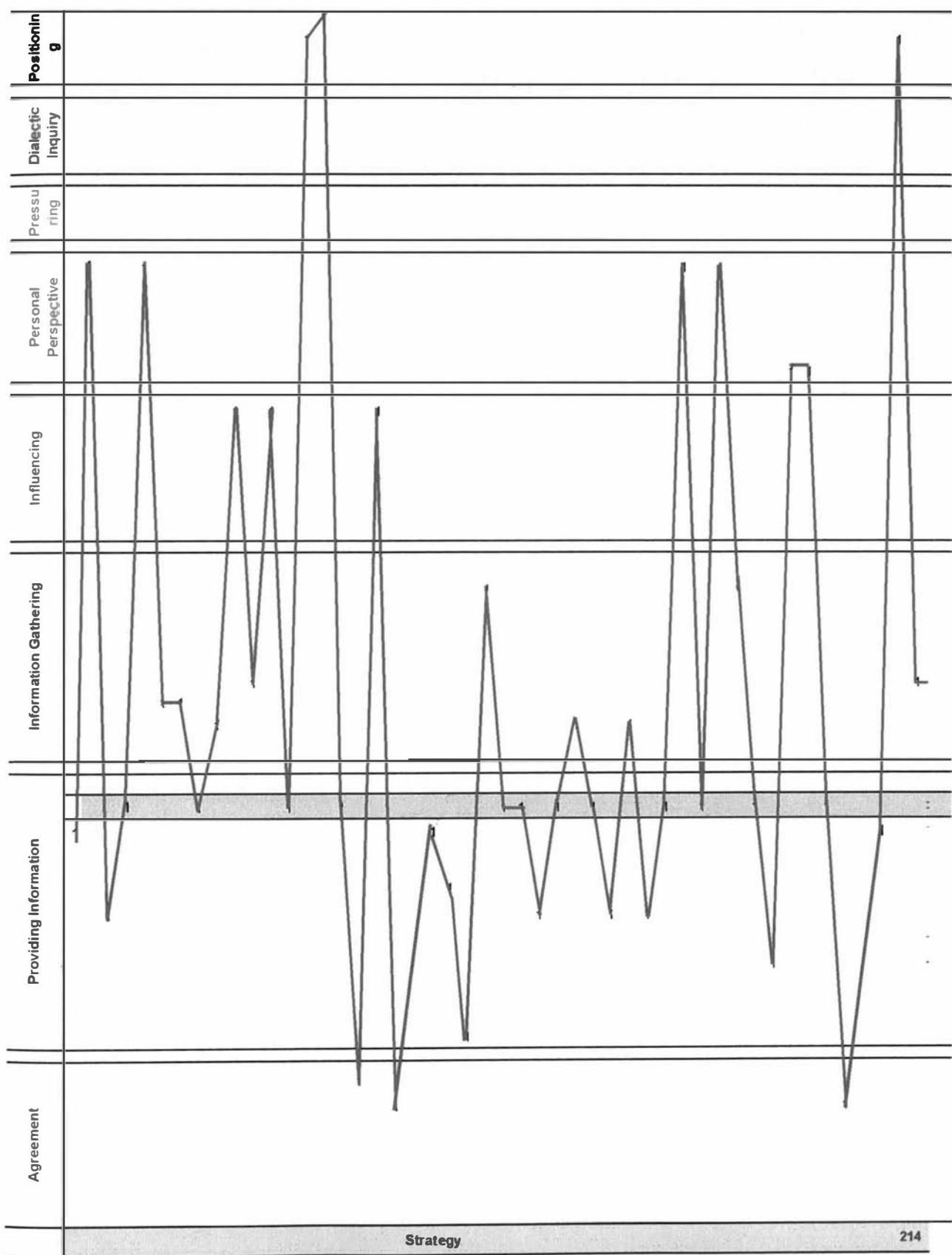
This depiction is shown in Graph 1 and refers to this as the principal interaction zone as it is where most of the interaction took place. A point of interest is that discussion appears to occur in waves of circular flows around the chief executive's explanations of situations.

Graph 1. Interactive Zone

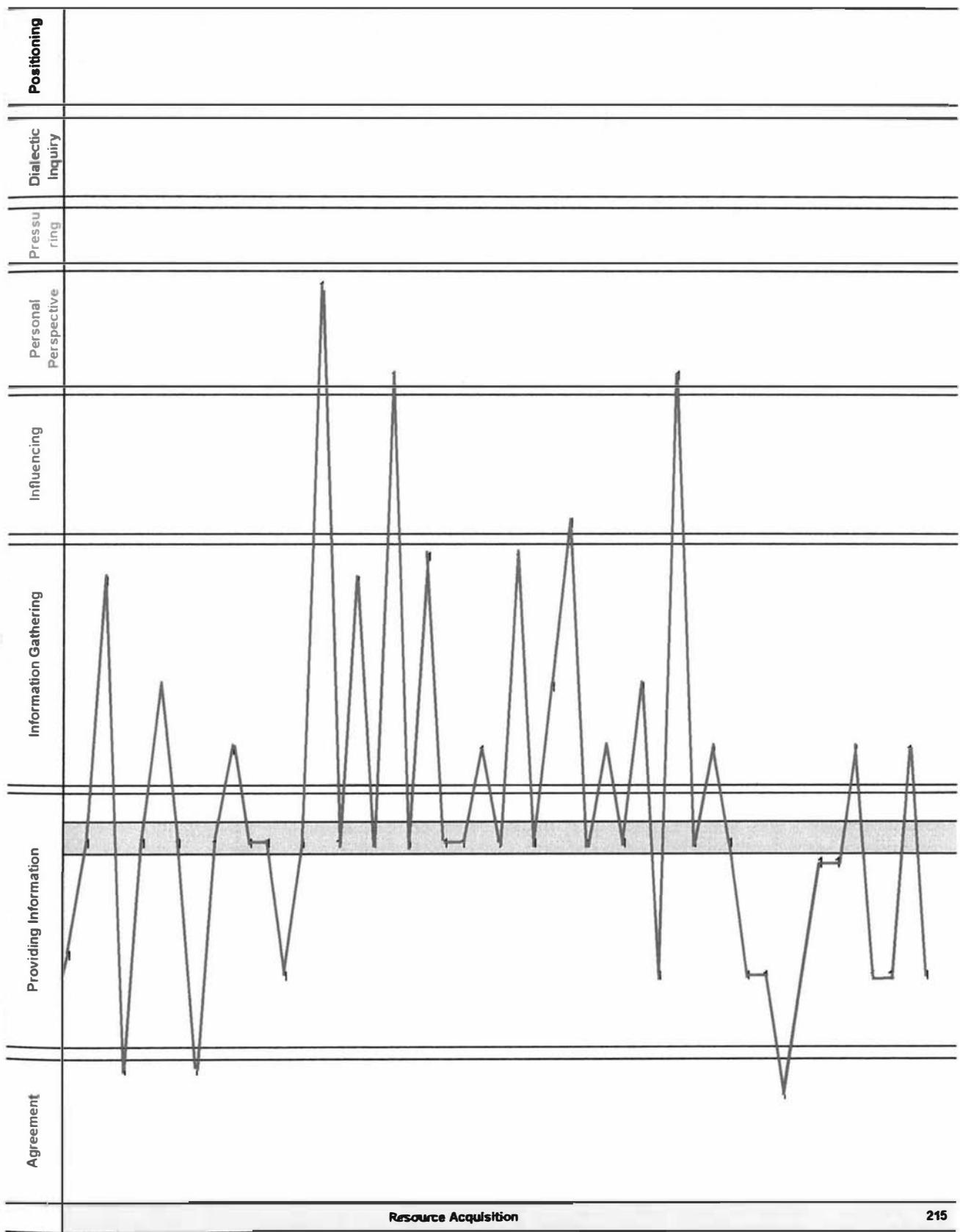


A representative sample exhibited in the following graphs illuminating the revolving point round which information flows. Appendix D reveals how each decisional type displays a differ pattern. For example compliance matters are less intensity (lower number of speaking eposides) than strategic issues.

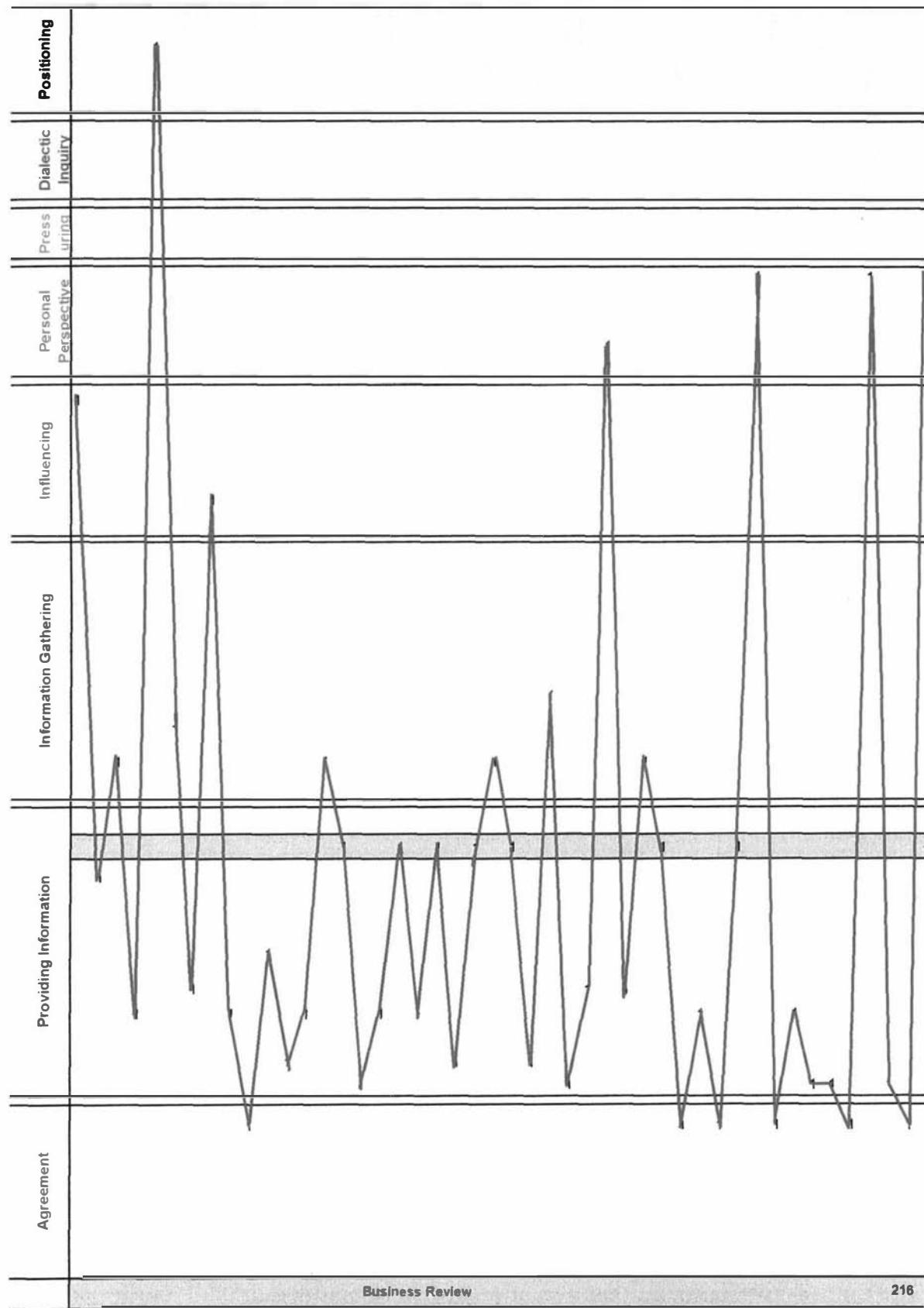
Graph 2. Decision-Making Behavioural Patterns associated with Strategy-Setting



