DECISION MAKING IN THE CORPORATE BOARDROOM:
DESIGNING THE CONDITIONS FOR EFFECTIVENESS

By

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Submitted in partial fulfillment of the requirements
For the degree of Doctor of Philosophy

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DEDICATION

To Eric,

Thank you for all that you have taught me about both myself and life.

Your example of strength and ‘misneach’ serves as a continual inspiration.
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PREFACE

*If I am not for myself then who is for me?*
*And if I am not for others, then who am I?*
*And if not now, then when?*

*Rabbi Hillel (c. f. Arrow, 1974: 15)*

The global challenges facing society today are immense. Over a billion impoverished citizens, the world health crisis, a declining education system, rapidly deteriorating environmental conditions, a global natural resources crisis, fragile national economic systems, the list goes on. Taken individually, each problem seems intractable; taken together solutions appear impossible. As a society we have offered up solutions through increased government agency involvement, the proliferation of not-for-profit agencies, the growing engagement by religious institutions, to name just a few of the responses in an effort to combat these crises; however we seem to be waging a losing battle.

For me the single solution that offers the greatest hope for society is the global democratization of commerce. As an unabashed celebrant of capitalism I believe in the empowering effect that commerce can unleash to the world’s citizenry through the flood of products and services in the marketplace. At the same time, I recognize that to productively unleash this liberating power requires an increased sense of responsibility and accountability on the part of business leaders around the globe. The unflinching devotion to shareholder maximization at the expense of greater society is a relatively recent phenomenon which represents a myopic and self-centered approach inconsistent with the greater role that business can, and must play in society.
As a former chief executive officer of a publicly traded global company, who has also served on the boards of directors of eight publicly traded companies and several private companies, I have gained an appreciation for what Professor David Cooperrider describes as the role of “business as an agent for world benefit.” Unfortunately, I have also seen how too often businesses will serve their own self-interests, or more correctly the interests of their executives and shareholders, at the expense of a broader constituency of stakeholders.

The principle vehicle for determining the strategic, as well as ethical and moral direction of a corporation is its governing body, the board of directors. For the past hundred or so years boards have been called either supine or ineffective, allowing CEOs and in some cases, self-serving shareholders to set the strategic agenda as well as the moral compass for their companies. It is my belief that if society is going to begin to realize the benefits of a robust system of capitalism, corporate boards of directors are going to have to accept greater responsibility and accountability for the affairs of their corporations.

The vast majority of the directors I know, and have worked with, are hard-working, dedicated professionals who are committed to the proper oversight and management of the companies for which they have been entrusted. Most of them are frustrated by ill-conceived regulatory and legislative actions that have turned their jobs into corporate watchdogs at the expense of not being able to engage effectively in the larger and more critical strategic issues facing their companies. Still, while the challenges of board work continue to grow due to the pressures associated with a more competitive marketplace, an ever increasing regulatory climate, global economic
uncertainties, and louder calls for greater corporate social responsibility, directors by and large are stepping up to the plate. Unfortunately my experience and the evidence from this study demonstrate there is still much room for improvement.

Why in the face of all of these challenges seasoned executives with secure professional reputations, better than average financial means, and little ownership in the companies for which they serve continue to answer the call for board service, while receiving what for most of them is a token financial reward? While not universal, my experience has shown that most directors are committed to what UCLA Law School Professor Lynn Stout would call an inclination toward “other-regarding-behavior whether described as a sense of honor, a feeling of responsibility, or the desire to just ‘do the right thing’” (Stout, 2003). For that reason, I remain hopeful.
ACKNOWLEDGEMENTS

When I first entered my program at the Weatherhead School I was not sure where this would all lead me. The journey has been one filled by an awakening to a body of knowledge and an ontological experience that has gone well beyond any expectations I could have reasonably imagined. It has been my great fortune to have been guided on this journey by an incredibly dedicated, committed and caring group of individuals. While it is impossible to accurately reflect the tremendous sense of debt I owe to everyone, my only hope is that they can be confident of my appreciation and gratitude, as well as the high regard with which I hold all of them.

As my dissertation chair, Simon Peck first introduced me to the world of governance scholarship. As a new student I was lost amongst all of the myriad streams of research. Simon handed me two papers and from that point forward it was as if a fountain had been turned on. Throughout the four years, Simon has continually guided my research, providing just the right balance of ‘service and control’ to assure that this project would get to closure. I will always value his support, intellect and friendship.

Diana Bilimoria came to this project with a great reputation as a scholar. What I quickly discovered was her willingness to engage and the tremendous insights she could provide. She pointed me to an important and passionate area of her scholarship - the challenges faced by women directors – providing me with an appreciation for diversity that assisted in my research, but more importantly helped me to better understand some of the challenges my daughters face in a male dominated workplace.

My esteem for Richard Boyatzis preceded my arrival at Case Western, and served as a major impetus in my selection of Case for my doctoral work. However what struck
me most about Richard when I arrived at Case was his accessibility and his genuine interest in the professional and intellectual growth of doctoral students. He lives his talk, and I am most grateful for having his mentorship during these four years.

Kalle Lyytinen has been a constant source of inspiration. The depth and breadth of his intellect is on display during every conversation and is a source of constant awe. Always responsive and accessible, Kalle’s benevolence and commitment to my intellectual growth has been evident throughout the program and is greatly appreciated. His constructive feedback and gentle prodding towards a higher standard of scholarship served me well through this journey and will be invaluable as I continue to my next phase.

Terry McNulty generously agreed to join my committee despite the challenges of time and space. His reputation as an accomplished international corporate governance scholar is without peer and has served me well particularly in the conceptualization of my research agenda and its presentation. Terry provided critical feedback on several of the revisions of my studies, pointing me to important areas of governance research as well as helping to formulate and present my qualitative methodological approaches. I greatly appreciate Terry’s willingness to take on this challenge, his input has been invaluable.

There are many others at Weatherhead to whom I am so very grateful. Sue Nartker and Marilyn Chorman have so graciously worked behind the scenes to make it easy for me to focus on my scholarship. I can’t imagine being to this point without their support. My classmates in the Doctor of Management program were a constant source of feedback, intellectual challenge and enjoyment. I am also grateful to the other teachers in the doctoral program, their preparation and dedication provided the foundation for this
journey. I would especially like to thank Bo Carlson, David Cooperrider, Dick Boland, Nick Berente, Sheri Perelli, and Toni Somers for the extra support they all provided along the way.

I would also like to thank both Richard Klimoski and Matt Cronin, from the George Mason University for the many thoughtful discussions and guidance around concepts of shared mental models, group behavior, trust, respect and procedural justice. These played an important role in my thinking.

Research cannot be accomplished without data. For this I will be forever grateful to my peers at the Corporate Directors’ Group. They have graciously stepped up to participate in surveys and interviews, providing feedback and input along the way. I am especially appreciative of the support of the CDG’s founder and president, Clint Allen for his unwavering support during this process.

I would also like to acknowledge the tremendous influence Dr. Michael E. McCormick, P. E. has had upon me both as an undergraduate engineering student at the U. S. Naval Academy and later as a mentor when I joined his department as a faculty member. His unwavering support and confidence in me has stayed with me my entire life, inspiring me to eventually embark on this journey. I will be forever grateful for the example and role model he has provided me throughout my life.

Finally, but certainly not least I must thank my family for putting up with my absences – physically as well as emotionally - during much of these past four years. Dianne has been the rock through this entire journey, as she has been for our thirty-five married years together. Her commitment and self-sacrifice for our family has served as a
model for so many to emulate. I cannot thank her enough for all the sacrifices she has made to allow me to pursue my dreams throughout our years together.
Decision Making in the Corporate Boardroom:  
Designing the Conditions for Effectiveness

Abstract

by

BERNARD C. BAILEY

During the past twenty years legislative and regulatory actions have driven significant changes in the structure and processes of corporate boards. During this same period scholars have provided confounding empirical evidence regarding the efficacy of these reforms on firm performance. The simple reality is we have little understanding regarding the behavioral processes and dynamics associated with board decision making, despite the fact that a potent reminder from the Enron disaster is “good governance comes down to directors making good decisions” (Useem, 2003: 249). Using a multi-methods research approach, this dissertation is built around three separate but interrelated studies. These studies are designed to open the “black box” of the boardroom by investigating the strategic decision making processes of publicly traded U.S. corporate boards with the intent of gaining insights into how strategic decisions are made and their associated behavioral processes and board dynamics.

The first study – a qualitative study of eight firms - draws upon decision making theory in order to assess the characteristics that motivate boards to deploy procedural
rationality in their strategic decision-making deliberations. I propose that boards that align around a unified corporate purpose, have balanced power relationships, and effective board leadership are more likely to employ rational decision-making processes in lieu of political behaviors. The second study is a quantitative study based on a survey of 151 directors representing 119 U.S. publicly traded companies. This study, drawing on Forbes and Milliken’s (1999) procedurally rational model for strategic decision making, provides support for the creation of two factors - a climate of respect within the boardroom as well as collaboration between the executive team and board members - as antecedents in creating procedurally rational decision-making processes. The third study further examines the relationship of trust in the boardroom. Drawing upon the theoretical inspirations of Luhmann (1979) as well as theoretical frameworks from Lewicki, McAllister, and Bies (1998) and Sundaramurthy and Lewis (2003), I examine how boards are able to create and maintain environments of simultaneous High Trust / High Distrust. I propose that both trust and distrust coexist in boardrooms that have high levels of respect and adhere to a process orientation.

Taken together, the three studies serve to triangulate around socio-psychological processes and behavioral structures as critical components in understanding the dynamics of board level strategic decision making. This dissertation contributes to the understanding of boards of directors as complex dynamic systems. Contributions add to concepts on strategic decision making, trust, board leadership and board power relationships.
Key words: corporate governance; agency theory; stewardship theory; decision making; procedural rationality; procedural justice; trust; power; respect; board leadership; qualitative research; quantitative research; mixed methods
CHAPTER I: INTRODUCTION

“I think we have a right to expect more from directors. The system of checks and balances between boards and executive teams has, in too many cases, disintegrated. In this global meltdown we are seeing that many board members were demonstrably unqualified, abjectly remiss or simply too cozy with management.”