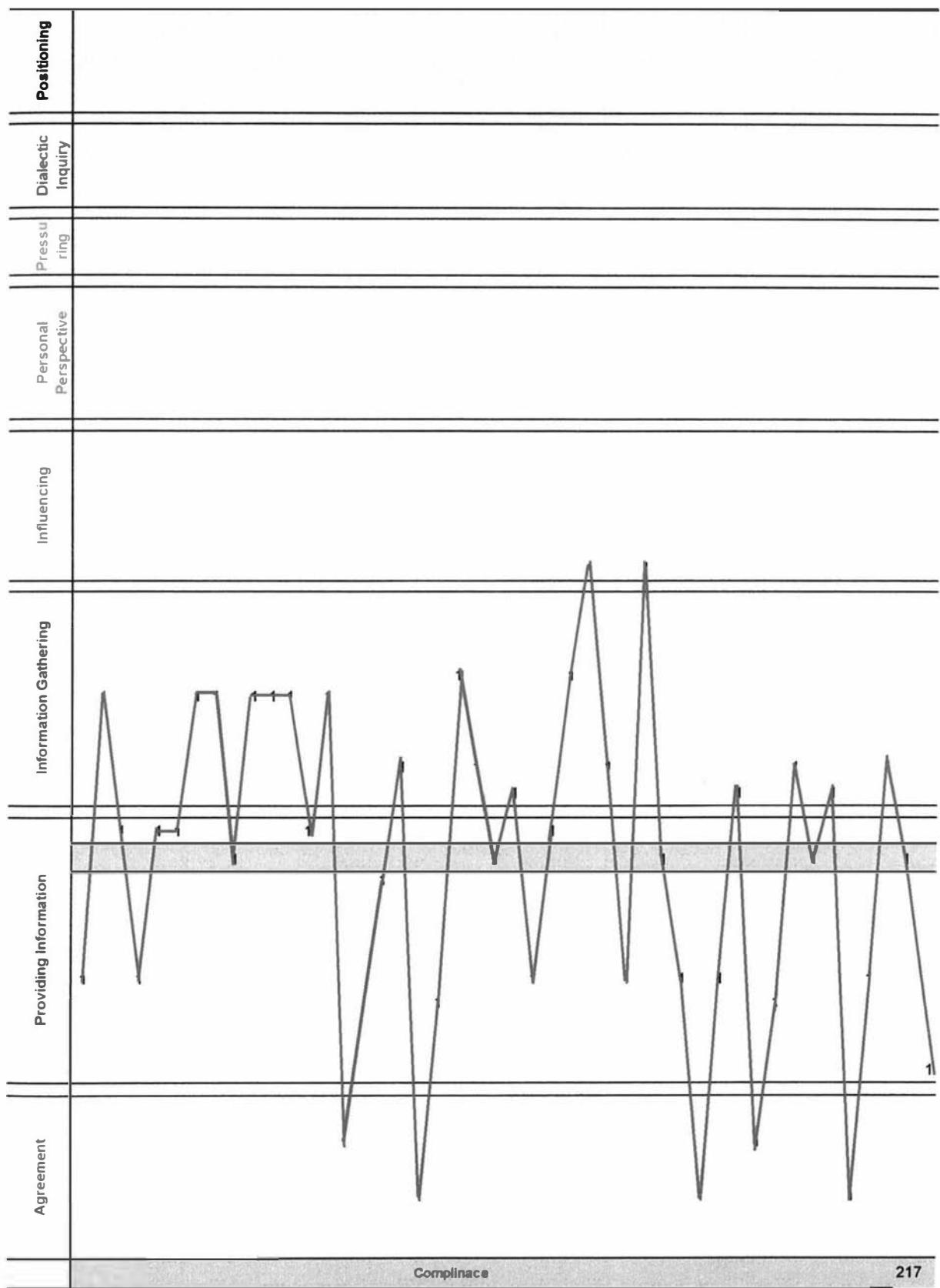
Graph 3. Decision-Making Behavioural Patterns associated with Resource Acquistion



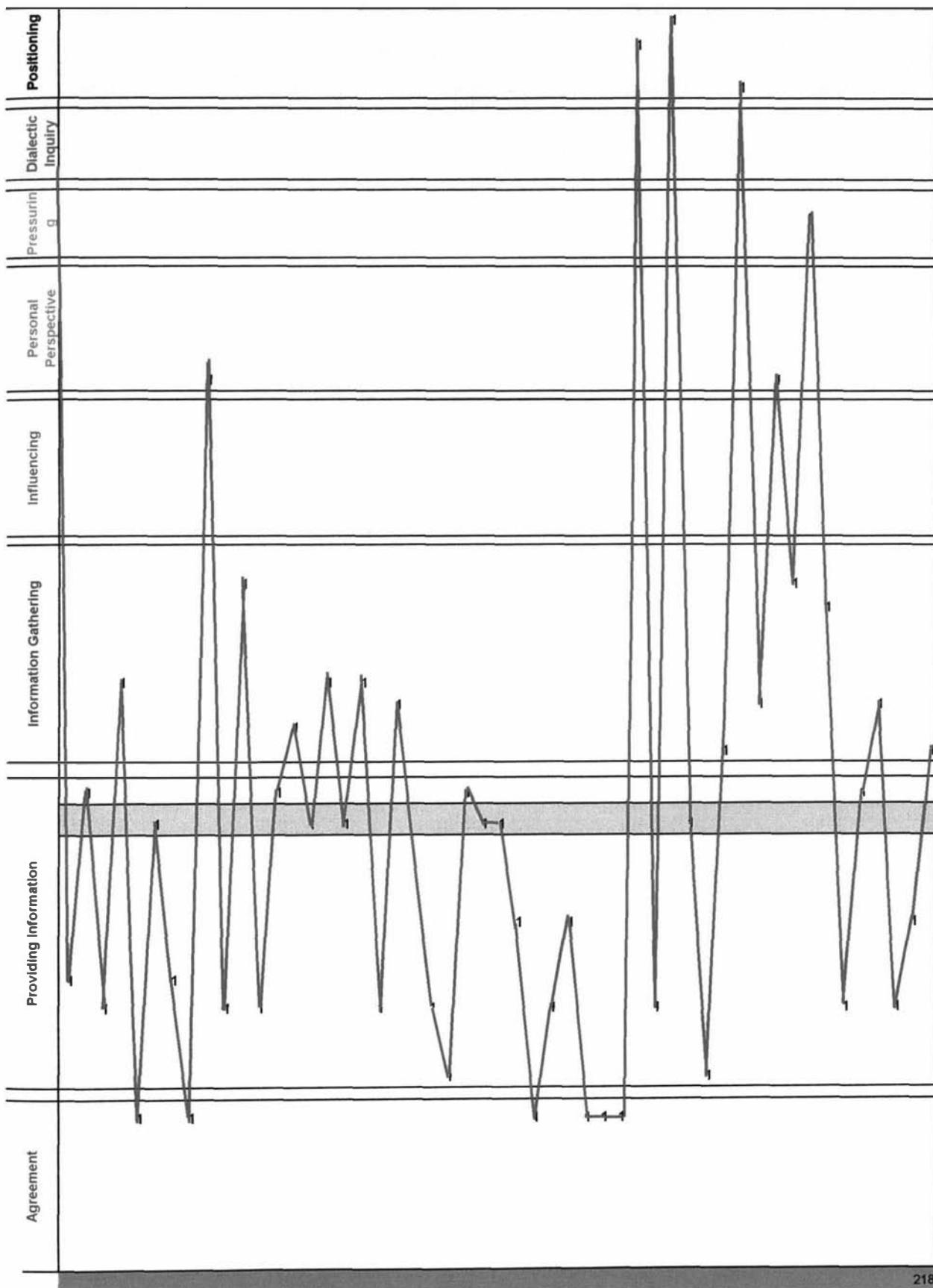
Graph 4. Decision-Making Behavioural Patterns associated with Business Review



Graph 5. Decision-Making Behavioural Patterns associated with Compliance



Graph 6. Decision-making Behavioural Patterns associated with Crisis (Jolt Management)



So far in the chapter only boardroom behaviour has been emphasised. However literature on corporate governance places considerable emphasis on the boundary spanning roles of board members (e.g., Aldrich & Herker, 1977; Friedman & Podolny, 1992; Johnson & Greening, 1999; Mavey & Stevenson, 2001). Table 16 provided some information relative to directors. The following table considers externally referenced information relative to market activity, shareholder and stakeholders and to other boards made by all parties contributing to boardroom decision-making.

Table 36. Frequency of Externally Referenced Information

Roles Held	Main Categories of Externally Referenced Information			
	Market-related information	Shareholder and Stakeholder Briefings	Reference to other Boards	Total
Directors	54	11	3	68
Chief Executive	4	11	1	16
Chair	3	23	0	26
Management	2	4	0	6
Consultants	1	1	0	2
Totals	64	50	4	118

As this table shows externally referenced material does not dominate boardroom debate.

From the tables, particularly Table 35 and 36 the graphic depictions and from the initial ethnographic journey the researcher has drawn four conclusions:

1. In the board studied speaking episodes were a means to gather, add a further input into and/or test presumptions proposed by management: reflecting the notion of *inquiry*.
2. Discussion relating to compliance issues was more likely to attract agreement or investigation of the facts than to be subjected to conflicting views. Conversely, personal judgements and personal stances, although insignificant overall, were more evident when current business was under review, when strategic initiatives were being considered or resolution to a crisis was being sought.
3. Although market-place knowledge adds a further dimension to the decision-making process, in this board it did not dominate the debate. Instead it was the

directors' decision-making experience, gained from involvement in management and/or their experience on other boards that added to discussion or dialogue.

4. In this study consensus correlated with any or all of four factors: (a) respect directors have for the input of their peers, (b) confidence they have in the process, (c) ability of the chair to facilitate, and (d) their own knowledge of the subject under discussion. It appeared that a level of challenge, arising from seeking and from responding to a request for additional information by itself, brings rigour to the debate. This suggests conflict may not a necessary condition of healthy debate.

Individual input also took the form of either an *intellective* or a *judgmental* response. Elucidated from observation is the notion that intellective responses are more likely to follow the tabling compliance and adherence to best practice matters, closely followed by resource acquisition.

Table 37. Intellective-Judgemental Responses per Topic Classification			
Topic Classification	Response Types		
	Intellective	Judgemental	Ratio
Strategic Setting	93	93	1.1
Resource Acquisition	77	51	7.5
Business Review	48	36	4.3
Compliance	20	2	10.1
Jolt Management	33	24	3.2
Total	271	206	3.2

These results go some way to confirm what was observed, which suggested that codes of best practice have added to a board's ability to make 'rational' and intellective decisions because they present clearly defined guidelines. On the other hand, *judgmental* as well as *intellective* responses as defined by Innami (1994), citing Laughlin (1980) & McGrath (1984), (in the Literature Review) are given when strategic-related matters arise. Observation suggests *judgmental* responses are more likely to be applied when ambiguity and uncertainty are present, and *intellective*

responses when the situation was clarified or more rational in nature. To quantify which role adopts the more judgemental or intellective stance data was further analysed.

Table 38. Intellective-Judgemental Responses per Role Held

Topic Classification	Response per Role Incumbent									
	Directors		CEO		Chair		Management		Consultant	
	Int	Judg	Int	Judg	Int	Judg	Int	Judg	Int	Judg
Strategic Setting	27	80	41	10	3	3	22	.0	0	0
Resource Acquisition	10	41	13	3	4	3	25	3	25	1
Business Review	23	29	22	7	1	0	2	0	0	0
Compliance	10	2	1	0	1	0	8	0	0	0
Jolt Management	6	21	12	1	4	1	11	1	0	0
Total	76	173	89	21	13	7	68	4	25	1

The results shown in Table 38 suggest that directors are more likely to take a judgemental approach when strategic issues (strategy setting, resource acquisition and jolt management) were under discussion, whereas a higher portion of management's, consultants', the chief executive's and chair's responses are intellective or factual in nature.

There are many forms of risk board members consider, some more obvious than others. According to the chair: "*when you are saying 'understanding the facts' you are saying understanding the risks and goals*". Although jolt management, on the other hand, included both external influences and internal impacts the main emphasis was on seeking out an alternative power source which fitted with the shareholders desire, current legislative and proposed government changes, shareholders and stakeholder implications and current market price and the bearing of these on price movement.

In this case study there was no evidence in support of Baysinger and Hoskisson's (1990) claim that independent director decision-making leads to the use of short-term financial measures in line with their board tenure. Instead it can be said that the evidence provided thus far suggests that considerable long-term thinking is applied even when a director is entering his/her third and final year as a board member (as was the case with

three board members), and when this occurs the financial measures were only one indicator. Rather than inhibit board effectiveness, observation, supported with quantified evidence, points to the contribution made by independent directors as being their ability to apply tests and additional thought to matters and issues under consideration. Through the process two junctures emerge: firstly, the directors received appropriate and timely information and secondly, they individually and collectively rigorously test it. Facilitation of the debate is the adhesive factor: the one that brings it altogether in an interactive climate. Despite the above finding comments made by directors suggests that short-term thinking is associated with ineffective board decision-making.

12.2 The Decision-making Climate

From the chair's perspective the decision-making climate is the first thing to get right:

If the climate is such that everyone can have his/her moment in the sun without being threatened, that's important. Directors may not use it but they have had the opportunity and if they are sitting there feeling uncomfortable that's their doing. But it's when you have got dissention: that is when someone stands up and says I just can't go along with that, you have to reach some sort of compromise. It doesn't happen often here, but it does happen.

When all directors were asked the three things a board should possess, the importance of trust, passion, ethics and respect for others' opinions dominated. When present "a collective ethos is formed" and when they are absent "there is a high probability that the board is ineffective". One director, when describing the ethos the Meridian board possessed, said:

We have a particularly good collective ethos. First of all the chief executive understands that collective ethos, which has been developed over the period. He has a good idea of how the board will react to a particular matter that he puts in front of us. We understand one other around the table, we trust one another, but I think it is more the understanding thing. We know how people are going to react. It is particularly strong here and helps enormously in the decision-making process.

Climate, at least in part, reflects the meeting structure and flow. Qualitatively sourced information drawn from the interviews, extracted and analysed using NVivo (shown in

the following table), illuminated strong differences in the way meetings are conducted. According to the directors ineffective boards usually display a number of commonly held characteristics: meetings are not well structured, the chair or chief executive dominant the debate and little attention is turned towards strategic issues. Effective boards, on the other hand, take a wider perspective of the company's operations and where the organisation is aspiring to be, differing skill sets are evident, interactive debate occurs and the meetings are structured and follow a set pattern.

One final difference between effective and ineffective boards deserves comment. As purported by the directors interviewed, relationships and demarcation of duties between board and management vary from board to board. Directors talked about how some boards cross the line and often take on managerial roles and confuse management with governance (refer Table 39). Such behaviour was prevalent in ineffective boards.

Conversely in the effective decision making board studied demarcation was observed and maintained because directors said they communicated only through the chief executive. Directors were united in saying that they held the chief executive totally accountable for the actions of his senior management team and the quality of information provided to the board. In spite of this, directors said they looked to the chief executive to have members of senior management present when debate, applicable to their areas of responsibility, was considered. This case study illuminates that there is the counteraction in that when senior management respects this position and shows a high degree of trust in the board, decisional outcomes are positively accepted because senior management feels its input is recognised and acknowledged. This contributes at least in part the high level of trust management has in its board. The board's respect for management's ability combined with a willingness to challenge management's input were viewed by the directors as characteristics that differentiate an effective decision-making board from ineffective one.

The following table, by repeating commentary provided by directors interviewed, puts the above inferences into a format. In this form it illustrates how the attributes associated with meetings become key board characteristics.

Table 39. Meeting Characteristics (as perceived by board directors)

Characteristics		Classification of the Boards		
		Inadequate Decision-making Boards	Effective Decision-making Boards	Highly Effective Decision-making Boards
Structure	Legally outdated	Conscious of structure		Legal structure aligned with strategic intent
Duration	Long – often drawn out	Variable		Progressive and time sensitive
Regularity	Often quarterly	Monthly		Monthly Special meetings called
Focus	Unfocused	Focused		Focused
Processes	Unstructured	Tidy		Structured
Perspectives	Diversity of opinions and views	Considered views Directors not always prepared for meeting		Considered views Directors prepared for discussion
Communication	Often dysfunctional	Functional		Open and encouraged
Contribution	Dominate contributors or party Directors often ‘unfit’ Personal opinions are offered	Sound contribution by most directors Director ‘fit’ but education lacking. High reliance on other directors, chairs and CEO’s skills		All directors contribute to the debate Director training encouraged and undertaken. Directors make the decisions
Facilitation	Dominant chair/CEO drives meeting Lacks leadership	Chair facilitates Works to address agenda items		Chair facilitates Strong leadership prevails Accepted process in place
Mix	No “grey hair” on board – age homogeneity Vested interests evident	Heterogeneity of age Homogeneity of experience. Some vested interest		Heterogeneity of age, experience and skill sets. Devoid of vested interests
Ethics	Absence of long-term ethic	High level of ethics		Ethics dominate
Interference	Political interference	No interference		No interference

Trust	Little or calculated trust	Both calculated and non-calculated trust	High degree of non-calculated trust
Management-Board Demarcation	Unclear, directors often speak directly to senior management on board matters	Stated, but directors speak directly with senior staff	Respected – CEO is the management representative and directors talk to management via the chief executive
Drivers	Opportunism prevails Cash mentality	Shareholder interests	Sustainability of the organisation, shareholder and stakeholder interests
Sustainability driver	Statute requirements	Sought after product ensures company continues to exist	Strategic focus and monitoring of market activity

12.3 Chapter Summary

The characteristics compiled in the above table show that the structure of meetings, facilitation of the process and the open and frank input from directors operating in a healthy climate become key differentiators between ineffective and effective boards. When the effective category is broken down further five key differences emerge:

- (1) Strategic issues are not only taken to the board, they are considered and tested by the board.
- (2) Consensus with little conflict emerged is a dominant characteristic of the decision-making behaviour.
- (3) When stakeholders and shareholders interests are considered the onus for shareholder relationships lay with the chair while stakeholders' matters were managed, in the main, by the chief executive.
- (4) The facilitation ability of the chair shapes the process.
- (5) The chief executive and chair work closely to set agendas, identify matters to raise, and to ensure board members are updated, while appreciating and respecting the other party's accountability.

Inference drawn suggests many boards could be more effective if they turn attention to having a balance of skills present, complementary leadership, clarity of roles and clear lines of demarcation with management. Inference also suggests they should work collectively in the interest of both their shareholders and stakeholders.

Chapter Thirteen: Interpretation of the Findings

13.1 The Decision-making Environment

Commentary drawn from interviews with directors (serving on the Meridian Energy and collectively 59 other boards) and the statistical mean relative to effectiveness applicable to the Meridian Board (Table 4) provided assurance that, at the time this research was conducted, the board studied was perceived both as an effective decision-making body and therefore a highly effective board. The inference drawn from director interviews was that less effective decision-making boards demonstrated quite different characteristics.

In interpreting the findings outlined in the two previous chapters, the intent of this chapter is achieved by comparing effective and ineffective boards and revealing the differing characteristics each displays. The practice nature of the findings are also outlined as the chapter progresses and the chapter concludes by considering its theoretical alignment, presenting a model of decision-making inputs and providing summary answers to the research questions posed in Section 1.4 in this thesis. In this way a number of key findings: roles of boards, role differentiations, chair-chief executive relationship, management input and information symmetry, are illuminated.

13.2 Role of a Board

Data collected during the study's observation phase showed that the level of deliberation directed towards strategic initiatives (strategic setting and resource acquisition) comprised a significant portion of the agenda; reinforcing that strategy setting, and leading policy matters were viewed by this board as part of its role. Support for this notion derives from the percentage of topics (39 per cent) and speaking episodes (75 per cent) dedicated to these activities. The intensity (defined as the number of speaking episodes contributed to the debate on the topic) when shown statistically indicates they are significantly greater when strategy-related matters are discussed. Similarly the dialogue observed and recorded was broader both in content and in number of speakers participating in the discussion. Therefore a board has to have a *collectively-informed view of its strategic role*, as suggested by a director (refer page 160).

Based on the evidence drawn for the interviews, ineffective decision-making boards, unlike effective ones, do not dedicate significant time and energy to strategy. Instead focus primarily on monitoring-compliance-related functions. When boards classified as effective, were broken into two sub-groups: effective and highly effective, a further distinction emerged. Although both consider strategic initiatives, effective boards are less inclined to set the strategic direction or ensure all strategic initiatives are aligned with the mission and vision of the corporation. Instead such boards are more likely to leave the setting of the organisation's direction and strategic-resource acquisition initiatives in the hands of the chief executive and his/her management team. However, such boards give it due consideration, something ineffective boards do not do. Alternatively, this group of boards addresses strategic matters as they arise. On the other hand, highly effective boards deliberately include in their agenda strategic and resource acquisition matters and often go further by holding dedicated meetings to ensure the implications of strategic issues and initiatives are comprehended.

The common thread is that the two sub-groups of effective decision-making boards turn attention to strategy while retaining prescriptive compliance and business review functions. Thereby both sub-classifications are working to a much wider agenda than that of the monitoring-compliance board (one not addressing strategic issues). The most striking finding, drawn from interviews with board members, was that effective decision-making boards, particularly those classified as highly effective, were those that adopted an extrinsically-focused approach to governing the business and took responsibility for shaping the organisation's future. Such boards do this not by monitoring management but by working with management through the chief executive and by considering shareholder and stakeholder current and future needs. In contrast ineffective decision-making boards were viewed as those that adopted an intrinsically focused approach by viewing their role as being to monitor management and ensure compliance related matters were efficiently dealt with.

The notion of boards adopting differing roles may provide a reason why the work of previous researchers (e.g. Finkelstein & Hambrick, 1996; Myllys, 1999; Lorsch & MacIver, 1989) produced somewhat contradictory findings in respect to strategy in that boards differ significantly as to their level of involvement in strategy related decisions. This conceptual proposition calls for researchers to not only ask what tasks are carried

out but to also align those tasks with a board's perceived role and/or delegated accountability. In doing so it supports Pettigrew's cry to 'not make inferential leaps'.

As the data, derived from notated board discussions, revealed board members in the highly effective decision-making board studied not only discussed and debated a broader range of issues they sought and tested information provided. Given that all ineffective decision-making boards described in the study adopted a compliance-monitoring role and were less likely to actually make decisions it could also be implied that boards operating under the compliance-driven model are not decision-making bodies, but rather ratifying boards.

Observation in the boardroom and literature on decision making styles give some rationale as to why strategy related matters were more intensively debated. When the debate focused on reviewing and monitoring activity analytical and factual decision-making took place and sought factually or intellective responses querying whether the action was right or wrong. Such interaction demands agreement or disagreement, not debate. Thus the dialogue was shorter with less intervention (refer Tables 6 and Appendices). However when the board took on the onus for driving strategy its focus became forward-thinking and considerable attention turned to what could or might happen and the risks that might emerge during that period. All were often considered not only for the betterment of the shareholder but also from the impact on the stakeholders. Therefore when strategy setting and resource acquisition or policy formulation are added to a board agenda the board appears to seek not only analytical thinkers but requires in its mix of members, directors who take an intuitive or imaginative perspective of a given situation. The researcher therefore surmises from observation and discussion with board members that boards taking on a wider strategic focused role adopt an outward-focused in addition to an inward-focused, monitoring approach. These two perspectives necessitate intellective and judgemental (refer Table 39) in addition to analytical and factual responses.

13.3 Structural Considerations

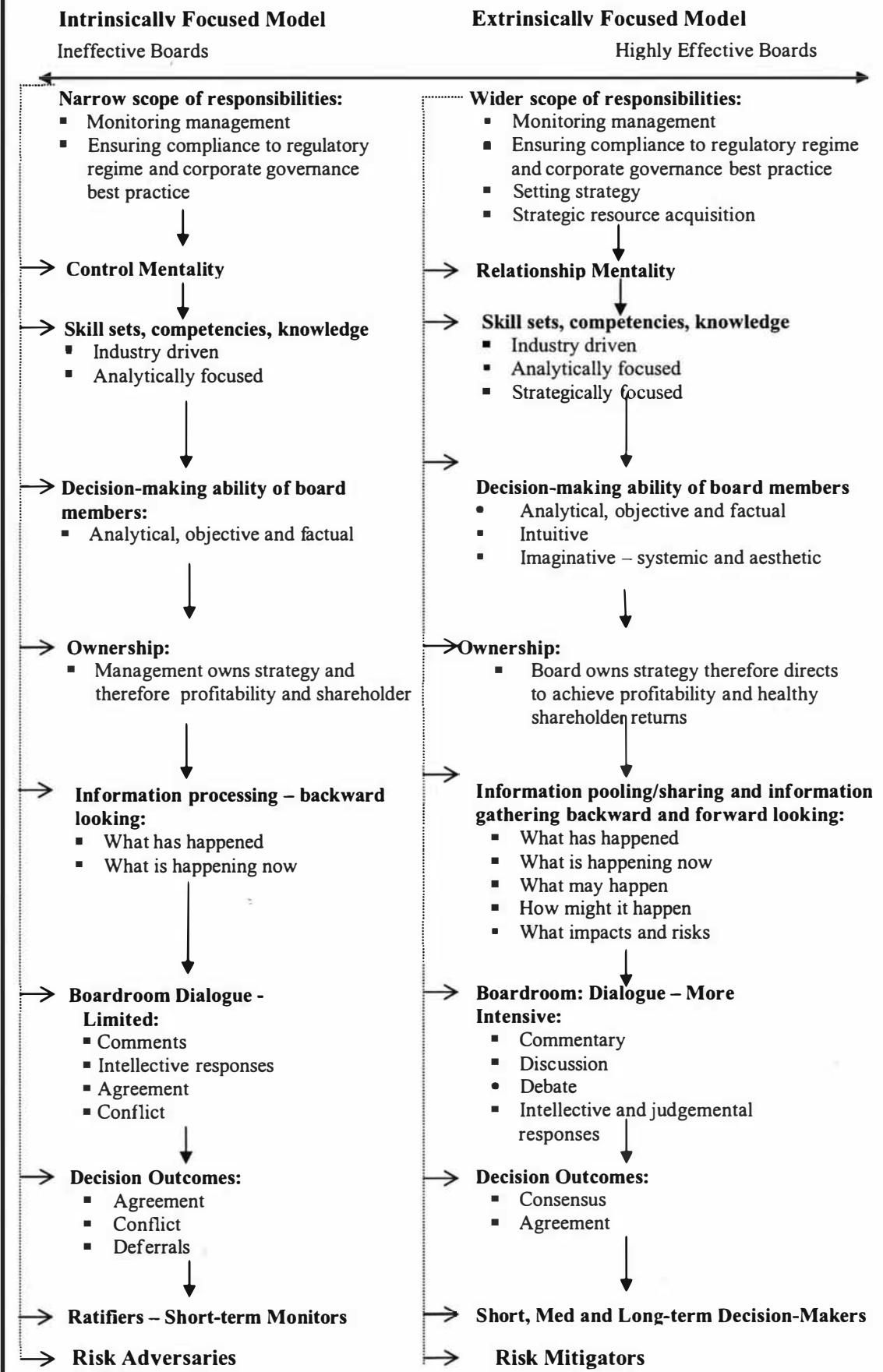
A related characteristic, relating to board composition, deserves commentary. Rather than being built on a required number of board members or the ratio between non-executive and executive directors, the researcher's view, drawn from the propositions put forward by Meridian Energy directors, is that the collective and balanced set of