Carl Icahn, Activist Investor
Washington Post
16 February 2009; A 15

During the past three decades there has been an unprecedented level of attention paid to corporate governance. As a result, the composition of large public companies has seen a dramatic shift towards smaller boards with more diverse (Koors, Chew, & Vnuk, 2008) and independent board members (Gordon, 2007). The result is boards are taking their responsibilities more seriously, working harder, and challenging management as part of their oversight role (Lorsch & Clark, 2008). As a result, the board of directors that Professor Myles Mace described in 1971 as “all outside directors think that they are advising management, and I think that very few of them think that they are doing anything more” (Mace, 1971: 14), has dramatically shifted to a model that today better describes the board’s role as ‘monitoring’ management rather than as ‘advising’ it. Lorsch and Clark describe the consequence of this shift as affecting the fundamental relationship between the board and the executive team:

“Instead of working collaboratively with management, they’re creating or perpetuating dysfunctional relationships that cast directors as corporate police who enforce rules and trace managers’ missteps, rather than guides who help managers choose the right path” (Lorsch & Clark, 2008: 106).
Defining the Agency Problem

While there are many factors that have led to this reconceptualization of the board’s role including political, economic and institutional pressures, the separation of control from ownership of large corporations “produces a condition where the interests of owner and of ultimate manager may, and often do, diverge and where many of the checks which formerly operated to limit the use of power disappear” (Berle & Means, 2007: 7). This divergence of interests is often referred to as agency costs, a concept that was more formally developed by economists Michael Jensen and William Meckling (1976).

Formulated around a principle – agent relationship, shirking on the part of the firm’s management team (agents) results in agency costs which are defined as the sum of the monitoring and bonding costs incurred by shareholders (the principles), as well as any losses due to undetected shirking activities. Mitigation of these agency costs has often been viewed by corporate governance scholars as the central issue in corporate governance (Bainbridge, 2012).

Mitigation of the agency problem has been formulated around three primary approaches – market forces, equity, and board independence (Dalton, Hitt, Certo, & Dalton, 2007). The ‘market for corporate control’ is based upon the role of the marketplace in serving to discipline managers who attempt to extract excessive rents for their own benefit. This is accomplished through an active market for the acquisition of companies. The second mechanism is the alignment of management’s interests with those of shareholders through ‘equity’ ownership of the company. The concept here is that managers who have an ownership position in the company will be more likely to take actions that serve their own interests through shareholder value maximization, thus
aligning their decision making with the interests of the shareholders. Finally, the ‘independence’ approach assumes that board members who are independent of management are more likely to monitor the actions of management to assure that they are looking out for the interests of the shareholders.

In all three of these mitigation mechanisms the board plays a critical role in assuring its effective implementation. In the ‘market’ approach, board members must act to make the final determination whether to accept a merger or acquisition offer. In the ‘equity’ approach it is the board’s responsibility to shape and implement the remuneration program of the company and specifically for the CEO. Finally, the board’s structural composition as well as its inclination to accept its oversight and monitor role determine the true effectiveness of the ‘independence’ approach. This adherence to agency theory and the mitigation of the agency cost problem has led to the heavy emphasis on board monitoring often at the expense of the other roles expected of corporate directors.

**The Role of the Board**

There is general agreement from practitioners and scholars alike that corporate boards have three primary roles: 1) monitoring and oversight of management, 2) linkage of the firm to external resources – commonly referred to as boundary spanning, and 3) providing advice and counsel to the executive team, and particularly the CEO (Finkelstein, Hambrick, & Cannella Jr., 2009). The first role is commonly referred to as the board’s ‘control’ role while the latter two are often grouped together and referred to as the ‘service’ role.
Rather than viewing these two roles as polar opposites, governance scholars have advocated a balanced approach to implementing the inherent tensions associated with the board’s two primary roles (Demb & Neubauer, 1992; Roberts, McNulty, & Stiles, 2005; Sundaramurthy & Lewis, 2003). Framing the issue around control and collaborative approaches to governance, Sundaramurthy & Lewis (2003) present a framework that emphasizes the value of monitoring as well as empowerment in ensuring the effectiveness of the board in executing its control and service roles. Roberts et al. (2005) expand on the concept of control and collaboration by introducing accountability as a central concept in explaining how boards can operate more effectively by challenging the “dominant grip of agency theory” on our understanding of corporate governance.

**Corporate Governance and Decision Making**

In developing our understanding of corporate governance, discussions usually turn to the role of the board of directors. While the board is certainly a central actor in corporate governance, the concept of governance is actually much broader. At its base, governance is about the exercise of power within the corporation (Clarke, 2004). Bainbridge defines corporate governance as consisting of “the institutional structures, legal rules, and best practices that determine which body within the corporation is empowered to make particular decisions, how the members of that body are chosen, and the norms that should guide decision making” (2012: 2). As suggested by that definition, corporate governance principles are derived from many sources and can be shaped both contextually and situationally.
Decision making in corporate governance has broader implications on societal and economic systems by first “providing the incentives and performance measures to achieve business success, and second, in providing accountability and transparency to ensure the equitable distribution of the resulting wealth” (Clarke, 2004: 2). Berle and Means postulating a new concept for corporate activity described a broader set of responsibilities that required “balancing a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of public policy rather than private cupidity” (2007: 313).

Separating ownership and control by placing decision-making authority in a central body distinct from the shareholders - the board of directors - is what makes the large publicly traded corporation feasible (Bainbridge, 2008). Meanwhile, Fama and Jensen describe the board of directors as the “common apex of the decision control systems of organizations, large and small” (1983: 311). Further support for their position is found in legal tradition, which assumes that the board of directors is to behave like a consensus driven decision-making group with no individual director having the authority to act on behalf of the corporation, only as a body of directors (Bainbridge, 2008). Consequently, the structure of the corporation places a consensus based decision-making group, the board of directors, at the head of an authoritative decision-making hierarchy, the management team.

It comes as no surprise then that the primary work of boards of directors is to make decisions (Leblanc & Gillies, 2005; Useem, 2003) and evidence from practice demonstrates that board level decision making matters. For example, Useem (2003) provides insights on how the consequences of a series of poor governance decisions by
the Enron board of directors contributed to the bankruptcy of what had once been the seventh largest company in the United States with over $100 billion in revenues. In another case, Yahoo’s board has been severely criticized for turning down, in 2008, overtures from Microsoft to purchase the company for $37.5 billion (Kopytoff, 2008). Since then the market capitalization of the company has traded under $20 billion. More recently the Hewlett-Packard board has been called “pathetic” (Jackson, 2011) as a result of a string of governance decision-making missteps that have persisted around CEO succession as well as a divisive investigation into board leaks in 2006.

**Extending the Research Agenda**

Despite the centrality of decision making in corporate governance, we have little insight into the unique contributions made by individual board members, let alone how those contributions are shaped to result in the collective contribution of the board as a whole. Research on corporate boards has tended to focus on two board characteristics — structure and composition (Roberts et al., 2005; Useem & Zelleke, 2006; Zahra & Pearce II, 1989). Scholars have advocated the attainment of deeper insights into the inner workings of the so-called “black box” of board operations (Finkelstein et al., 2009; Leblanc & Gillies, 2005; Pettigrew, 1992; Roberts et al., 2005; Vigano, Zattoni, Hoskisson, & Huse, 2011). However, the reality is that gaining access to board processes and the inner-workings of the boardroom has proven difficult (LeBlanc & Schwartz, 2007).

**The Plan of the Work**

Accepting these challenges, this dissertation goes beyond an examination of the structural and demographic characteristics of boards. Instead, it examines the decision-
making processes of publicly traded U.S. corporations in an effort to define the conditions that create more effective boards. The basic thesis of this work is that while structural and demographic characteristics condition the boardroom decision-making environment it is a set of socio-psychological processes and behaviors that ultimately define the quality of the board’s decision making and by extension its effect on firm performance. While agency theory is useful in providing an understanding of how the self-interested economic motivations of managers can impact firm performance and the subsequent payoff to the shareholders, it misses essential bases of human behavior upon which cooperation and collective action are possible. Furthermore, though the limited liability corporation and its board of directors is a relatively new organizational form – not having widespread acceptance until the mid to late nineteenth century - the concept of the board as the principle control mechanism for the oversight of management has only taken form in the past thirty or so years.

We therefore begin the study by examining the evolution of the role of the board of directors. The development of corporate governance is closely linked with the growth of industrial capitalism. Chapter 2 provides a brief history of the modern board, examining the political, economic, and institutional forces which helped shape the board through a transition from family controlled corporations to managerialism and shareholderism. I conclude the chapter by examining the impact on corporate governance of two recent federal governance legislative acts: The Public Company Accounting Reform and Investor Protection Act of 2002, commonly referred to as Sarbanes-Oxley (SOX) and The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, known colloquially as Dodd-Frank.
While agency theory has provided scholars with the dominant theoretical inspiration for understanding corporate governance it has also fostered critics who have argued for a more nuanced approach to understanding corporate governance through a pluralistic theoretical view (Eisenhardt, 1989a; Hillman & Dalziel, 2003; Judge Jr. & Zeithaml, 1992). Chapter 3 allows us to better understand board effectiveness by providing a more detailed understanding of agency theory while also introducing additional theories that have helped shape our understanding of corporate governance. Among others, these include stewardship theory (Davis, Schoorman, & Donaldson, 1997), managerial hegemony (Lorsch & MacIver, 1989), resource dependency theory (Pfeffer & Salancik, 1978), institutional theory (Meyer & Rowan, 1997), and stakeholder theory (Freeman, Harrison, Wick, Parmar, & DeColle, 2010).