skills, experience and knowledge of the board undoubtedly impacts a board's decision-making capacity. Four characteristics support this proposition. Firstly, larger boards prescribed by the directors (discussion provided in 10.5) had up to 27 members and were said to adopt the narrower, monitoring-compliance-regulatory model. Secondly, even though there were more board members the collectively skill sets, competencies, knowledge and experience were not described by the directors as being all embracing. This latter proposition has practical application when appointing a new director, suggesting that any new director should have abilities that complement existing abilities already on the board. Thirdly, the structural characteristic (refer 10.5 on page 163) relates to vested interests and political appointments. Commentary suggests that such appointees find it hard to divorce their line of accountability. Fourthly, directors may have industry knowledge but often lack appreciation of governance formats, procedures or have business acumen. This characteristic was associated with the larger, more ineffective boards.

In contrast effective decision-making was associated with size: up to 15 members. Within this classification, highly effective decision-making boards were linked to boards with a low number of members (seven-to-eight) yet still exhibited a wide set of skills, competencies and knowledge at board level (refer Table 9 and 10). It stands to reason that these findings have substance as boards seeking to adopt the wider role would need additional strategically-focused skills, knowledge and experience with a high degree of independent input into the decision-making process. Although published academic work acknowledges skill sets and competencies (e.g. Bayly, 1988; Lorsch & McIver, 1989; Coulson-Thomas & Wakelam 1991; Bowen, 1995; Dulewicz & Herbert, 1999; Lee & Phan, 2000; O'Higgins, 2002), the notion of skill sets and competencies 'harmonising' (as proposed in 10.5 on page 162 of this thesis) is less often debated or researched.

In addition effective decision making boards possess individuals who can be described as analytical as well as judgemental decision-makers (as illuminated in Table 37 and 38). This inference purports that the composition of effective decision-making boards is not just about independence of directors, but having the appropriate heterogeneous mix of skill sets, knowledge experience and expertise on the board so that the differing perspectives and information sources brought to the table results in unfettered decision-making. How these inferences are related is shown in the following typology.

Figure 19. Alignment of Decision-making Characteristics with Board Roles



While the role dictates the mix of skill sets, knowledge, competencies and thinking styles required, it is the application of the heterogeneous skill sets, knowledge and competencies that assist it to carry out its decision making role. The above findings also suggest effectiveness of decision-making is positively correlated to the broader strategically-focused board model and its collective mix of abilities.

13.4 Behavioural Considerations

Behaviour-related characteristics raised fell into two classifications: those relating to the characteristics associated with roles, and those relating to the decision-making process, though both are interlinked. At the same time it places emphasis on the importance of skill set analysis to ensure that the board's composition is aligned to the role to be carried out.

13.4.1 Input from the Chief Executives

Chief executives, as described by the directors interviewed, fell into one of two categories; dominating boardroom decision-making or working closely in a complementary relationship with the chair. As Tables 18, 19, 20, and 21 illustrate the chief executive, in the board studied, made a significant contribution to the debate (26 per cent of total speaking episodes), and as Table 20 illuminates he led around 41 per cent of the topics and as observation showed he was more likely to lead debate relating to strategic issues. These tables show he was persistent in ensuring directors had the appropriate information to hand before making a decision. Directors also viewed the chief executive as the 'gateway' to senior management holding him responsible for senior management's ability and growth. When these findings are coupled with the energy and effort put into the preparation of the board papers, as shown in Figure 18, and given the reliance board members place on information presented in board papers, the chief executive effectively becomes the principal information conduit. He also becomes the controller of the quality and volume of information, working closely with the chair to ensure the delivery of it to board members. The chief executive, in driving the organisation forward, demonstrated passion and ownership for the various initiatives and strategic goals, ensuring board members were well informed on the various aspects of the issue being decided. Thus embracing a 'no surprise' approach to board affairs his behaviour appears incongruent with the notion of opportunism as prescribed in agency-based theories.

Conversely, effective and ineffective chief executives were seen as being either *dominated by*, or *dominating*' in relation to the board and/or chair. A characteristic of the 'dominated by' chief executive was the way he/she turned to the board to make decisions, rather than present alternatives or keep the board fully informed as matters arose. Those 'dominating' either did not take decisions to the board as they saw themselves as owners of the decision-making task; many made decisions outside of the boardroom. As a result board members were working without detailed information and in a state of ambiguity or asymmetry, not created by the market but by the chief executive. To make decisions with limited information, often under market-driven ambiguous conditions forced directors to adopt a risk averse behaviour as associated with the threat rigidity hypothesis, or conversely obliged to take a gamble.

Exiting a non-performing chief executive displaying such behaviour although a key role of a board it can be a difficult task (refer Section 10.3). Lacking control over or exiting a chief executive reinforces the notion that the actual task of managing management is often ineffectual at board level.

Evidence in this study reinforces the notion that effective chief executives do not stand alone: they have a strong heterogeneous management team supporting them. Yet management is less often referred to in governance literature even though, when investigating senior management's contribution in this study, directors openly acknowledged the importance of management-generated information. Interviews with senior management divulged that considerable management time, energy and effort were directed to preparing board papers. The supporting role management plays illuminates that members of the management team were less likely to lead debate (refer Table 30) and when they did it was because of the absence of the chief executive. Their contribution, like that of the chief executive, was the provision of information (evidence provided in Table 31).

This case study also emphasised the demarcation takes a form of its own. It is not about social contact. Instead demarcation allows management to think through and deliver possible solutions and outcomes most of which were comprised independently from board activity. The quality of data and facts provided appeared as the basis on which trust was built. It also was just one stream, although the primary stream, of information into the boardroom.

13.4.2 Input from the Chair

Like the chief executive the chair's contribution could be described as providing information. As shown in Table 25 the chair led over a quarter (28%) of the discussions mainly when the topic was compliance-conformance related and therefore more likely to be seeking an intellective response. Conversely the chair often sought a director to frame the issue (how he achieves this is provided on page 200) when the content was strategic and seeking a judgemental, as opposed intellective, response. As Tables 27 and 37 propose, the chair briefs the board on shareholder issues and communicates key issues back to the shareholder(s).

Although the chair contributed to discussion and debate his ability to facilitate the process appeared critical (refer commentary page 189). Thus the skill sets possessed by the chair influences the process, as it is through the process that he was able to ensure board members, shareholders and management were all pulling in the same direction. The inference is that the way a board meeting is crafted by the chair is important and includes: (1) developing a platform on which the decision-making process can evolve. In this way the chair calls on the skills, expertise, knowledge and experience of others; (2) being mission-vision driven; (3) keeping the meeting moving forward in a structured manner; (4) building a cohesive unit in which board members have a singleness of purpose, work to a strategically-focused agenda and have trust in the judgement and ability of their peers; and (5) encourages diversity of views through participation thus reducing conflict and increasing sense-making.

13.4.3 Chair-Chief Executive Relationship

The centrality of relationship between the chair and chief executive became a further point of difference. In an effective board the roles are complementary yet interdependent (refer Table 29 on page 200) even though the difference between the two roles was profound: one managing the business, stakeholders and information flows and the other ensuring accountability through facilitating the decision-making process. It could therefore be argued that this duality of purpose is critical to the relationship between the parties and in setting the tone of the board culture. It also was seen to establish the decision-making parameters. Thus coupled leadership as proposed by Taylor (2003), according to the qualitative evidence gathered is a characteristic absent in ineffective boards, but closely associated with highly effective boards.

13.4.4 Directors: the Decision-makers

The data deduced from observation asserts that the directors as opposed to the chief executive or chair primarily carried out the decision-making task. Experienced board members make the most significant contribution (quantified in Table 13) to decision outcomes. Even though directors do not lead discussions (as illuminated in Table 14) unless directed by the chair to do so, directors shape the debate particularly if they are strategic in nature. When they do lead discussion their purpose is to frame the issue. Their thoughts, analytical and judgemental abilities are the key contributors to the analysing, testing and deciding processes at the heart of the decision-making process. This suggests decision-making is ‘a skill, knowledge and behaviour transfer’ activity.

Literature suggests directors as boundary scanners (Tushman, 1981) and by inference information providers. As Tables 16, 17 and 36, show directors are more likely to refer to marketplace activity than other boardroom contributors although they only make limited reference to such activity. Instead they are more likely to seek additional information or present an individual perspective on the matter under discussion than to refer to marketplace activity or to enlighten the board about another board’s initiatives or process. This does not insinuate that board members do not apply knowledge learned or ascertained outside the board, but rather their focus is on the topic under discussion. The study suggests they consider information firstly from the way management has presented it, secondly from their interpretation of it (built on knowledge ascertained from various sources) and thirdly after hearing their peers’ perspectives. This notion gives support to the work of Stinchcombe (1965) Amburgey and Sterns (1990), Miner et al (1990) and Baum and Oliver (1991) in that it assists in reducing failure, particularly in time of crisis.

13.4.5 Management’s Role

In this study it was shown that senior management, like directors, carry out boundary scanning tasks however the task differed. For management, the task was about external change and internal impacts of it on the organisation’s profit and viability, whereas for directors their comprehension and focus was on the wider, economic impact and associated social good in addition to ways to mitigate risk. The process observed was one in which management first described impacts of such issues in board papers, allowing directors to query, contradict or add commentary during the debate.

Such observed processes indicate that although corporate governance literature and codes of best practice are often remiss in not including management it is senior management who, under the guidance of the chief executive, provide vital information. It also reinforces the notion that in addition to being the quality controller of the information the chief executive is the most vital information conduit to the board.

13.5 Information Symmetry through Process

Symmetry of information, a characteristic of the highly effective decision-making board studied, highlights how information sources (e.g. marketplace information and director knowledge) converge in the boardroom. Such transfer of information aligned to the way the board meeting progresses. Observation suggested how and by whom an issue was framed was critical: sometimes by the chair, chief executive, director and less often management. When framed by a director, familiar with the issue and respected for his/her knowledge on the topic, clarity was given to the issue upfront. Such a framing process also reflected the preparedness and ability of directors. The chief executive's behaviour, by ensuring appropriate and relevant information was made available to directors (prior to the meeting and on occasions during debate it appeared there may be a deficiency), funneled the information flow refining it even further.

Such a model suggests that it is through sharing and investigating information that symmetry is brought into the decision-making process. This supports the proposition that unfetteredness derives from the various sources of information brought into the boardroom which is allowed to be viewed from varying perspectives (operational, industrial, from management, directors, external consultants and experts and in line with shareholder and stakeholder requirements). In this way no one person or one source shaped the decisional outcome. In this sense boardroom debate is more than simply cooperation through group-effort or presenting a personal perspective, rather it becomes sense-making as *information gathering* and *information sharing* (components of the inquiry process) converge.

This proposition supports Sundaramurthy and Lewis's (2003) work on group decision-making by purporting that effective discussion is continually forming a somewhat divergent, yet progressive, process. However, in confirming Sundaramurthy and Lewis' (*ibid*) findings the progressive process takes a different tack than that presented by these

academics. Rather than considering consensus and conflict as two discrete influencers the finding of this study illuminates that *information provision* and *information gathering* are key interrelated influencers to effective governance debate (refer Table 35 and Graph 1). Another is having a process that allows this information to be shared and understood.