This chapter also explores the extant literature on corporate governance particularly the conflicting results that fail to provide empirical support for the structural and composition changes within the board environment. Ultimately we are drawn to the conclusion that a more process oriented research agenda that allows us to get closer to the actual phenomenon of board decision making is necessary to gain the insights required for deeper understanding.

Chapter 4 provides an overview of the research approach used in the study. The specific research is positioned within a theoretical typology provided by Hambrick, Werder, & Zajac (2008) which describes the universe of governance research from both an internal and external orientation to the organization that encompasses formal structures, behavioral structures and behavioral processes. This study is situated in an internal organizational perspective that examines the behavioral structures and processes.
An overview of the multi-method research approach is provided. The research questions under examination are presented along with a rationale for the selection of the various research methods deployed in each study.

Empirical support is developed from three studies which were conducted as part of this work and presented in chapters 5 through 7. These chapters provide the background, research methods, findings and discussions associated with each of the three studies. The first study – a qualitative examination of eight firms - draws upon decision making theory in order to assess the characteristics that motivate boards to deploy procedural rationality in their strategic decision-making deliberations and is presented in Chapter 5. I propose that boards that align around a unified corporate purpose, have balanced board power relationships, and effective board leadership are more likely to employ rational decision-making processes in lieu of political behaviors. The second study, Chapter 6, is a quantitative study based on a psychometric survey of 151 directors representing 119 U.S. publicly traded companies. This study, drawing on Forbes and Milliken’s (1999) model for strategic decision making, extends their work by introducing the effect of behavioral structures and processes on board level decision making. This study provides support for the creation of two factors - a climate of respect within the boardroom as well as collaboration between the executive team and board members - as antecedents in creating procedurally rational decision-making processes. The third study is presented in Chapter 7. This study more deeply explores the role of trust in the boardroom. Drawing upon the theoretical inspirations of Luhmann (1979) as well as theoretical frameworks from Lewicki et al. (1998) and Sundaramurthy and Lewis (2003), I further analyze the qualitative data obtained in the first study to examine how boards are
able to create and maintain environments of simultaneous high trust/high distrust. These findings indicate that both trust and distrust coexist in boardrooms that have high levels of respect while adhering to a strong process orientation.

**Central Argument.** General conclusions associated with the integration of these three studies are provided in Chapter 8. The central theme that runs through the three studies involves the exploration of the socio-psychological factors that impact board level decision making and by inference, board effectiveness. In particular, the first study establishes the preference for procedural rationality as the predominant decision making style within the boardroom. Building on prior work in decision making and group dynamics, the board of directors is positioned at the apex of the company’s decision making hierarchy whereby the socialization of board members is critical to its ultimate effectiveness. The last two studies more deeply explore the concepts of respect and trust in the boardroom and their impact on boardroom dynamics, with the third study providing a more precise understanding of how both interpersonal trust and systems trust complement each other to allow for boards to effectively engage in the paradoxical roles of control and collaboration. Taken together my overall argument is as follows:

1. The shift to shareholder value as the primary corporate objective has created boards that are more structurally independent, diverse, and as a consequence focused on their ‘monitoring’ role at the expense of their ‘service’ role;

2. This has created in some boards a dysfunctional environment in which independent board members, because of the asymmetric information relationship between the board and the executive team, are put at a disadvantage in terms of understanding the company and being able to collaborate with management regarding corporate strategy;

3. This results in further erosion of the board’s value to the firm by not only hampering its service role, but also negatively affecting control obligations;
4. Effective boards overcome this dysfunctional cycle through good board leadership which creates an environment in which both trust and distrust can exist simultaneously through the creation and maintenance of both interpersonal trust and system trust;

5. Interpersonal trust relationships are established through behavioral structures and processes which support respect amongst board members as well as between board members and the executive team;

6. System trust is created and maintained by adherence to a process orientation that distances the obligatory control role of the board from discretionary interpersonal trust relationships;

7. The adherence to a process orientation is achieved through a commitment to procedurally rational decision processes as well as procedural justice principles;

8. These processes are driven not only by the board leader’s facilitation skills but also through the creation of a shared vision and balanced board power relationships.

Chapter 9 provides the conclusion to the study. Included is an assessment of the limitation of this study as well as a presentation of the important implications and contributions from this study for both scholars and practitioners. This dissertation contributes to our understanding of boards of directors as complex dynamic systems, with a special emphasis on how socio-psychological factors play a critical role in regulating these systems. Furthermore, the importance of the leadership and facilitation skills of the board’s chair is given emphasis. Contributions add to concepts on strategic decision making, trust, and board power relationships. Also included in Chapter 9 are potential areas for future study and research. Finally, concluding comments are provided.
CHAPTER II: THE BOARD’S EVOLVING ROLE

Fraud, corruption and greed in corporate America have served to shape the governance structures of corporations. The history of corporate boards in the United States has been marked by periods of crisis and upheaval, often driven by populist movements that have resulted in reform attempts from politicians and special interest groups in Washington (Lull, 2009). While today’s governance structures are marked by active shareholder involvement, there was a period in which the shareholder was viewed as but one stakeholder among many whose interests were often subordinated by an imperial CEO who enjoyed the unwavering support of a board of directors. The board, often chosen by the CEO, was effectively a passive instrument disinclined to challenge the CEO’s authority.

In this chapter I begin by providing a brief overview of the factors that helped shape the modern corporation and its governance system. Chandler’s (1990) argument regarding the importance of the development of professional management’s role in the growth of industrial society is initially presented to help explain the separation of ownership and management in corporate America. The impact of this phenomenon on corporate governance is then developed, beginning with an understanding of the managerialism model which dominated society through the 1960’s. This is then followed by an overview of the economic, political, legal and institutional forces which served to shape what Eisenberg (1976) termed the monitor model of corporate governance. Finally I conclude by providing an overview of the key federal legislative actions of the past decade which have resulted in the encroachment of the federal government on the role of state governments to oversee the governance of the corporation.
Separation of Ownership and Management

The Dutch East India Company, established in the early 17th century, is the first recorded instance of diffuse shareholders investing their money into a non-financial company with the intent of sharing in the economic gains of the enterprise (Micklethwait & Wooldridge, 2005). Concurrent with this investment was the establishment of the limited liability company. By limiting the financial exposure of investors to the amount of funds invested in the enterprise, the cost of separation of management and ownership was reduced in several ways, not the least of which was the reduced need to monitor management (Easterbrook & Fischel, 1991). The limited liability joint stock company did not enjoy widespread application in the United States until the late 1880’s when the transformation of the country from an agrarian society to an industrial economy began. In fact, concerns over this form of economic structure in which the ownership was separated from the management of the enterprise was expressed as early as 1776 when Adam Smith argued in The Wealth of Nations that “(t)he directors of such companies, however being the managers rather of other people’s money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own” (Smith, 1922; c.f. Blair, 1995).

The transformation of the United States economy from an agrarian commercial economy into a modern industrial economy occurred substantially during the period of 1880 to 1950. During this period the share of the agricultural labor force to the total labor force of the economy decreased from 51.9% to 17.5%. Similarly the percentage of the labor force associated with industrial activities as well as trade and transportation
increased from 42.2% to 73.0% of the total labor force (Chandler Jr., 1990). This shift was driven by advances in technology which allowed for dramatically lower unit costs of production. However, in order to take advantage of these technological advancements entrepreneurs had to make investments in three interrelated areas (Chandler Jr., 1990). First they had to build production facilities that could take advantage of these economies of scale. Next they invested in the marketing and distribution systems that would allow them to access an emerging and relatively homogenous American marketplace. Finally they had to invest in the management capabilities to oversee and coordinate the activities of these production and distribution systems. All of these advancements drove the need for additional capital and with it the acceptance and emergence of the limited liability joint stock company. The corporate behemoths that were ultimately created helped found modern America; luring immigrants to jobs in the big cities, while at the same time creating the conditions for the growth of labor unions, the advent of antitrust laws, and the production and distribution of great wealth (Micklethwait & Wooldridge, 2005).

In their analysis of this new form of enterprise, writing in 1932 Berle and Means (2007) suggested that shareholders, by surrendering control and responsibility of the corporation to management, had essentially negated their right to have the corporation operated in their sole interests. Instead they argued that shareholders “have placed the community in a position to demand that the modern corporation serve not alone the owners or control but all of society” (Berle & Means, 2007: 312). Berle and Means was the first to define the issues around corporate governance and as a consequence, their work would drive a whole new set of legal and economic analysis, ultimately establishing
the Securities and Exchange Commission (SEC) as the regulatory agency responsible for the oversight of the corporation (Clarke, 2004).

**The Managerialism Model (1913 – 1970)**

By the early twentieth century, the public corporation, with disparate and distant shareholders buying and selling its shares on the several stock exchanges became the dominant form of economic enterprise in the United States. Emerging from the Gilded Age in which the robber baron was the symbol of wealth and economic dominance, was the professional manager. Micklethwait and Wooldridge describe the transformation and its impact on the landscape of America as follows:

“The likes of King Gillette, William Wrigley, H.J. Heinz, and John D. Rockefeller hired hordes of black-coated managers to bring order to their chaotic empires. America’s great cities were redesigned to provide these managers with a home – the new vertical filing cabinets known as skyscrapers. In 1908, the Singer Company built the world’s tallest building in New York to house these managers (it was 612 feet high), only to be out built eighteen months later by Metropolitan Life (700 feet), which was then trumped in its turn by the Woolworth Building (792 feet)” (Micklethwait & Wooldridge, 2005: 105).

Disrupted in the intervening years by two world wars and the Great Depression, the hallmark of managerialism was the continued success of the big American business. By 1959, the United States having come out of World War II without physical or economic devastation had established itself as the dominant economy in the world; 44 of the 50 largest companies in the world were American (Lazonick, 2002, c.f. Clarke, 2004). One of the outgrowths of this dominant position was the ability of managers to allocate profits away from shareholders and redistribute them to other stakeholders without any severe penalties being imposed by the capital markets (Gordon, 2007). This stakeholder perspective was a natural response to the ideological contest being waged in political
circles between communism and capitalism. This position was articulated in 1951 by Frank Abrams, chairman of Standard Oil of New Jersey, “(t)he job of management is to maintain an equitable and working balance among the claims of the various directly interested groups…stockholders, employees, customers and the public at large” (Micklethwait & Wooldridge, 2005: 118).

The other primary role of senior management was to run the centralized planning function as well as oversee the production of the various multi-divisions of the enterprise. This conception of management’s role – centralized planning and economic distribution - coupled well with the idea of an advisory board of directors; one handpicked by the CEO as a sounding board and supporter for his ideas. Thus the composition of the typical board was inclined to include a large number of insiders as well as outsiders who had strategic relationships with the company such as suppliers, bankers and lawyers.

Another advantage that accrued to management as a result of the high levels of profitability was the ability to use internal funding as a source for expansion and acquisition, thus not having to engage shareholders in dilution or fund raising. Tax laws, which favored capital appreciation over dividend payments, incentivized fund managers to support corporate managers in the accumulation of corporate profits to fund growth and expansion. This in turn supported management’s expansion of their enterprises into diverse business activities, establishing the conglomerate as a favored business model for continued growth.

**The Monitor Model (1970 – Present)**

By 1970 the economic and corporate landscape began to experience profound changes as the unabated growth of the American enterprise stumbled. Writing in 1970,
Nobel laureate economist Milton Friedman challenged the stakeholder benevolence corporate model in an article that would portend the changes in corporate governance that were ahead:

“The whole justification for permitting the corporate executive to be selected by the stockholders is that the executive is an agent serving the interests of his principal. This justification disappears when the corporate executive imposes taxes and spends the proceeds for "social" purposes. He becomes in effect a public employee, a civil servant, even though he remains in name an employee of a private enterprise. On grounds of political principle, it is intolerable that such civil servants—insofar as their actions in the name of social responsibility are real and not just window-dressing—should be selected as they are now. If they are to be civil servants, then they must be elected through a political process. If they are to impose taxes and make expenditures to foster "social" objectives, then political machinery must be set up to make the assessment of taxes and to determine through a political process the objectives to be served” (Friedman, 1970).

Under the Nixon administration the regulation of business increased through the introduction of wage and price controls, affirmative action legislation and the establishment of regulatory agencies such as the Environmental Protection Agency (EPA) and the Occupational Safety and Health Administration (OSHA), creating an excess burden on business (Micklethwait & Wooldridge, 2005). The consensus expectation that big business, in return for economic and social stability would continue to support a stakeholder model had now been broken. During the decade American’s were exposed for the first time to the fragility of the world’s oil markets as a result of OPEC’s 1973 oil embargo.

Disillusionment with corporate performance as well as the associated corporate governance model received support from two major shocks that occurred in the 1970’s—the unexpected declaration of bankruptcy by Penn Central Railroad and the uncovering of
illicit campaign contributions and foreign bribes made on the behalf of more than 450 firms (Gordon, 2007). In the Penn Central case, the dysfunctional nature of the ‘advisory’ board model was uncovered when an SEC investigation revealed that board members failed to oversee the company’s operations, were unable to identify the severity of the financial problems, and were beholden to management with no pretense of independence (MacAvoy & Millstein, 2004). Support for the pervasiveness of the behaviors experienced at Penn Central was provided by Professor Myles Mace’s 1971 book, *Directors: Myth and Reality*. Based on extensive fieldwork, as well as his own experience as a corporate director and board consultant, Mace exposed the advisory function of the board as a fraud, with directors only stepping up to their responsibilities during times of crisis (Mace, 1971). As an outgrowth of the Penn Central debacle, the SEC, through New York Stock Exchange listing requirements, required independent audit committees in 1976.

The second governance shock which exposed the weakness of the board’s oversight function dealt with the payment of corporate funds for illicit payments to U. S. and foreign government officials. Coming out of the Watergate Special Prosecutor investigations, evidence indicated that while CEOs and other top executives of the guilty companies were aware of the payments, board members were kept uniformed, demonstrating a breakdown in the internal controls processes.

As an outgrowth of the Viet Nam war and the social upheaval of the 1960’s, greater emphasis on corporate social responsibility was beginning to gain populist support in the 1970’s. This movement advocated for federal chartering of corporations as well as greater constituent representation on corporate boards.
It was also in the 1970’s that an economic theoretical framework was beginning to emerge as an explanation for corporate governance that would dominate thinking going forward. Explaining the corporation as a nexus of contracts linking the individual factors of production, its early proponents came out of papers by Alchian and Demsetz (1972) and Jensen and Meckling (1976). Building on Berle and Means’s (2007) separation of ownership and control, agency theory offered shareholders, through their claim as the residual risk takers of the firm, primacy amongst all other stakeholders. As a result, agency theory placed shareholders as the principles for whom their interests were to be the primary obligation of the managers responsible for running the firm.

The cumulative effect of the social, political, economic and institutional pressures of the 1970’s resulted in a shift in the fundamental board governance model from the ‘advisory’ model to the ‘monitor’ model. The monitor model, best articulated by Eisenberg (1976) explicitly defined the separation of duties between management and the board. Senior management was to be responsible for decision making and policy making, while the primary role of the board being the active monitoring of management, with its advisory role relegated to a minor one (Bainbridge, 2012).

1980’s: The Effect of Market Control on the Monitor Model

Entering the 1980’s the monitor board model, while clearly articulated and accepted by the managerial elites, in practice was far more aspirational. Meanwhile, the stakeholder constituent model was beginning to lose out to shareholder primacy in the 1980’s as this decade came to be known as the ‘Deal Decade’ (Gordon, 2007). The market for corporate control was driven by several factors. The first was the general belief that corporations were not realizing their value; it was felt that much of the value
was locked up through the inefficient management of assets due to the proliferation of conglomerates and mergers and acquisitions in the 1960’s and 1970’s, not to mention the misappropriation of rents by management. Second, available funding due to the advent of ‘junk bonds,’ provided the financial wherewithal to effect a corporate raid. Finally, the dispersion of a company’s shares amongst a broad and diverse set of institutional shareholders made it difficult to amass sufficient shareholder support to resist a tender offer (Roe, 1994). By 1980, over 40% of the value of equities was held by institutions; a class of shareholders that was singularly focused on shareholder value, not to mention short term fund performance (Gordon, 2007). As a result they were far more likely to support corporate takeovers that resulted in short term stock appreciations realized from control premiums paid out in the marketplace.

The market for corporate control served as a strong mechanism for mitigating the agency problem. By shifting power from the managers to shareholders and takeover specialists, management’s position was weakened. The interesting twist is that in an effort to garner resistance against corporate raiders, management began to embrace the independent monitor board as it was felt that a strong board served as a resistance and subsequently a safe harbor against takeovers. Support for this position was found in the Delaware courts. In a series of anti-takeover rulings, the courts consistently invoked support for independent directors, not only through their representation on the board, but also in their adherence to a process that sought independent opinions, outside counsel, and internal debate and deliberation.

As a result of the hostile takeover movement in the 1980’s, the linkage between independent directors and shareholder value was established. In addition, executive
managers, who previously had resisted the idea of board independence, were now able to see the advantages an independent board offered in maintaining management’s autonomy by serving as a buffer against aggressive shareholder actions.

1990’s: Advancing shareholder Primacy and Board Independence

A watershed event in corporate governance took place in 1992 when the board of General Motors, after a prolonged period of poor corporate performance fired its CEO and proceeded to revamp its corporate governance including the issuance of extensive governance guidelines to which they were committed to adhere (MacAvoy & Millstein, 2004). This was followed in early 1993 with boards initiating CEO firings at IBM, Westinghouse and American Express. These actions constituted a new wave in board room activism and with it came a reconceptualization of the board with a broader agenda than envisioned by Eisenberg’s (1976) monitor board.

Directors were now cast in a more professional role. Going beyond monitoring, boards began to accept their role as fiduciaries for the shareholders; boards were now accepting responsibility for the performance of the corporation. This included more involvement in decision making, which entailed participation in the strategic planning process of the company, including the setting of performance standards and monitoring management to assure that they effectively executed attainment of the standards. In essence, boards accepted shareholder maximization as their primary objective, absent the external pressure of the market for corporate control. This also signaled a full shift away from the corporate social responsibility commitment to stakeholder constituents. Support for this position was institutionalized when in 1997, the Business Roundtable – an association of the largest publicly traded U. S. companies – revised their operating
guidelines for corporations, replacing support for stakeholder constituency with “the paramount duty of management and of boards of directors is to the corporation stockholders; the interests of other stakeholders are relevant as a derivative of the duty to the stockholder” (Gordon, 2007: 1529).

It was also during this decade that executive compensation began to take on greater importance. Again, the desire to create greater alignment of executive management’s incentives and behaviors with those of shareholders resulted in a dramatic shift in compensation packages that contained a greater equity-based component, especially stock options. Explicit in these packages was a focus on the creation of shareholder value. Further impetus for making the shift to equity-based executive compensation was provided by a policy decision at the federal level. In response to populist outcries about the escalating growth in executive compensation, in 1994 Congress with the support of President Clinton changed the tax laws to cap at $1M the deductible portion of an executive’s compensation. This cap however, only applied to the base pay portion, all performance based compensation elements including stock options were exempt. The impact of these changes was quickly operationalized such that from the period 1992 to 2000 S&P 500 the percentage of CEO compensation based on stock options shifted from being 27% to 51% (Gordon, 2007: 1531).