The same model gives support to Cutting and Kouzmin's (2002) work on group decision-making by showing that decision-making in this boardroom as being a single-sequence linear process. However, it differs from Cutting and Kouzmin's (*ibid*) descriptive of a three-step process by involving six phases. The first occurred when directors, independently and prior to the board meeting, diverted their efforts to assimilating and comprehending information provided by management. As the board members sought to comprehend the impact and risk applicable to the matter they entered a second phase, seeking out additional information either through their boundary scanning activities or by applying their own knowledge and analytical ability to it. Completing these two phases allowed board members to build up individual perspectives on the issue. The third phase occurring in the boardroom was when individually derived solutions were opened up for consideration by others. This happened early in the discussions on the topic. The fourth phase saw the inclusion of additional or supporting information when the chair or chief executive sensed a deficiency of data or fact, or emphasis was being misplaced. The fifth developed when a decision was agreed. The sixth and final phase involved converting the decision into action (or in Chia's (1994) terms actioning of the decision), usually by management, through in some cases by board members. Receiving information from varying sources (individuals in different roles, board papers, shareholders, stakeholders and the marketplace) and the rigorous testing of it is dominant throughout the phases. Through this collaborative and interactive process decisions emerge. These in turn were communicated to shareholders and/or stakeholders. Through this constructive and cyclical movement of information initiatives, monitoring management, reviewing operational aspects and the organisation's strategic direction were considered and/or shaped.

From the qualitatively-generated information ascertained from the directors, who collectively had served on over 60, mainly New Zealand, boards and the described behaviours and processes the conclusion drawn suggests that less than 20 per cent of

boards in New Zealand could be described as being highly effective, although nearly 59 per cent described as effective (effective and highly effective). In spite of these findings, only 17 per cent were perceived as being highly effective.

13.6 Theoretical Application

Turning first to the decision-making theories described in Chapter Twelve and Thirteen of this thesis the findings stress the framing process and its relationship with process loss, by pointing out how the chief executive, chair and selected directors *frame* the information. In Chia's (1994) terms by facilitating the debate the chair managed the *decisionality* process, the chief executive ensured the *actionality of decisions*, while the *actual decision*, hence *choice*, lay with the directors. While board members collectively carried out the *decisionality of action* they in part *actionalised* decisions relative to governance principles and codes of best practice. For example, they made decisions relating to the chief executive's remuneration, monitored the performance of the chief executive and decided boardroom process. In other governance-related matters such as a board's obligation to direct and shape the organisation effectively, by setting the organisation's long-term objectives; monitoring the performance of the organisation and mitigating risk, the chair ensured the board met its responsibility through *decisionality of actions*, before passing the *actionality of the decision* to management. Interestingly, management shaped or *actionalised* most of the decision-making platform by way of prepared papers or presenting issues for board debate.

As Table 37 illuminates *intellective* debate was more prevalent when compliance and adherence to best practice matters were considered. Usually this behaviour did not extend into the *decisionalising* arena. Instead the board only confirmed the actionalising proposed by management. Conversely, strategy-setting and policy creation involved *strategic satisficing*, and more often was a judgemental task. Table 38 shows an interesting behaviour in that it was the directors who, when strategic issues were tabled, were most likely to present a judgemental perspective and make the decision.

When the intensity of discussion (refer Tables 5, 6 and 7) and the type of decision being made are aligned with the decisional outcomes (given in Table 8) the board study could best be described as being actively involved in shaping the future of the organisation. This is in addition to monitoring where the organisation is today and ensuring

procedures, best practice and statutory requirements are met. Such a finding supports the work of Zahra and Pearce (1989) and Johnson et al., (1996), yet goes further as it points out that decisional inputs and their associated behaviours are shaped by the topic classification.

According to the directors interviewed conflict was said to replace healthy interactivity in ineffective boards. Similarly, individually held perspectives and opinions interrupted or removed collective thought. From descriptions of boardroom behaviour, conflict, particularly the positional forms, was viewed as being aligned closely with information asymmetry and a lack of trust in the decision-making process. Reaching decisions in the absence of conflict was said to be more about minimising, if not eliminating, behaviours that are consistent with power and distrust. These were particularly related to the board observed and claimed by directors as being evident in effective decision making boards, whereas they were said to be key ingredients missing in ineffective decision making ones.

Interviewed directors associated threat rigidity hypothesis (discussed earlier in Chapter Two) with ineffective decision making boards or ineffective chief executives. This appears to occur when a critical decision viewed as lying outside the compliance-regulatory regime is called for. Decisions on such issues/situations were said to be either deferred, additional papers called for, or the decision rested on one person's persuasive or positioning powers. Conversely as observed in the board studied, the board was prepared to invest in acquiring knowledge to ensure all relevant details were understood before board members rigorously tested by the group alone and/or in the presence of consultants. This suggests that if risk or threat emerges such an effective board would actively move firstly to gather the facts, secondly to understand the risk, and thirdly to find a solution: in reality they become *risk mitigators*.

From such findings the notion of 'director fitness' emerges, implying that fitness reflects an individual board member's ability to comprehend the issue, seek out pertinent data, form a considered opinion, share and debate it with other board members and collectively seek an outcome appropriate for the organisation. Therefore it is about transfer of knowledge. In this form it aligns with the resource-based perspective and the knowledge-based view of a firm and, in particular the application and interpretation of knowledge (Grant, 1996; Pearce & Zahra, 1991; Pfeffer & Salancik, 1978; Spender,

1996; Spender & Grant, 1996). However this notion begins to enter the realm of Williamson's (1993) adaptation of the transaction costs theory in which he advocates that trust through knowledge sharing may transcend opportunism.

13.6.1 Behaviours reflected in Theoretical Perspectives of Governance

The parameter of the typology expressed in the literature review (refer Figure 7) used two prominent theoretical perspectives: institutional and strategic choice to define roles. The institutional perspectives, in suggesting that a board's role is to design the governance structure and to simply act in a supporting or legitimating capacity to management, does not acknowledge the broader function of a board to act in part, as a mechanism to shape the organisation's future. Thus the findings of this study suggest these theoretical perspectives of corporate governance align with larger boards and those working under the more traditional model.

Similarly the agency theory encapsulates compliance-classified decision-making, demanding best practice and monitoring management with shareholder-maximisation as its major objective. Viewing corporate governance as a mechanism for resolving problems and protecting owner wealth does not appear to go far enough in explaining the broadening role of a board. The agency theory being internally-focused neglects the growing concern for the well-being of the stakeholders and the long-term implications of decisions made today. With its emphasis on monitoring management it implies a lack of trust in management and therefore in information management provides. As a theory it is therefore remiss in recognising an effective chief executive's and/or management's desire is to work in the best interests of the organisation, are involved in the decision-making process and exposed to risk. This aligns with Ghosal (2005) appealing message that agency theorists take a 'gloomy vision' of corporate leaders. It also reflects Leblanc (2001) view that by casting shareholders in the role of 'principals' carrying the greater risk it does not acknowledge the enthusiasm and considerable risk that management is exposed to.

What is interesting is that the agency theory appears more relevant to the working of an ineffective board, particularly when a dominant chief executive underestimates the degree of congruence of purpose of the board's decision-making role even when the board acknowledges his/her dominating characteristic. This could be said to create

information asymmetry at the expense of both the short and long-term organisational capabilities. Thus a deficiency associated with the agency theory is that it does not explicitly recognise behavioural traits of an effective chief executive working with an effective board and providing an effective flow of information.

By not conceding that the importance of the strategic functions the agency theory reduces, at least in part, the outcomes it claims shareholders seek from their agents: the creation and sustainability of wealth. As this case study shows the role of a board can also arguably extend to stakeholders and sustainability. The agency theory purports to fulfill the needs of shareholders by seeking a healthy annual return and in doing so advocates profitability as the key annual goal. It does this at the cost of not promoting strong long-term outcomes for the organisation such as sustainability of the organisation through growth or corporate longevity through securing employment or maximising contractual relationships. When a board adopts a strong strategic perspective the conclusion drawn from director commentary was that profitability (in order to be sustainable) became an instrument of growth.

Strategic growth brings complex transactions, many of which undoubtedly are contractually-based and therefore are encapsulated in more corporate governance theories such as the transaction cost theory (Williamson 1975) and contractual perspectives (Alchian & Demsetz, 1972; Jensen & Meckling, 1976). In this case study differing roles align with differing contractual obligations. It was shown that the board has a binding employment-related contract with the shareholder and likewise with its senior management. The board considered the ramifications of strategic investments, but the study illuminated that it was management who worked with stakeholders, generally confirmed the contractual detail of normal business and established the transactional aspects of business relative to the operation of the business. In doing so the board adopted a *supporting or legitimating role* for many of management-generated contractual obligations. With the exception of the shareholder obligation, which undoubtedly was a board responsibility, the contractual or transaction cost theories appear more applicable to the business development arena carried out by management. However, transaction and contractual theories, in part, applied when the board engaged external and independent expertise to illuminate the impact of risk relative to a major strategic transaction. In essence these theoretical perspectives are more relative to decisional inputs and outputs as opposed to outcomes.

Another internal-influenced theory, the institutional theory, in connoting the social rules and preferred or accepted conventions and practices reflects much of the platform on which boards carry out much of their compliance, conformance and business review roles. Its intent was less applicable to strategic setting activity. In the view of the researcher this theoretical proposition represents an over-socialised explanation of a board.

Directors on the board studied purported that its decision-making and in particular its resource acquisition programme was aimed at building the organisation firstly for the benefit of the organisation itself, secondly for its shareholders and thirdly the country's economy or infrastructure – its stakeholders. The impact of these three groups was raised when strategic issues were brought to the decision-making table. In addition it was observed that board members not only wanted to be involved but to also act quickly and decisively. When a crisis arose, each devoted significant time considering differing aspects of it. Such behaviour was evidenced through availability of directors and their input levels. This behaviour challenges the notion put forward by Mace (1971, 1986) that boards are not strategy setters only reactors to crisis, suggesting instead that theoretical propositions such as stewardship theory can overlook the impact of stakeholders and the nation.

No board discussed went as far as rubber-stamping decisions (Mace, 1971). However, during the early investigative stage when appropriate boards for the study were considered, one director admitted he sat on a board that rubber-stamped many of management's decisions, stating that this board concentrated heavily on share price movements. This implies that there are boards that adopt a rubber-stamping perspective of their role as a result of their focus on shareholder returns.

Despite the conceptual proposition behind the management hegemony theory, board members interviewed acknowledged management's ability to provide well-thought out material, stressing the value it brought when dealing with a range of financial and non-financial motives. However, directors advocated that a board has to review key decisions to ensure strong growth for the organization, even when their initial assessment supports it. By capturing the optimisation task relative to both short-term and long-term financial and non-financial motives, the stewardship theory appears, in

part, as an appropriate theory to some governance activity as it acknowledges this examining aspect of the role.

Beside the time the board dedicated to addressing strategic issues it also spent time with and without management to ensure all directors were involved and had knowledge, at least to the level of management, on all strategic influences and had fully comprehended the impacts of each. Such activity required input from management in the form of relevant, timely and accurate information. Thus this board, rather than giving support to management, sought support from management, a concept in line within the management hegemony theory, in doing so illuminated weaknesses in the agency theory: that of management's willingness to share information and working in the best interest of the organisation.

Internal factors associated with intrinsically-influenced perspectives of governance such as the complexity of organisational structure and the communication network account for some tasks carried out by the board. However extrinsically-influenced factors that take many forms including uncertainty, complexity and societal pressures all impact on and influence the board's decision-making process. In this vein both theoretical perspectives encapsulate, only part of the workings of the board studied. However, an aspect of the extrinsic-influence perspective (outlined in Chapter Two), that being the notion of boards comprising shareholder representatives was not viewed as appropriate because in the directors' opinion those with a vested interest make decision-making extremely difficult as they can make decisions in line with the intent of the body they represent, which are not always in the best interest of the organisation they are there to serve.

Organisational trust perspective (refer page 48), resource dependency (refer page 45) and resource-based theories (refer page 45) turn attention onto the cognitive working of a board. By not acknowledging a board's strategic role the collective composite of the board appears to be predominantly made up of analytical and monitoring skill sets. Board members in this study said this was akin to the ratifying role of larger and less effective boards. Instead, when directors are perceived as a knowledge resource, the resource dependency theory applies. This theory can be associated with boards in which directors play an important role in disseminating information from one board to another by bringing environmental knowledge into the boardroom. However here lies a

difference. This thesis challenges the emphasis placed on this task and instead illuminates that decision-making does not rely heavily on such input (refer Table 36), implying instead that the value of such connections may be more than the informational content of marketplace information and lie instead with the individual's wisdom to call on such information sources to challenge information provided through other informational sources (e.g., consultants and management).

From this premise it could be argued that while considerable governance theory was initially directed towards monitoring management and in more recent times towards having independent directors comprising a significant portion of the board, this thesis in drawing on the qualitative research undertaken puts forward the notion that corporate governance is not about independent homogeneity, nor is it about independence from management. It is more closely aligned with the resource-based view of an organisation for the reason that it attempts to explain how depth of knowledge, experience and technical expertise are important enablers in the decision-making process. Commentary provided in the study emphasises effective boards seek out directors with differing skill sets, competencies and experience as well as directors who can bring judgemental and analytical acumen to topics under discussion. It is this heterogeneity and demographic makeup of the resource that plays a critical role in the dissemination of, and rigorous testing of, management-generated information.