2000’s: Federal Legislation and Governance Reform

At no time since the Great Depression and the establishment of the SEC has the country gone through a greater shake-up of corporate governance than the decade of the 2000’s. While there were multiple high profile cases of abuse and malfeasance – WorldCom, Adelphia, Tyco and Global Crossing quickly come to mind - the accounting...
scandal and fraud that led to the collapse and dissolution of Enron - what had been the 7th largest company by total sales in America – serves as the poster child for dysfunctional corporate governance. However, fraud and abuse in the corporate world was not isolated to the high profile cases. During the first two months of 2002, the SEC Division of Enforcement brought forward an unprecedented number of new financial reporting cases associated with improper recording of revenue, inappropriate expense recognition, and a host of other reporting improprieties (Bainbridge, 2012).

The failure at Enron brought to focus the critical role played by gatekeepers – especially accountants and lawyers – in the governance system. At the same time, it has been well documented that the board at Enron met all of the structural features for a model board of directors – independence, committee structure, separation of CEO and Chairman, highly skilled directors, etc. (Healy & Palepu, 2003). Nevertheless, the board failed miserably by failing to adequately address critical ‘red flags’ particularly in regard to the multitude of off balance sheet transactions.

In the early part of the decade, a less talked about crisis which resulted in the destruction of more than $1.5 trillion in shareholder value was also the result of dysfunctional governance. Commonly referred to as the collapse of the technology bubble, it was the result of large high technology company share prices severely declining due to ill-conceived strategies which were poorly and in some cases fraudulently executed by management, all under the watchful eye of incompetent boards (MacAvoy & Millstein, 2004). The Global Financial Crisis of 2007, far larger and significantly more complex than the technology bubble, severely rocked the foundations of the global financial systems. While not attributable to any systemic failure in
corporate governance, the failure of individual boards in the financial sector to adequately understand and monitor the risk profiles of their firms certainly contributed to excessive risk taking, often driven by the executive incentive structures supported by board compensation committees. The response to governance failures during the decade was the passage of two sweeping legislative bills which served to dramatically change the board climate across America. Complementing these legislative actions were a series of mandates coming out of the major publicly traded exchanges – the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotation (NASDAQ) system – which served to enhance the power of the board of directors relative to management through greater independence and accountability.

The Impact of Sarbanes-Oxley and Dodd-Frank on Corporate Governance

The wide sweeping reforms coming out of both Sarbanes-Oxley and Dodd-Frank represent a major sea change in the federal government’s involvement in corporate governance. Reacting to populist outcries which were fueled by anti-corporate emotions, Congress, under intense political pressure, chose to initiate a set of legislative actions encroaching on governance rules that had once been the clear province of state governments. Prior to these two bills, Congress had chosen to allow the fifty states to charter corporations and regulate the activity of management teams responsible for these corporations. The only significant governance legislation passed by Congress prior to 2002, The Securities Exchange Act of 1934, was a response to what many believed was the cause of the Great Depression - excessive speculation in publicly traded stocks. As a result, the SEC was formed with the intent of addressing that issue, giving the federal government oversight through the SEC for the trading and pricing of securities.
(Bainbridge, 2012). The chief vehicle for achieving this was a set of disclosure laws that required enhanced transparency.

The federal response to corporate fraud and abuse in the early years of the decade was the hastily formulated Sarbanes-Oxley Act. Sarbanes-Oxley was primarily designed to address the accounting abuses associated with Enron, et al. Besides establishing a new regulatory agenda for public company auditors, as well as enhanced reporting requirements, the Act also established new legal requirements as to ethics and responsibilities for corporate officers. A key feature for board members was the requirement for completely independent audit committee membership and the designation of at least one board member as a financial expert to sit on the committee. Probably the most controversial aspect of the bill was Section 404 which required management and the firm’s outside auditor to certify as to the effectiveness of the firm’s internal controls system. This requirement proved to be extremely burdensome, particularly for smaller capitalization companies, resulting in significant financial overhead cost for these firms.

Additional governance reforms were carried out primarily through new stock exchange listing rules which included mandating a majority of independent directors including the establishment of a more rigorous bar for defining independence, wholly independent committee membership for the nominating and compensation committees, and regular board sessions of only independent directors with a designated presiding director (MacAvoy & Millstein, 2004).

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or as it is commonly referred to as Dodd-Frank, was designed to address the systemic failures
associated with the Global Financial Crisis of 2007 (GFC). The GFC rocked the entire global financial system sending repercussions not only through Wall Street but throughout Main Street America. While the causes and impact of this crisis were both immense and complex, suffice it to say that as an understanding of the crisis unfolded it exposed both the avarice and nefarious nature of the capitalist system and in particular Wall Street. Consequently, Dodd-Frank was especially susceptible to populist and anti-corporate special interests due to the nature of the crisis that precipitated it. Extending beyond Wall Street, Dodd-Frank addressed many of the populist issues raised as far back as the 1970’s including greater direct access to corporate governance by shareholders. Particularly notable was its intrusion into the management of executive compensation. Besides directing the SEC to require corporations to enhance compensation disclosures, the Act created a mandate that allows shareholders to opine on the executive pay policies (‘say-on-pay’) of corporations through proxy voting. The legislation also mandates through federal legislation the requirement for independence of the compensation committee. Enhancement of the original executive pay ‘claw-back’ provisions, originally legislated by Sarbanes-Oxley, are also included.

Dodd-Frank also addressed another popular structural concern regarding board independence, CEO duality. The combining of the role of the chairman and the CEO – CEO duality – has been viewed by many as a critical structural defect in assuring a challenging and monitoring board. While not going so far as to mandate this structural change, Dodd-Frank requires companies to disclose the choice of the board chair structure and to explain why the particular structural arrangement is being implemented.
The most controversial aspect of Dodd-Frank however, is Section 971, which “affirms that the SEC has authority to promulgate a so-called ‘proxy access’ rule pursuant to which shareholders would be allowed to use the company’s proxy statement to nominate candidates to the board of directors” (Bainbridge, 2012: 14). In a case brought forward by the Business Roundtable and the Chamber of Commerce arguing that the SEC in implementing Rule 14a-11 of the ACT failed to exercise its statutory requirement to determine the economic consequences of the Rule, the U. S. Court of Appeals for the District of Columbia Circuit found in favor of the petitioners (Business Roundtable and Chamber of Commerce of the United States of America v. Securities and Exchange Commission, 2011). As a consequence the SEC is now charged with reformulating its implementation in an effort to comply with the Act’s intent to allow shareholders’ proxy access.

Summary

While it is impossible in the limited scope of this dissertation to provide a detailed chronology and analysis of the evolution of corporate governance in the United States, it is apparent from this overview that the role of the board has been shaped by economic, political, legal, and institutional forces. Often driven by populist and anti-corporate pressures to respond to major national economic crises, both Congress and the Executive branch during the past decade have assumed a more aggressive approach by asserting its federal jurisdiction over what had once been the sole province of state government.

During this period, two major re-conceptualizations of the board have occurred. The first has been a shift within the boardroom relative to its fiduciary role. The initial granting of the corporate charter was done with the understanding that the corporation, in
exchange for its unique privilege of limited liability and the separation of property rights between control and ownership, would serve as an agent for the betterment of society. The tectonic changes that culminated by the 1970’s in a different relationship between the corporation and society dramatically shifted the corporation’s view of its responsibilities to a more narrow definition of its role in society: to serve the interests of the residual claimants, the shareholders, with shareholder value maximization as the primary objective.

The second major transformation within the boardroom was the shift from managerialism to shareholderism. This transition was again primarily manifested by the major shocks in the 1970’s which exposed the ineptitude of the advisory board model in being able to adequately protect the interests of society, creating the environment for shareholders to give air cover to a more activist board. The result of this transformation was the emergence of a more structurally independent board as shown in Figure 1.

FIGURE 1
Board Composition, 1955 – 2005
The shift to shareholderism also gained support from the changing ownership structure of the corporation. The growth of institutional ownership in corporate America lead to the diffusion of ownership, allowing managers, as Berle and Means (1987) predicted, the opportunity to exert greater control due to the lack of a concentrated coalition to check their power. In the 1980’s the market for corporate control provided a mechanism for the growth of independent board members while also giving greater power to shareholders through their ability to realize short term capital gains by siding with the takeover entrepreneurs against management. This growth in institutional ownership is shown in Figure 2.

**FIGURE 2**

![Growth of Institutional Ownership of U. S. Public Equities, 1955 - 2004](image)

Ref: Gordon, 2007, p. 1568

Recognizing the importance of information symmetry in allowing the market to clear efficiently, governance reform has also served to address the information gap that exists between management and shareholders. As previously discussed, the formation of
the SEC gave the federal government an agency to oversee the trading and pricing of securities. One of the major initiatives in assuring fairness in trading was the creation of a disclosure system that provides greater transparency in the marketplace. The company’s Form 10K provides the marketplace with information about the company, including management’s discussion and analysis. Figure 3 shows how the SEC’s emphasis on disclosure requirements has increased the amount of information provided by management to shareholders. In addition, Table 1 demonstrates the impact the SEC’s has had on in forcing management to provide to the marketplace more detail on the performance of the company.

FIGURE 3
Increase in Disclosure of Fortune 500 Firms, 1950 – 2004

Ref: Gordon, 2007, p. 1567
Having provided an overview of the context in which boards have had to operate and the forces that have played a role in transforming the governance landscape, we now turn to an overview of the multiple theoretical lenses which have helped explain the processes and behaviors of boards.