The researcher surmises that the true core of any theoretical proposition of governance lies in information symmetry. This notion implies trust in the knowledge shared. As this study revealed, trust in knowledge and respect for other directors' abilities is associated with a highly effective board, differentiating it from an effective or ineffective board. The high level of reliance possessed by directors on the information provided by the chief executive and his management team was said to be because it was appropriate, relevant and factual. In this vein, each director's professional reputation could be argued to be correlated and reliant on management-generated information as well as on gaining shareholder trust through their collective ability to deliver sound decisions based on management-generated information. The concept of trust in the information and non-calculated trust in the ability of their peers challenges the 'opportunistic behaviour' concept embedded in agency or shareholder theories. Instead, trust suggests that effective chairs and chief executives ensure symmetry of both financial and non-financial information to appropriate audiences in a timely and concise

manner, in spite of the boundlessness of it. The converse was said to apply. When a board had a dominant or lazy chief executive, information was less likely to be shared inside or outside of the boardroom, leaving directors uninformed or less confident on issues. Such decision-making left directors with less satisfaction in the board's ability to perform its governance task.

The conclusion drawn from such findings purports that encouraging organisational trust through interaction removes much of the need for direct control while assisting knowledge sharing. Such a notion counteracts the control-monitoring sentiments embedded in institutional perspectives and replaces them with trust and willingness to collectively decide what is appropriate for the organisation. It is this non-calculated trust coupled with the competencies and abilities of both board members and senior management that work to raise the board's decision-making process from effective to highly effective.

This proposition aligns with and extends Williamson's (1993) work, as it implies that trust through the sharing of information transcends opportunism and thus challenges the relevance of existing corporate governance theories, replacing them with the notion that the function of a board is not only a combination of the existing theories but at its core is knowledge maximisation as opposed to profit maximisation. However, Williamson's (1995) work has not been theorised. This thesis puts forward the notion that it should be for it appears the most likely theoretical premise on which to build an all-encompassing theory of corporate governance.

13.6.2 Leadership Theories

If the quality of information lies at the heart of effective decision-making information sources are important. In this context the chief executive was in essence the provider of and clarifier of information. The chair managed the information sharing process and the shareholder communication of it. In Meridian Energy the chair and chief executive were both high-powered individuals, highly respected and trusted by board members. Both displayed transactional (making the process work) and transformational (focusing on change) leadership styles. The complementary nature of the relationship could best be described as a 'coupling' strategic leadership style: the axis on which effective

decision-making revolved. Thus the relationship could be said to be tensile in that it was strong and firm yet resilient to high degrees of pressure.

13.6.3 Decision-making Model

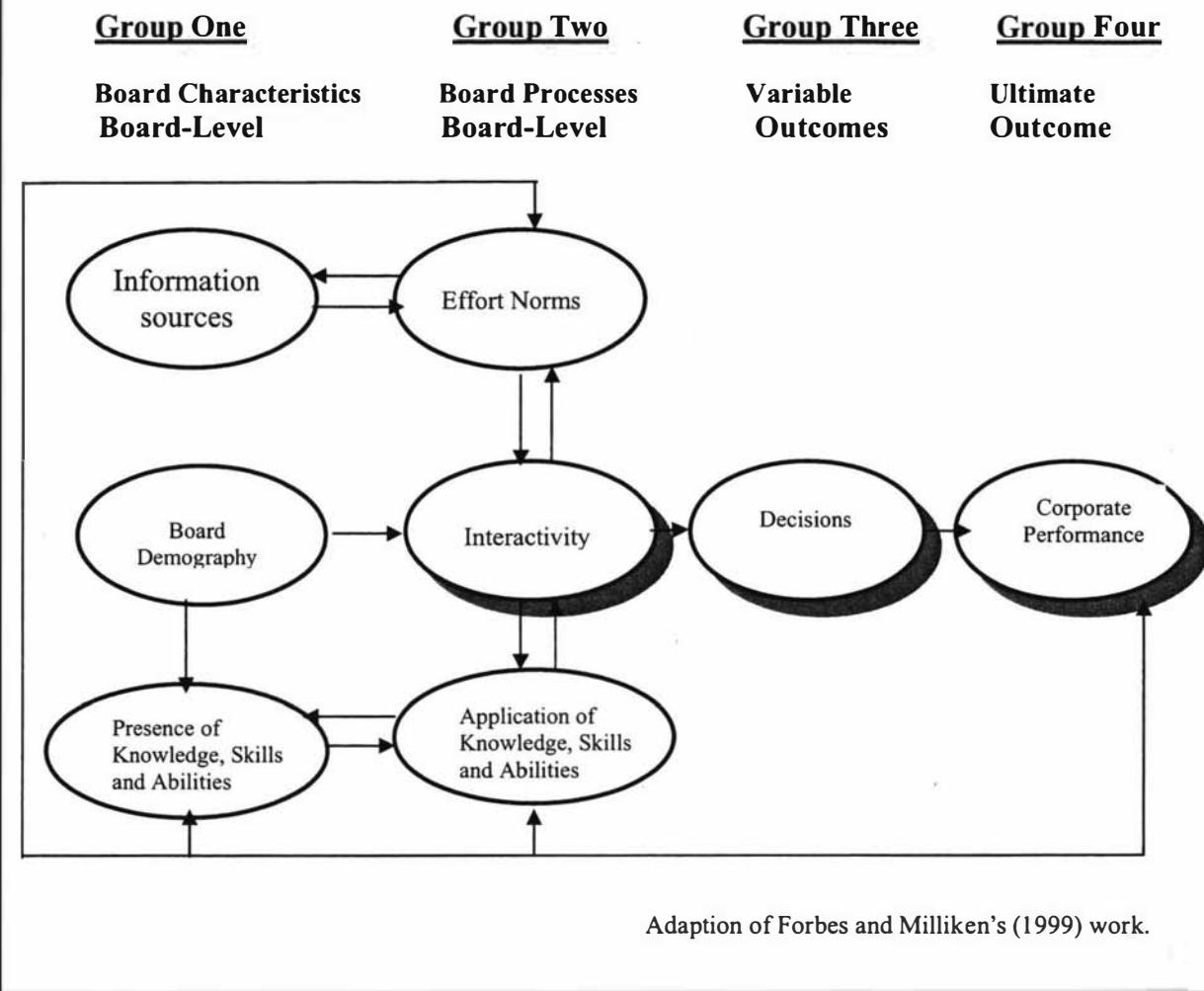
If the quality of information lies at the heart of effective decision making information sources and information processing are critical. As stated earlier in this case study information sources were mainly management generated. Board demography and presence of knowledge, skills and abilities are required if such information providing is to be tested. Thus information sources, board demography and presence of knowledge, skills and ability are determinants of effective decision making at board level. However the presence along does not constitute action.

Thus a second group comprising board level processes including applied effort and the application of knowledge, skills and abilities, both by individual board members and through group interaction became evident.

The variable outcomes formed the third group. This could take a number of forms such as no decision, deferred, or a decision. The ultimate outcome impacts the corporate's performance.

Interaction between the three groups provides the basis for a model. For example, effort directed may be lowered when the information in board papers is ambiguous giving rise to conflict, rather than clarity or information is deficient. This summation appreciably extends the notion of effort norms mooted by Forbes and Milliken (1999) by adopting the provision of information and the coupling of two leadership roles as vital factors, if not the two most critical factors, that impinge on decision-making. Such a structure is set out in Figure 20.

Figure 20. Model of Effective Decision-making



13.7 Responses to the Research Questions

As Chapter Six shows decisions made by boards can be classified as being: strategy setting and policy formation, resource acquisition and control and compliance. However, the study illuminates that resource acquisitions can be either strategic in nature or acquired to support the ongoing business. From the quantitative evidence provided the characteristics associated with decision-making when analysed suggests effective boards have characteristics that differentiate them from ineffective boards. This study does not conclude which mix produces ineffectiveness, only that such characteristics, set out in Table 40, are associated with ineffective boards.

Table 40. Perceptions Associated with Decision-making

Characteristic		Classification of the Boards Described		
	Ineffective Classification	Effective Classifications		
		Effective Boards	Highly-effective Boards	
Functionality	An advisory or ratifying body	Compliance and best practice driven	Strategically-driven and a compliance decision-making body	
Directors	Knowledge levels vary often inexperienced and/or political directors appointments made	Varying breath and depth of knowledge	Consistent breath and depth of skills, knowledge, experience and ‘thinking’ approaches	
Speed	Slow	Analytical	Measured	
Focus	Compliance-orientated. Reviews performance and financials	Occasionally strategic issues are considered	Forward-thinking Strategically drive	
Treatment of information	Accepts information Facts not verified	Accepts rather than queries facts	Seeks clarification of data	
Change management	Deferred where possible	Accepts and considers	Actively considers	
Information sources	Information in paper dominates Personal views applied Calls for report on major projects – lengthy process	Information in paper dominates Calls for report on major projects – timely process	Chief executive, supported by senior management, is the dominant information source. External expertise provides rigour to management-provided information.	
Content of papers	Usually only noted	Many small issues discussed	Strategic issues outlined in chief executive’s report Succinct management papers	
Decision-making ability	Inability to make hard decisions	Has the ability to make decisions	Prepared to challenge and to seek external expertise and peer reviews	
Decision-making Behaviour	Devil’s advocate and position is typical. Accepts views	Challenges concepts and issues	Consensus arises after rigorous testing of concepts and issues	
Facilitation	Loosely managed by chair or chief executive	Managed by chair	Tightly managed by chair	

These characteristics can be calibrated by looking at five influencers. The first two: a balance of skill sets, competences and abilities of board members, and a high portion of experienced directors, who bring diverse analysis techniques and knowledge to the testing process by challenging information presented and aligning it with experience and market movement. The third: strong chairmanship, ensuring the process is managed in a logical, progressive yet measured manner and process loss is minimised. The fourth: various internal and external information sources, ensures unfettered decision-making occurs, and the fifth is the relationship that exists between the chair and chief executive.

Board behaviour aligns closely with the numerous behavioural theories, with normative-influence, interest-focused, evidence-driven reasons having strong affiliations with *inquiry* and strategy as it fosters ideas and produces ways to arrive at solutions. *Inquiring*, being the process of examining and testing information encompasses the proposition put forward by Innami (1994) of *reasoning* rather than an individual in the group or the group's verbal behaviour being *positional*-oriented aligns closely with effective decision-making at board level.

The twelve theoretical perspectives presented in Chapter Two can in part be linked to activities and behaviours observed in this study. However, Williamson's later work (1993) puts forward a notion, based on trust and derived through the process of sharing information that has the ability to transcend opportunism. This proposition appears one of two likely theoretical premise on which an all-encompassing theory of corporate governance could be advanced. The other in relating to the ability of directors to participate in the dissemination of information is the resource-based theory.

13.8 Chapter Summary

A consistent theme emerging from interviews with board members reinforces the notion that boards operating under the more traditionally mechanistic model align with the economic and institutional theories and assume compliance-monitoring functionality. Such boards are usually large, having more than eight directors and often 20 and over, including shareholder representatives or directors with vested interests. Invariably the collective board has a narrower range of skill sets, competencies and abilities at the board table. Agreement without debate and conflict are often prevalent and rarely do the

chair and chief executive work in a complementary manner. Split leadership (either the chair or chief executive taking on the leadership role) coupled with directors unprepared for the debate, in part due to information provided is not well summarised or it arrives late. Given the nature of the topics raised intellective responses were more likely sought. Under such conditions decision-making is ineffective. The behaviour and a paucity of healthy debate can also be attributed to the intrinsically focused role adopted, leaving strategy decision-making to management. From this perspective it could be argued that board directors are not carrying out their fiduciary duties, as they are not shaping the organisation for the future, nor optimising shareholders' long-term return.

Conversely, accepting accountability for strategic decisions and possessing non-calculated trust correlates with effective boards. Such boards appear to dedicate considerable time to seeking out and understanding information, usually management-generated. Boards taking on a strategic governance role were more likely to be structurally comprised of 7-8 directors with skill sets, knowledge, experience and competencies being collectively broader than boards adopting the compliance, more mechanistic, role. These smaller boards were said to collectively compose directors with both intellective and judgemental thinking abilities who sought out information that ensures effective decisions are made.