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Ref: Gordon, 2007, p. 1567
CHAPTER III: UNDERSTANDING BOARD EFFECTIVENESS

Competing theoretical perspectives have been developed in an effort to explain the various dilemmas that are revealed through the study of corporate governance. The centrality of agency theory in understanding how the board shaped itself from a stakeholder constituency to a shareholder value perspective was introduced in the previous chapter. In addition, we also briefly examined how agency theory helped re-conceptualize the relationship of the board of directors to the CEO, assisting in our understanding of the shift from managerialism to shareholderism. While agency theory has been the dominant theoretical framework used for understanding the role of the board of directors and how it can foster greater firm effectiveness, critics have argued for a more nuanced approach to understanding corporate governance through a pluralistic theoretical view (Eisenhardt, 1989a; Hillman & Dalziel, 2003; Judge Jr. & Zeithaml, 1992).

In this chapter we expound in more detail on agency theory, but also introduce some of the competing theories such as stakeholder theory, stewardship theory and resource dependency theory which provide us with a richer understanding of the effectiveness of boards in performing their control and service functions. This chapter also explores the extant literature on corporate governance particularly the conflicting results that fail to provide empirical support for the efficacy of the board’s structural and compositional changes on firm performance.

Agency Theory

Agency theory (Jensen & Meckling, 1976) is at the center of much of the debate and scholarship associated with governance reform. Addressing the need to bridge the
separation of ownership and control that exists in the modern corporation (Berle & Means, 2007), agency theory’s central tenet lies in the premise that the potential for shirking and opportunistic behaviors exists when the interests of owners (principals) and managers (agents) diverge (Dalton et al., 2007). Agency theory rests on the simple assumption that the basic unit of analysis is the individual’s preoccupation with maximizing their utility (Roberts, 2001). Factors which serve to create an environment that motivates managerial opportunism include: 1) the informational asymmetrical advantage that managers have over shareholders; 2) the difference in risk profiles exhibited by shareholders and managers; and 3) the inability of managers to diversify their firm risk – a problem shareholders solve through a diverse portfolio of investments.

It is therefore assumed that the primary purpose of corporate governance systems is to provide shareholders with some level of assurance that their interests will be protected by managers who are trying to achieve outcomes that are consistent with the shareholders’ objectives (Shliefer & Vishny, 1997). The mechanisms that help to align management and shareholder interests include compensation packages which incorporate an element of equity, the market for corporate control and a board of directors that is structurally independent.

The board’s fiduciary duties to shareholders include: 1) monitoring management, 2) setting the compensation plans and incentives for management, 3) approving the strategic direction of the company, and 4) disciplining management as appropriate (Boyd, Haynes, & Zona, 2010). It has been argued that the board’s propensity to monitor and control management is directly related to its members’ independence from management (Dalton et al., 2007). Independent board members have been defined as those who today
or in the recent past have not had substantial business dealings with the firm nor employment by the firm. As shown in the previous chapter, governance reform has primarily been directed at enhancing board independence through a series of structural and process initiatives that include but are not limited to: 1) a greater proportion of the board members as independent members versus insiders; 2) separation of the role of the board chair and CEO; 3) membership on the three primary board committees (audit, compensation and nomination) comprised solely of independent directors; 4) establishment of an independent lead director; and 5) a mandatory session of only the independent directors of the board. While posited as initiatives designed to increase board independence, in reality these governance reforms attempt to diminish the power of the CEO relative to that of the board.

While some empirical studies have shown that these changes can facilitate oversight of management by the board (Johnson, Hoskisson, & Hitt, 1993), a paradoxical argument suggests that increasing the board’s independence relative to the CEO through an ever increasing number of board members as outsiders, with little firm or industry specific experience, less access to information about the company, and far less time to get educated on the workings of the company creates an even greater dependence on management. Consequently, empirical results from studies using agency theory as the dominant lens have resulted in conflicting conclusions. For example, Millstein & MacAvoy (1998) in a study of 154 companies found support for the hypothesis that active and independent boards positively contributed to the creation of Economic Value Added (EVA). Interestingly, this study tested the behavioral activities of the boards rather than structural characteristics such as independence and board leadership. Studies
examining structural characteristics as proxies for board vigilance and performance resulted in a different set of findings. For example, a meta-analysis of the impact of CEO duality on firm performance provided a set of conflicting results, leaving the researchers to conclude that the decision to implement the separation of the CEO and chair roles was contextually dependent (Daily & Dalton, 1997). Three additional meta-analyses tested the impact of various board features on firm performance yielding no conclusive results. The three studies included tests of equity holdings by executive management (Dalton, Daily, Certo, & Roengpitya, 2003), board composition and leadership structure (Dalton, Daily, Ellstrand, & Johnson, 1998) and board size (Dalton, Daily, Johnson, & Ellstrand, 1999).

While empirical evidence fails to provide empirical support for the efficacy of agency theory, the intellectual arguments presented by the theory still carry considerable weight. As a result governance scholars have argued that “(w)hereas agency theory is appropriate for conceptualizing the control/monitoring role of directors, additional theoretical perspectives are needed to explain directors’ resource, service and strategy roles” (Daily, Dalton, & Cannella Jr., 2003: 372). A more pluralistic theoretical view of corporate governance is essential for understanding the complexities of relationships, mechanisms and structures surrounding corporate governance. Rather than serving as substitutes, additional theoretical perspectives serve as a complement to agency theory. We now provide a brief overview of some of the more popular complementary theories used by corporate governance scholars.
Complementary Theories of Corporate Governance

Stewardship Theory

A very different set of assumptions about human motivation results in stewardship theory’s (Davis et al., 1997) management model contrasting sharply with the management model assumed in agency theory. By labeling all human activity as self-serving, following the model of Homo Economicus (Economic Man), it is argued that agency theory – which emerges from the disciplines of economics and finance - fails to address the complexities associated with human interactions (Doucouliagos, 1994). Meanwhile, stewardship theory, rooted in sociology and psychology, attempts to define human relationships around a more robust behavioral model. Rather than assuming a divergence of principal and agent interests, stewardship theory postulates instances in which a convergence of interests can occur, resulting in a more collaborative approach to governance.

The premises of stewardship theory carry the underlying assumption that “pro-organizational, collectivist behaviors have higher utility than individualistic, self-serving behaviors” (Davis et al., 1997: 24). Consequently, the satisfaction of stewards (managers) is tightly linked to the success of the organization, thereby creating organizationally centered behaviors. Because the steward can be trusted to behave in a manner that is aligned with the interests of the principals, the resources required for control and monitoring can be reduced.

Because of this more benevolent view of management, stewardship theory does not advocate for board independence, instead favoring a majority of inside directors who bring company and industry knowledge and skills. Additionally, the need to separate the
Chairman and the CEO as in agency theory is not viewed as central to effective board functioning. However, the contingency nature of this theory is based upon the idea that stewardship theory is about choice. Managers choose to behave as stewards or agents based upon their own motivations and reading of the particular situation. Similarly, principles also make a choice whether to create an agency or stewardship relationships based upon their own reading of the situation (Clarke, 2004).

**Resource Dependency Theory**

Resource dependency theory is a coping theory that allows the organization to manage the uncertainties associated with deploying resources and making strategic choices (Pfeffer & Salancik, 1978). The ability to match internal structures to external demands is a fundamental assumption for resource dependency theory. By treating the corporation as an open system, resource dependency theory allows linkages to occur between the firm’s directors and outside resources. As a result boards provide four types of benefits: (1) advice and counsel, (2) legitimacy, (3) access to additional external resources, and (4) a means of communicating from the firm to external actors (Pfeffer & Salancik, 1978). The value of a director is then measured by his/her ability to bring valued resources and information to the firm’s management or to the extent they signal legitimacy to the outside marketplace. Hillman & Dalziel (2003) provide a theoretical framework which integrates resource dependency theory with agency theory, arguing that board capital affects both the control role and boundary spanning role, with board incentives playing a moderating role against both objectives.
Managerial Hegemony

Early empirical board studies (e.g. Mace, 1971; Vance, 1983; Whisler, 1984) presented confirmation for the role of the board as an agent for management’s benefit. Rather than working for the board, imperial CEOs controlled their board of directors by determining board membership, defining the role and activities of board members, and managing board agendas and the flow of information to the board members. Managerial hegemony theory assumes that the ‘directors are simply ornaments on the corporate Christmas tree’ (Clarke, 2004: 8).

Stakeholder Theory

The stakeholder approach defines the firm as a set of multilateral agreements existing between the firm and its constituent stakeholders (Freeman, et al., 2010). Rather than accepting the agency approach, which views the corporation as a bundle of assets belonging to shareholders, stakeholder theorists take a team production approach whereby institutional arrangements exist that govern the relationships between all of the parties contributing firm-specific assets to the production process (Clarke, 2004). As a result, stakeholder theory expands the definition of corporate governance - beyond the conceptualization of agency theory which maintains that it is applied to the rights and perogatives of shareholders in corporate decision making - to the broader set of constituents including suppliers, bankers, employees, the government, and the community at large. Very often the debate between stakeholderists and shareholderists is one of means rather than ends. As a consequence, the arguments can blur. For example Clarke (2004) argues that as firm specific skills become a more important element of the firm’s production capabilities – a condition that is more prevalent in service sector
companies – corporate management is forced to adopt more of a stakeholder perspective. Additionally, as corporate social responsibility seems to be coming back to the forefront of the public debate, the stakeholder approach “represents and important step towards a sense of corporate citizenship – an organization with a mature appreciation of its rights and responsibilities” (Clarke, 2004: 11).

**Institutional Theory**

Institutional theory is based upon the idea that much of what shapes organizational structures and behaviors is a reflection of patterns that have evolved from doing things over a period of time and as a result the prediction of organizational practices and their explanations, can be arrived at by examining industry traditions and patterns (Eisenhardt, 1988; c.f. Judge & Zeithaml, 1992). Institutionalism assumes that organizations conform to accepted standards of behavior in an effort to enhance their survivability by gaining legitimacy with other external organizations. An important and relevant concept from institutional theory is isomorphism (DiMaggio & Powell, 1983) which explains how and why organizations conform to accepted norms. Useem & Zelleke (2006) argue that because of public disclosure requirements, boards readily look to one another for guidance in aligning visible structural elements such as composition, size, committee structure, and policies involving compensation practices and ethics. However, when it comes to actual behavioral processes, because they are not visible to each other, we should expect to see evidence of substantial variance from boardroom to boardroom.

Besides the external pressures to conform driven by publicly disclosed information, institutional pressures on boards to conform to industry norms can be
expected from outside governance ratings agencies such as Institutional Shareholder Services (ISS) as well as high profile activist investment funds such as CalPERS and TIAA-CREF. While there is great debate regarding the validity of the ratings supplied by these institutions, there is little debate regarding their impact in shaping governance practices of targeted corporations.

**Complexity Theory**

As we have seen, corporate governance systems have been able to adapt and co-evolve with the social, cultural, political, legal and economic dimensions of society. The creation of new rules, regulations, governance frameworks, and even a new culture and norms within the boardroom reflect the new ordering of corporate governance systems (Goergen, Mallin, Mitleton-Kelly, Al-Hawamdeh, & Hse-Yu Chiu, 2010). Complexity theory, rather than examining a single dimension of corporate governance, takes a holistic look at the multiple interacting subsystems that come together to create the entire corporate governance social system. Consequently it provides an understanding of the interconnectedness of the various corporate governance actors. An important insight from complexity theory is that good governance is more likely to emerge in corporations with a supportive enabling environment – defined as the integration of the cultural, legal, political, economic, and social systems (Goergen et al., 2010).

The use of complexity theory in corporate governance has been somewhat limited due in great part to the difficulty in applying it to such a complex multi-layered ecosystem. One area of exploration has focused on examining the networks that emerge from director interlocks and their role in enabling the diffusion of information across enterprises (e.g. Davis, 1991; Gulati & Westphal, 1999; Westphal & Milton, 2000). A
second area of study has examined the role that path dependency plays in determining the selection of a corporate governance system (e.g. Roe, 1994). Complexity theory, by examining the corporation as an agent within the wider complex global economic system, has served as a platform to promote a restored corporation, i.e. “one that does not seek unlimited life, size, power and license, but rather long-term life, appropriate size, balanced power and greater accountability (Goergen et al., 2010: 103).

**Procedural Justice Theory**

The research on social justice theory has a rich history with continual support for demonstrating the power of justice judgments to shape the thoughts, feelings and actions of individuals and groups (Tyler & Blader, 2003). Distributive justice concerns itself with the perceived fairness of the distribution of resources while procedural justice is concerned with fairness of the means by which an allocation decision is made (Cropanzano & Ambrose, 2001). Building on the concept that procedural justice addresses people’s concerns about the formal procedures used in a decision-making process (Thibaut & Kelley, 1959), Bies & Moag (1986) extended procedural justice through the addition of interactional justice, which adds the concerns that people have relative to their interpersonal treatment during the decision making-process.

While limited in its empirical application to corporate governance, procedural justice appropriately addresses many of the behavioral elements of board level decision making. The theory has applicability to the board environment in several ways. First of all it suggests that personal relationships among board members are important. Given that many board members are induced into joining a board because of the status it accords (Forbes & Milliken, 1999), the way in which board decision processes validate
one’s standing on the board will serve as an important vehicle in a board member’s commitment to the decision and ultimately to the board and company (Sapienza, Korsgaard, Goulet, & Hoogendam, 2000). Procedural justice also promotes prosocial behaviors on the board such as trust building, discretionary behaviors, motivation towards cooperative behavior and the encouragement of responsibility and obligation (Tyler & Blader, 2003).

Procedural justice theory differs from agency theory in three important ways (Sapienza et al., 2000). First of all, procedural justice values the interpersonal relationship whereas agency theory is focused on the exchange itself, and specifically minimizing agency costs. Second, procedural justice, unlike agency theory’s implicit assumption of management’s opportunism, assumes that trust varies as a function of the perceived fairness of the decision-making processes. As a result, procedural justice theory is much less stringent on the role of control, arguing that the fairness of the decision-making process will dictate the willingness on the part of actors to cooperate and be vulnerable. The third significant divergence from agency theory is the assumption around self-interest. Rather than an agency theory approach which assumes that all actors are acting purely to optimize their own utility and therefore the most effective mitigation is control, procedural justice defines self-interest with an additional motive of status. Consequently mitigation is partially achieved through interpersonal relationships. Procedural justice therefore provides a solid platform to build a more behavioral based theoretical approach to corporate governance.
Towards a Behavioral Approach

Though a multi-theoretical view can provide a better understanding of the mechanisms associated with the complexities of corporate governance, advances in technologies, globalization and competition will continue to place pressure on the decision-making systems of organizations. As a result, new research theories which will provide better explanations of relevant organizational phenomenon will be necessary.

An examination of many of the dysfunctional firms of the past decade often shows that their boards were filled with ‘A’ level board members who themselves had successful and distinguished careers. Furthermore, a review of their board structures demonstrate full compliance with the modern standards of best practices in board governance: a super-majority of independent board members, independent committees, pay-for-performance compensation plans with a significant equity component, designation of a lead independent director who regularly holds a session of just the independent directors, etc. The perplexing question then becomes why is it these ‘A’ board members, when they come together to perform their board tasks fail so miserably?

Figure 4 provides a depiction of the structures associated with the role of the board. It quickly becomes apparent that the many external factors and interrelationships required for effective board decision making and subsequently firm performance create significant challenges. To date, much of the research on board effectiveness has tested the relationships between board structure and composition and firm performance, as if board structure and composition are determinants for effective boards (Finkelstein et al., 2009). As Figure 4 shows, the causal leap from board structural characteristics to firm performance skips a host of intervening processes and outcomes. This has resulted in a
limited understanding of board processes that impact organizational outcomes since actual activities and behaviors that go on within the boardroom occur in somewhat of a ‘black box’, (Daily et al., 2003; Finkelstein et al., 2009; Useem & Zelleke, 2006).

Processes are defined as the interactions of team members in making strategic decisions, including how they gather and share information, build knowledge, and make decisions (Carter & Lorsch, 2004). Clearly, the board’s processes play a key role in how strategic decisions are made. In addition, board level involvement in strategic decision-making may be influenced by individual board members’ orientations towards governance. While board members bring a diverse set of unique skills, capabilities and characteristics to their board roles, they also bring their own set of beliefs and values which may impact the inner workings of the board. Pettigrew and McNulty stated this succinctly, “The behavior of key board members is also likely to be shaped by their backgrounds, values, experience levels, and tactical skill as internal politicians” (1998: 200).

Scholars have advocated that to advance the theoretical understanding of board governance it is necessary to gain insights into the inner workings of this ‘black box’ (Finkelstein et al., 2009; Leblanc & Gillies, 2005; Pettigrew, 1992; Roberts et al., 2005). Fortunately, some scholars have begun to address the inner workings of the board by conducting empirical studies using both interview and survey techniques (LeBlanc & Schwartz, 2007). These studies have typically dealt with how boards function as collective organizations (e.g., Finkelstein & Mooney, 2003; Judge & Zeithaml, 1992; Lorsch & MacIver, 1989; Mace, 1971) or how they interface with the CEO (e.g. Pearce & Zahra, 1991; Pettigrew & McNulty, 1998; Westphal, 1999). Few studies (e.g. Leblanc
& Gillies, 2005; Westphal & Bednar, 2005; Westphal & Milton, 2000) have examined how individual board members interact with one another in the board environment.

The research in this dissertation is designed to advance our understanding of how boards go about the process of decision making. Rather than examining what boards look like, the three empirical studies in this dissertation examine what boards actually do by investigating the ‘black box’ of board level decision making. Despite the dramatic changes seen in the structure and composition of the boardroom over the past thirty years, we continue to be disappointed in the performance of many boards and ultimately their firm’s performance. In the next chapter I outline the research approach used in the three studies.
FIGURE 4
Board of Directors Model

BOARD OF DIRECTORS MODEL

Adapted from Finkelstein, Hambrick and Cannella (2009: 228)
CHAPTER IV: RESEARCH APPROACH

The data for this research were developed through two separate data collection techniques. First of all, eight publicly traded company boards were examined through a review of public documents, meeting agendas and minutes. This then led to a series of twenty-nine interviews that were conducted one-on-one with directors and officers from these firms. The second dataset was collected through the administration of a psychometric survey in which 151 publicly traded company directors participated. In this chapter I begin by providing an orientation of this research relative to the vast body of governance research that exists today. I then provide an explanation for why board process was utilized as the dependent variable for these studies. An overview of the mixed methods resource approach is then provided with an explanation as to why the particular methodology, as a function of the specific research questions, was deployed in each of the three studies. I close by providing the logic for an integrative mixed method approach.

Research Positioning

Over the past several decades the study of corporate governance has seen an explosion of interest from scholars in many fields, including but not limited to law, economics, finance, accounting, strategy, organizational behavior, and management. While it is difficult to summarize this vast array of scholarship, Hambrick et al., (2008) provide an orienting framework in an effort to distinguish the myriad contributions made by these disparate disciplines. This framework, rather than a comprehensive assessment of all governance research is meant to be illustrative. The framework is presented in Figure 5.
The framework begins by recognizing that the unit of analysis in governance research, while normally done at the organizational level can span in the micro direction from the organizational level inward, or in the macro direction, outward from the organization. Their framework also segments the research agenda as structural – formal and behavioral – and behavioral processes. Research done on formal structures has typically been the province of scholars in the fields of finance, accounting, economics and law. The remaining four cells are typically the domain where inquiry by organization and strategy scholars is accomplished.

The research in this study is concerned with how boards of directors make strategic decisions. The unit of analysis in our inquiry is at the board level. Rather than examining the characteristics and behaviors of individual board members this study is interested in the behavioral structures and socialization processes that create the group dynamics of boardroom decision making. Decision-making processes are examined...
since the primary work of boards of directors is to make decisions (Leblanc & Gillies, 2005; Useem, 2003), providing the best opportunity to examine how boards come together to perform their control and service tasks.