A conclusion drawn was that by considering board members as either 'independent' or 'executive' is a step towards good governance but it does not go far enough. Instead the ability to add valued input appears to instead reflect the 'mental fitness' of board members therefore collectively the overall ability of the board. In accepting such a notion of 'director fitness', the competencies of each director becomes relative to his or her level of professionalism, governance experience, wealth of knowledge ability to comprehend and test information and connectivity with the market. 'Director-fitness' also relates to the size of a board as it signifies size should be dictated less by numbers, or industry knowledge and more by the heterogeneity of skill sets, abilities, competencies and experience of board members. This leads to the proposition that a determinant of a 'fit and effective' board is that it possesses heterogeneous skill sets, competencies, knowledge and experience. Yet possession of such abilities, competencies and experience alone is insufficient, they need to be energised and transformed into effort.

Decision-making effectiveness of a board appears also to be embedded in the concept of unfettered decision-making as expressed in the Cadbury Report (1992), encapsulating the notion of information from various sources: directors drawing on their abilities, knowledge and experiences and marketplace connectivity, management, and externally-sourced expertise. Again the presence of such sources alone does not translate directly into unfettered decision-making. Instead a positive flow of information through such channels correlates with an environment built on trust where open and frank dialogue, debate and inquiry prevail. This points to a further and vital contribution to unfettered decision-making: the richness and diversity of the process that allows pertinent questions and fulsome discussion to take place.

Having various channels of information and associated flows coupled with directors actively participating in the inquiry process proposes the notion of information symmetry that leads to unfettered decision-making. Five factors support this notion. Firstly, management works backstage to crystallise issues, achieved through peer review cycles as shown in Figure 18. Secondly, board members preparedness is critical to boardroom inquiry. Thirdly, the chief executive's openness to sharing information is valued by board members and viewed as essential to sound decision-making. Fourthly external advisors expressing an 'expert' opinion assist in validating the work of management - a form of risk mitigation, rather than monitoring management. Finally is the ability of the chair and chief executive to jointly own and operate a structured decision-making process.

Chapter Fourteen: Limitations, Research Implications and Conclusions

14.1 Acknowledged Methodology Limitations

Acknowledging the weaknesses such qualitative research is perceived in organisational sciences to possess has however provided a way to explore board characteristics that are often difficult to access. The qualitative methodology employed in this thesis was devised as a means of becoming immersed in the life of the organisation and the workings of its board to uncover through observation and interviews, the decision-making behaviours and processes occurring in a boardroom. An instrumental case study was chosen as a means to explore the intrinsic areas of decision-making behaviour and process. Although the case study itself has played a role it has only been supportive in nature in that it has provided insight and means to redraw a generalisation. Such a search for particularity, said to compete with the search for generalisability (Stake, 1992), is seldom seen as an ingredient for scientific theory. Thus a weakness would be to claim that a causal generalisation had been found or a theory evolved.

In acknowledging this weakness the case study provided a way to generalise what was observed and to understand mental models and perceptions held by a group of professional directors. Using the initial findings as a means to benchmark the behaviours and processes associated with this case against that which was said to exhibit in other boards allowed multiple perceptions to be used. This gave clarity of meaning and/or verified repetitive patterns associated with an observation or interpretation. It also served to provide an insight into the characteristics associated with different classification of boards. Views, based on evidence provided, have been formed.

As Chapter Two pointed out one of several corporate governance theories could have been applied to test a premise (Hoskisson et al., 1999). As research built around one theoretical base can encounter the problem of ‘unobservables’ (Godfrey & Hill, 1995) (as some variables as opportunism and the degree of divergent interests suffer from measurement unobservability), a multi-theoretical perspective was adopted. This served to avoid Daily, Dalton and Cannella’s (2003) notion of empirical dogmatism and in doing so looked at what was happening in reality as opposed to supporting or

disputing one theoretical perspective. It also provided a way to align what actually happens in a boardroom with the differing theoretical propositions.

While the audit of recorded conversations provided a form of verification, it could be argued that the process of classifying each speaking episode was open to interpretation. To lower the risk of misinterpretation a two-phase process (described in Chapter Nine) was adopted with the standard point of reference being the key thrust of the conversation, employed when a speaking episode could be classified.

Although the conclusions drawn are unscientifically arrived at their exploratory value lies in the logic of the argument supporting them. This in turn is based on both qualitative evidence and quantitative analysis of the data collected. Even though such analyses cannot present proven and verifiable facts the conclusions drawn from two representative sources of data implies some interesting generalisations. In doing so it opens the way for readers to understand what happened under differing situations, understand the conclusions drawn, and/or draw their own conclusions. Thus it can be seen as a step toward a grander generalisation.

14.2 Further Research Implications

The results of this study illuminate the complexities of board dynamics. In doing so they pave the way for future empirical research that expands and refines the understanding of what makes effective decision making boards. In doing so, the study raises important questions for future research on governance operations. The small number of highly effective boards referred to by the directors serving on them precludes the drawing of stronger conclusions about leadership styles in this study. Nevertheless, it highlights seven questions for further research.

The first concerns the antecedents of leadership structure and in particular the relationship between the chair and chief executive in determining the distinct pattern of leader interaction required at board level. Although in this study neither transactional nor transformational leadership alone determined the form of leadership, each appeared to have some impact. For instance, looking at the patterns of interaction and the differing aspects that each member brings into the board meeting reveals that in a boardroom ‘coupled leadership’ could be more closely aligned to effectiveness than the

personality trait theories when one strong leader with distinguishing characteristics emerges. This suggests that there may be boards in which chairs or chief executives inevitably become too involved in driving their agendas, with directors adopting a follower position or conversely being reluctant to let issues lie. Whereas the former evokes a situation of agreement and even compliancy, the latter creates an environment of conflict, with personal opinions dominating the discussion.

Another question concerns the selection and appointment of board members to ensure that effective and unfettered decision-making presides in the boardroom. Even though a collection of skills and competencies can be identified, possession of these does not automatically translate into the optimal mix for accountability and execution of governance duties within the industry or organisation. The practical application of research in this area could provide some invaluable insights to assist the board selection process, particularly in considering what skill and competency combinations could raise the effectiveness of a board in a specific industry.

The present research raises a third question relative to the level of conflict. This study illuminates the role of the chair in managing the decision-making process in a manner that reduces conflict. In doing so, the study purports that consensual agreement takes two forms: agreement without testing or agreement reached after rigour has been applied. This notion opens the way to further research into the two forms and in particular the inputs and outputs of each.

A fifth question associated with the previous one, relates to the relationship and correlation of agreement relative to any or all of four factors: (1) respect directors have for the input of their peers, (2) confidence they have in the process, (3) ability of the chair to facilitate, and (4) their own knowledge of the subject under discussion. Such knowledge could shed more light on the forms agreement takes.

A sixth question relates to the optimal relationship between senior management and board members. As this study reveals governing an organisation is not an either/or situation: on the contrary, it is a vital partnership pivoting around information symmetry, much of which is management-generated.

This thesis purports a board's role is to disseminate information to ensure the risks associated with the direction the organisation is embarking on are considered, measured and if possible eliminated. It argues that within the current theoretical perspectives, each has relevance to effective boards and likewise some particularly reflect the role and behaviours of ineffective boards, yet not one adequately explains what lies at the heart of corporate governance. This notion raised the seventh question: As pooling or sharing information transcends opportunism in an effective board, how could this theoretical perspective be converted into an encompassing theory of corporate governance?

14.3 Conclusions Drawn

This thesis in identifying determinants of effective decision-making at board level viewed process and boardroom behaviour as independent variables, contributing to decision-making effectiveness: the dependent variable. The study adopted a qualitative methodology. Although it is acknowledged that such research is perceived in organisational sciences to possess academic weaknesses, corporate governance literature points out there is a shortage of such empirical research relative to the inner workings of boards. Accepting that this area is difficult to study, there is a general agreement that such research is needed in order to advance knowledge of boardroom activity.

This research is one of the first to study the inner working of board process and behaviours, by observing board deliberations under normal working conditions. In adopting mainly a qualitative methodology supported by quantitative techniques it assures that the research findings and interpretations made are, in the traditional sense of a methodology, 'valid' and 'reliable'. By providing a way to identify board characteristics that determine effective decision-making it provides a refreshed view of governance, firstly by analysing processes and behaviour occurring within a board and secondly, by illuminating new areas ripe for exploration.

This thesis purports that effective decision-making at board level is primarily defined by the role a board adopts. Thus the role becomes the primary determinant that shapes the activities a board undertakes. From the research two alternative models emerge. The first is an intrinsically-focused mechanistic model in which the board undertakes its statutory obligations and fiduciary duties: To oversee the management and affairs of the

corporation; to act honestly and in good faith with a view to the best interests the corporation and a duty to exercise care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The second extrinsically-focused model scopes its responsibilities considerably wider. Not only does it direct its attention to its statutory obligations and fiduciary duties such a board also takes on accountability for the delivery of the corporation's strategic intent. Four contributing determinants of effectiveness are strongly linked to the role adopted.

The first relates to number of board members. In corporate governance literature board size is recognised as a characteristic although there is no apparent consensus as to an appropriate number of board members. This thesis advocates that large boards are more often ratifying or advisory bodies rather than boards. It also purports that while size is undoubtedly a determinant of effectiveness for reason that it has the ability to foster or restrict debate the insight gleaned is that boards with more than eight board members become ineffective. However the rider to size is the 'collective fitness' (balance of skills, abilities, experience and expertise) on the board.

The chair and chief executive relationship emerges as a further determinant. It is clear that effective decision-making is pivotal on the establishment of a complementary relationship where the chair shapes and facilitates the process and the chief executive provides information, leaving the directors to make the decisions. The conclusion drawn is the chemistry between the two incumbents and the understanding of their respective roles ensures the stability of the decision-making platform and appears inseparable from an effective board. This thesis therefore purports that this relationship is not only vital but also lies at the heart of effective decision-making. It has the ability to convert board members' high commitment of time and cognitive energy into a process of dialogue that requires them to engage in the debate so that they feel free to voice a developed perspective of the situation under discussion.

As demonstrated by the research boards that adopt the intrinsically focused model are more likely to leave strategic decisions to management. Under such circumstances the responses given are usually analytical, objective, intellective or factual in nature. Without addressing strategy issues, board debate is less rigorous and intensive with intellective responses bringing either agreement without debate or conflict due to differing interpretations placed on statutory or best practice requirements. Boards that

carry out these more narrow range of responsibilities, classified as an ineffective decision-making body as members, can operate with a narrower range of skills, competencies and abilities around the board table. Governance best practice has done little to change such behaviour, but rather emphasised the need to comply to statutory obligations.

Conversely, board decision-making effectiveness was correlated with the extrinsically focused role adopted a wider range of responsibilities and had board members who collectively represented a broad and balanced range of skill sets, competencies, knowledge, experience and ability. Another contributing determinant is trust – trust in information, among peers and with management permeates behaviours and processes. Such trust in information appears pivotal. Boards that have various channels of information and associated flows coupled with directors actively participating in the inquiry process proposes the notion that information symmetry and unfettered decision-making distinguishes effective boards from ineffective boards. Four factors implied support for this notion. Firstly, the trust board members have in the information provided by management. Secondly, board members preparedness for each meeting was viewed as critical to unfettered boardroom inquiry. Thirdly, the chief executive's openness to sharing all information is valued by board members and viewed as essential to sound decision-making. Fourthly, external advisors expressing 'expert' opinion or validating the work of management is viewed as a form of risk mitigation by the board members. Finally, the ability of the chair and chief executive to jointly create a structured decision-making process is vital to the ability of directors to view the chairman and chief executive as the font of credible information.

Despite the many well developed theoretical frameworks the conclusion reached is that effective decision-making emerges when four tensions are balanced: teamwork retaining individual judgement; information-sharing (notion of information pooling) with information-testing; continuity of business with strategic change; and chief executives' expectations with the chairs' accountabilities. Although such decision-making implies a structural distance between the board and management it suggests governance is less about power over, and more about working with, management. Three common themes intertwine effective decision-making: extrinsically-focused, information symmetry and board fitness: all built on trust.

All twelve theoretical perspectives of governance contribute, in part at least, to boardroom activities. What becomes clear through this research is that many theories and governance best practice applied to corporate governance has emerged in response to action of unreliable management and/or ineffective boards. Emphasis on control and accountability has encouraged many boards to adopt an intrinsically focused role. Yet as the findings of this research shows such boards are ineffective. This suggests the increasing regulatory and compliance regime has worked against its own intent: rather than protect shareholder wealth it has fuelled instead the adoption of compliance driven role with the capability to reduce board effectiveness.

Instead the researcher agrees with Carter and Lorsch (2004) that improving board effectiveness requires a rethink as to the tasks of a board. However rather than looking a structure, composition, size and culture the researcher asserts that to advance corporate governance effectiveness the decision-making task should form the central proposition, dictating the shape the other constructs will take. Clearly, the starting point is to acknowledge that decision-making effectiveness is embedded in the concept of unfettered decision-making as expressed in the Cadbury Report (1992). As shown by the findings in this thesis effective decision-making at board level correlates within an extrinsically-focused role board that includes driving strategy. Entrenched in effective decision-making is trust in the ability of the chief executive and his/her management to provide reliable and timing information and trust in, through carefully selection, the experience and commercial acumen that fellow directors to bring to the table.

The three key determinants, strategically focused, trust and information symmetry, turn attention firstly back on to Williamson's (1993) notion of sharing of information and trust-related theories as each has the ability to transcend opportunism. However rather than just taking an intrinsic perspective, as Williamson's (1993) concept does, key determinants suggest information-sharing must be extrinsically-focused. The thesis therefore concludes that such a notion is the most likely theoretical premise on which to advance an all-encompassing theory of corporate governance.

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Appendix A: Governance Matters Researched

Table 1: Corporate Governance Outcomes

Board composition and structure	(Baysinger & Butler, 1985; Baysinger & Hoskisson, 1989; Baysinger, Kosnik, & Turk, 1991; Boeker & Goodstein, 1993; Bostock, 1995; Chaganti, Mahajan, & Sharma, 1985; Conyon, 1994; Daily & Dalton, 1993, 1994a; Hill & Snell, 1988; Kesner & Johnson, 1990; Zahra & Pearce, 1989)
Board composition from international comparisons	(Dalton & Kesner, 1987; Dalton, Kesner, & Rechner, 1988)
Structural independence	(Abrahamson & Park, 1994; Lorsch & MacIver, 1989; Walsh & Seward, 1990; Westphal, 1998; Zahra & Pearce, 1989)
Ownership structure	(Bethel & Liebeskind, 1993; Hill & Snell, 1988; Hoskisson & Turk, 1990; Kosnik, 1990)
Leadership structure and financial performance	(Dalton, Daily, Ellstrand, & Johnson, 1998)
Ownership concentration	Baysinger et al., 1991; Bethel & Liebeskind, 1993; Daily & Dalton, 1992a; Hill & Snell, 1988; Hoskisson, Johnson, & Moesel, 1994; Kesner, 1987; Wade, O'Reilly, & Chandratat, 1990; Zahra, 1996; Zahra, Neubaum, & Huse, 2000
Board composition and financial performance	(Baysinger & Butler, 1985; Chaganti et al., 1985; Daily & Dalton, 1993; Hill & Snell, 1988; Muth & Donaldson, 1998; Rhoades, Rechner, & Sundaramurthy, 2000; Schellenger, Wood, & Tashakori, 1989)
Financial performance and equity	(Dalton, Daily, Certo, & Roengpitya, 2003)
CEO duality; and Independence	(Chaganti et al., 1985; Daily & Dalton, 1993, 1994a; Dalton & Kesner, 1987) (Nowak & McCabe, 2003)
Executive compensation	(Gomez-Mejia, 1994; Hoskisson, Hitt, Turk, & Tyler, 1989; Kerr & Bettis, 1987; Tosi & Gomez-Mejia, 1989)
Diversification implications for shareholders' interests	(Hermalin & Welsbach, 1991; Kesner, Victor, & Lamont, 1986; Westphal & Zajac, 1994)
Relationships between the CEO and board of directors	(Daily, 1995; Finkelstein & D'Aveni, 1994; Fredrickson, Hambrick, & Baumrin, 1988; Mizruchi, 1983; Pearce & Zahra, 1991; Pettigrew & McNulty, 1998; Westphal, 1998, 1999; Westphal & Zajac, 1995; Zald, 1969)
Incidence of golden parachutes. Greenmail; and Poison pills	(Cochran, Wood, & Jones, 1985) (Kosnik, 1987, 1990) (Davis, 1991; Mallette & Fowler, 1992)
Bankruptcy	(Daily & Dalton, 1994a)
Shareholder interests	(Hermalin & Welsbach, 1991; Kesner et al., 1986; Westphal & Zajac, 1994)
Strategic planning and competitive advantage, and strategic decision process	(Johnson & Neave, 1991; Tashakori & Boulton, 1983) (Dulewicz, MacMillan, & Herbert, 1995; Finkelstein & Hambrick, 1996; Judge & Zeithaml, 1992)
Tasks and board performance	(Dulewicz & Herbert, 1999)

Appendix B: Corporate Failures in New Zealand

Worldcom, founded in 1983 under the leadership of Bernard Ebbers, filed for bankruptcy on 21 July 2002. The investigative report by SEC (dated 31 March 2003) pointed the finger to two principal fraudulent behaviours: reduction of reported line costs and exaggeration of reported revenues.

Enron was another notable failure involving fraud. While its rise to the top of the list of United States companies was accomplished in only fifteen years, its fall took only a few weeks. Kenneth Lay resigned as CEO in 2000, when the corporation was at its peak, but remained as chairman of the board. Jeff Skilling's appointment as the replacement CEO ended in a resignation after just six months. Lay returned to lead the company in the position of CEO. In October 2001 Enron reported a third-quarter loss of \$638 million and a reduction in shareholder value of \$1.2 billion. On 28 November 2001 Enron shares dropped below \$1, and four days later the company filed for bankruptcy. Fraud and misconduct were primarily conducted through schemes that were set up and directed by the Chief Financial Officer (CFO) through special purpose entities. Numerous individuals were indicted or pleaded guilty, and at least three external corporations were implicated in the scandal, including Arthur Andersen, J.P. Morgan and Citigroup. Malcolm Salter sums the Enron collapse:

“Enron is a case about how a team of executives, lead by Ken Lay, created an extreme performance-oriented culture that both institutionalized and tolerated deviant behaviour. It’s a story about a group of executives who created a world that they could not understand and therefore could not control.”

Malcolm S. Slater. (2004). Harvard Business School Working Knowledge Pub. July 12, www.hbswk.hbs.edu/tools

Tyco International, Adelphia Communications, Global Crossing, Quest Communications, Computer Associates can be added to the list of recent corporate failures in the United States.

The United States is not alone. Locally there have been several high-profile private and government sector cases. While New Zealand has not experienced corporate

failures involving the sums, in absolute terms, experienced overseas they could be regarded as being of the same magnitude. The negative public reaction to New Zealand entities may not have had the worldwide exposure or of concern internationally, but the shock of the lack of good business practice came as a surprise to investors and public alike.

The first serious fraud investigation into a New Zealand business entity occurred in 1972, when JBL, the largest New Zealand corporate at that time, collapsed (Sturt, 1998). Two brothers, acting in the capacity of managing director/chair and director, were convicted of the fraudulent misappropriation of more than a million dollars, after accepting monies from new investors when the JBL group was already insolvent.

Four and a half years later, the Auckland based Securitibank Limited and its five subsidiary companies (the Securitibank Group) were placed in receivership and liquidation. This high profile collapse, involving a deficit of \$30-40 million, involved the NZ Government through its shareholding in two of the nine major insurance institutions with which Securitibank Limited was associated. It took until late 1984, six and a half years later, before an out-of-court settlement to some 5,000 investors was achieved (Sturt, 1998).

In 1989 Equiticorp, a New Zealand Stock Exchange listed merchant and investment bank that had become a \$2 billion empire (Weir, 2004), was placed under statutory management and a writ for \$564m was filed against its founders and ex-chairman, Allan Hawkins, nine former directors, their lawyer and his legal firm. The Crown's defence was built on presenting evidence of the use of circular cash flows, a complicated offshore corporate structure, and the payment of money to directors as bonus payments, instead of going into the company's accounts and emerging as profit to shareholders. The company was finally charged with stealing in excess of \$400,000, and in 1991 Hawkins was declared bankrupt over a \$7 million bank debt and sentenced to six years jail for conspiracy to defraud and for refusing to answer questions about an A\$66 million payment (Weir, 2004).

There were others failures such as Development Finance Corporation (DFC), a government institution that went into statutory management in 1989 when it was

unable to obtain a capital injection of around \$250 million due to losses it had incurred in its property portfolio. When the DFC was placed under statutory management, investors were owed \$1.8 million. As a result of the downturn in the property market at that time, other property companies, such as Richmond Smart and Chase Corporation, also went into liquidation. Shortly after, the BNZ required a \$600 million injection of funds from the government to remain viable.

In 1994 Fortex, another public company listed on the New Zealand Stock Exchange was charged with defrauding shareholders to the extent of \$23m by falsely adding this amount to its profits over a three year period (Sturt, 1998).

New Zealand has also seen high profile government appointments charged with fraud. For example, a former Auditor General and the then Managing Director of the Accident Compensation Corporation (ACC) was sentenced to a jail term following conviction for making dishonest travel claims against ACC of approximately \$20,000; he was also charged with defrauding the Audit Office of \$34,549 (<http://www.kiwinews.co.nz> 2004). Similarly, an Aotearoa Television director was charged with spending company funds for personal benefit.

Public scrutiny is also evident. Authorities and actions of a New Zealand Post board Director, Chairman and Chief Executive were publicly scrutinized during the late 1990s. When the Board of Air New Zealand exercised its pre-emptive rights to acquire the remaining shares in Ansett, the departure of the long-standing Chief Executive, along with a group of senior managers, drew attention to the plight of the entity (Lockhart, 2004).

In Australia there have been similar case studies: Messrs Connell, Bond, Skase, and in more recent times, Ansett, One, Tel, Harris Scarfe and HIH Insurance Limited all resulted in huge financial losses for investors, policyholders and others.

In New Zealand, members of boards have clearly defined regulatory and shareholder obligations, and can be held liable for consequences deriving from the decisions made. The *Companies Act* has liquidation obligations, and NZX's market participant rules have specific reconciliation requirements. Notwithstanding such obligations, the recent failure of Access Brokerage, a brokering firm that collapsed with a \$5m shortfall in the company's trust account, show that in spite of a tightening compliance regime, corporations and companies continue to fail. However, it can be supposed that the compliance regimes signaled failures earlier than previously (Sheeran & Springall, 2004).

Appendix C: Auditor's Report

T H L DAVIES

Chartered Accountant

AUDIT REPORT

To the Assessors of Mrs Bev Edlin's Research Study on Decision-making by the Board of Meridian Energy Corporation ("Meridian")

Material audited

Mrs Edlin has prepared an analysis in spreadsheet form of speaking episodes as recorded by Mrs Edlin, James Hay, General Counsel for Meridian (and who is responsible for the preparation of the Meridian Board's minutes) and the Board's minutes as prepared by Mr Hay.

Auditor's Responsibilities

My responsibility is to express an independent opinion to you on aspects of the spreadsheet analysis as described below.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the spreadsheet analysis.

I conducted my audit in accordance with New Zealand auditing standards. I planned and performed my work so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to obtain reasonable assurance as the matters reported on below.

Other than in performing this audit, I have not taken part in the research study undertaken by Mrs Edlin, or seen any other material other than the spreadsheet analysis mentioned above, Mrs Edlin's and Mr Hay's notes of the relevant Meridian Board meetings, and minutes of those meetings. In my earlier role as a partner of Deloitte I had no responsibilities for the audit or any other services provided by Deloitte to Meridian Energy Corporation or its subsidiaries.

Opinion

I have obtained all the information I have required.

I report that:

- 1 Mrs Edlin recorded a total of 3,106 speaking episodes and Mr Hay a total of 1,168 out of total speaking episodes of 3,143.

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- 2 37 speaking episodes recorded either by Mr Hay or appearing in the Board minutes were not recorded by Mrs Edlin, representing 1.17% of total speaking episodes.

I was asked to comment on the consistency of Mrs Edlin's notes with those of Mr Hay and the Board's minutes.

Mr Hay's notes were made to assist him in preparing the Board's minutes shortly after its meetings, and, as might be expected, are abbreviated and more in the nature of aide memoires to supplement his memory and his extensive knowledge of Meridian's affairs. Mrs Edlin's notes, on the other hand, are extensive and detailed. Because of the abbreviated nature of Mr Hay's notes I am unable to comment as to whether Mrs Edlin's notes are consistent with those of Mr Hay, although I am able to say that I did not note any inconsistencies between the two in the course of my work.

With respect to the Board minutes, again Mrs Edlin's notes are much more detailed in their coverage of the matters discussed by the Board than the record appearing in the minutes. However, allowing for the minutes' summarisation of matters discussed, there is consistency between Mrs Edlin's notes and the Board's minutes.

My audit was completed on 24 December 2005, and my opinion is expressed as at that date.



T H L DAVIES
Chartered Accountant
Wellington

Note to Examiners

Further examination of the documents showed that the 3143 noted by the auditor were in fact notations made by the Legal Counsel as action points for himself. This brought the auditors figure to 3133.

Likewise a further examination of the entries made by the researcher showed that 27 entries were entered as a single entry, when in fact they represented two speaking episodes. This brought the researchers total speaking episodes to 3133.

The two totals took a week to reconcile and all documents were resubmitted to the auditor.

Bev Edlin
20 Nov 2006