**Process Outcome as the Dependent Variable**

As discussed previously, our limited understanding of board performance is due in great part to the fact much of the research agenda around governance effectiveness has adopted an input – output model to describe board performance. The study of decision making in this study is done with the intent of gaining greater insights into the processes of the boardroom. Since we are ultimately interested in board effectiveness an obvious question becomes – why study processes? Or said another way, why not examine the actual indices of board task performance – control and service – or even firm performance?

Quite simply, it is practically impossible to directly measure board effectiveness or even the effectiveness of a single board decision on firm performance due to the fact that so many intervening variables drive performance such as: (1) the conditions incurred during implementation can vary significantly from those experienced during the decision process; (2) the implementation capabilities of the executive team weigh heavily on the ultimate efficacy of the decision; and (3) the commitment to execution can be heavily influenced by the process of the decision and the support provided during implementation. The decision process therefore becomes an important indicator as to the board’s ability to govern effectively.

Support for this position is formalized in the laws governing corporations in the state of Delaware, where many publicly traded firms receive their charter for
incorporation (Pick, 2007). Liability for bad decision making is rarely imposed upon corporate directors, doctrinally referred to as the ‘business judgment rule’ as long as corporate directors demonstrate they have met two duties; their ‘duty of care’ and ‘duty of loyalty.’ The duty of loyalty doctrine requires that board members act with no conflict of interest in their decision making capacity. The duty of care doctrine holds that directors are required to exercise “the amount of care which ordinarily careful and prudent men would use in similar circumstances” (Bainbridge, 2008: 106).

In a highly visible example of the court’s adherence to this principle, *Brehn v. Eisner*, the Delaware Supreme Court ruled against a shareholder challenge to the compensation paid by The Walt Disney Company to former president Michael Ovitz. In this case, the Disney board agreed to a buyout payment upon Ovitz’s dismissal which totaled $130 million, though his tenure with Disney was just over one year. Writing for the court, Chief Justice Norman Veasey explained that “(c)ourts do not measure, weigh or quantify directors’ judgments. We do not even decide if they are reasonable in context. Due care in the decisionmaking (sic) context is *process* due care only” (Brehn v. Eisner, 2000; c. f. Bainbridge, 2008: 110). This position was taken despite the court’s belief that “the processes of the Old Board and the New Board were hardly paradigms of good corporate governance practices. Moreover, the sheer size of the payout to Ovitz, as alleged, pushes the envelope of judicial respect for the business judgment of directors in making compensation decisions” (Brehn v. Eisner, 2000).

As suggested by the Delaware courts, process illustrates the nature of board deliberations – how and what information is made available to board members, the level of discussion and the diversity of opinions shared, the mechanisms used to get to decision
closure, etc. Scholars have also determined that the quality of these processes impact the ultimate quality of the decision, both in its determination as well as its ability to be implemented (Amason, 1996; Dean & Sharfman, 1996; Jehn, 1995). As a result, the studies in this research examine decision making process as the dependent variable for board effectiveness.

A Mixed Methods Research Agenda

The research for this dissertation is built around three separate but interrelated studies. The objective of the research agenda is to gain a better understanding into how boards of directors make decisions. More specifically I am concerned with how some boards are able to simultaneously balance the paradoxical nature of their control and service roles while other boards tend to spin into what Sundaramurthy & Lewis (2003) describe as a ‘dysfunctional spiral’, either overemphasizing collaboration at the risk of becoming complacent and entrenched, or becoming excessively vigilant such that the board becomes polarized and unable to effectively perform either its control or service function. In both cases strategic persistence is fostered, eventually leading to organizational decline.

Towards a Mixed Methods Evaluative Inquiry

Mixed methods inquiry is defined as the combination of qualitative and quantitative research “techniques, methods, approaches, concepts or language into a single study” (Johnson & Onwuegbutzie, 2004: 16). The specific choice of methodology – qualitative or quantitative – should follow from the best way to answer a specific research question. The strength of a quantitative approach derives from its ability to test relevant theories on large samples. Generally quantitative methods help demonstrate
whether and to what extent a variance in one variable will have a causal effect on a second variable. Qualitative analysis tends to ask different questions, such as how a particular variable has a causal effect on a second variable and what is the process that connects the two variables (Maxwell, 2005). Qualitative methods provide an advantage when studying a limited number of cases in depth where the objective is to provide a thick description of a phenomena as it is situated and embedded in a local context (Johnson & Onwuegbuzie, 2004). To better understand the specific choice of research inquiry utilized in each study, we turn now to a brief overview of the particular research questions examined in each study.

Questions of Research

Study One

The first study was designed to examine the behavioral structures within the boardroom. The specific research questions explored were:

1. How do boards of directors make decisions; and
2. What are the conditions that influence the predominant decision making style that a board is most likely to adopt?

This study was a qualitative analysis of eight public company boards in which 29 directors and officers were interviewed following a critical incident interview technique (Boyatzis, 1982; Flanagan, 1954; McClelland, 1998). The interview guide used for this inquiry is provided as Appendix A. Given the limited theory about board level strategic decision making, this study relied on an inductive approach best conducted through qualitative methods which provided a thick description of the embedded behavioral structures experienced by board members during decision making.
Study Two

The second study was guided by the findings from Study One as well as the theoretical framework for board decision making presented by Forbes and Milliken (1999). The purpose of this study was to find support for the role socio-psychological processes play on the board’s procedurally rational decision making processes. Specific research questions under investigation included:

1. What is the impact of boardroom respect on decision making processes;
2. What is the impact of collaboration between the executive team and the board members on strategic decision making;
3. What is the impact of power relationships between the CEO and board on decision making processes;
4. What is the impact of the board’s level of expertise on strategic decision making; and
5. What is the impact of procedurally rational decision making processes, as defined by Forbes and Milliken (1999) on board task performance?

This study was conducted using a psychometric survey (see Appendix B) taken by 151 respondents and analyzed using a Structural Equation Model. Deploying a quantitative study that allowed for a deductive analysis through the testing of a series of hypotheses provided explanations as to whether the variables presented in the conceptual model had an impact on board decision making and ultimately board task performance, and if so, to what extent.
Study Three

In the third study, analysis again turned to the dataset developed from the interviews conducted as part of Study One. However in this study I was examining the data to determine the mechanisms that allow trust to get created and maintained in the boardroom. The specific research question - How do boards of directors create and maintain an environment of simultaneous high trust and high distrust? – was best explored through a multicase qualitative study due to the need to gain a rich understanding of the phenomenon.

The research questions and their associated data collection methods are summarized in Table 2.

**TABLE 2**
Research Questions and Methodology

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<th>RESEARCH QUESTIONS</th>
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<td>1. How do boards of directors make decisions?</td>
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<tr>
<td>2. What are the conditions that influence the predominant decision making style that a board is most likely to adopt?</td>
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<td><strong>STUDY TWO</strong></td>
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<tr>
<td>1. What is the impact of boardroom respect on decision making processes?</td>
<td>Quantitative</td>
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<tr>
<td>2. What is the impact of collaboration between the executive team and the board members on strategic decision making?</td>
<td>Quantitative</td>
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<tr>
<td>3. What is the impact of power relationships between the CEO and board on decision making processes?</td>
<td>Quantitative</td>
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<tr>
<td>4. What is the impact of the board’s level of expertise on strategic decision making?</td>
<td>Quantitative</td>
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<tr>
<td>5. What is the impact of procedurally rational decision making processes on board task performance?</td>
<td>Quantitative</td>
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<tr>
<td><strong>STUDY THREE</strong></td>
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<tr>
<td>1. How do boards of directors create and maintain an environment of simultaneous high trust and high distrust?</td>
<td>Qualitative</td>
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Defining the Mixed Methods Design

The data collection for this study was conducted sequentially, first through interviews and then a psychometric survey. The theoretical constructs and their associated questions were developed from the findings associated with the interview data. The research began as a sequential exploratory design (Creswell, Plano Clark, Gutmann, & Hanson, 2003) in which the qualitative data were used to explore the phenomenon of decision making in the boardroom. The quantitative study then tested elements of the theoretical constructs that emerged from the first study. Finding support for these phenomenon, I then returned to the qualitative dataset in order to reinterpret the data to achieve a greater understanding of the phenomenon of trust in the boardroom.

Integrating Research Studies

The mixed methods approach deployed in this research was a combination of both triangulation (Jick, 1979) and complementarity (Greene, Caracelli, & Graham, 1989). Triangulation seeks to find convergence and collaboration through the use of different methods. Meanwhile, complementarity seeks to elaborate, enhance or clarify the results of one method from the other method. The integration of the studies occurred at the interpretation phase where the data results were used to converge on the findings and to elaborate on our understanding of the results.

In Study One the examination of the antecedents for determining when a board would be most likely to adopt procedural rationality as the predominant decision making style was conducted. The results of this study were then used to develop a model for testing on a larger population to determine if in fact behavioral processes such as respect and collaboration impact the procedurally rational decision making processes in the
boardroom. This second analysis was conducted as a quantitative assessment in Study Two. By deploying two distinct methods in two separate studies, the findings converged to find support for the idea that behavioral processes serve as antecedents in determining the choice of decision making style within the boardroom. Mixed methods provided confidence through triangulation of the results from two separate and distinct studies.

Study Three was then conducted with the purpose of enhancing our understanding of how behavioral processes such as trust and distrust are created and maintained. By returning to a qualitative approach I was able to elicit meaning and richness around the understanding of the mechanisms for trust in the boardroom. The findings in this study served to complement the quantitative findings in Study Two by providing richer insights into the mechanisms associated with the creation of behavioral processes.

Taken together, the three studies serve to triangulate around socio-psychological processes and behavioral structures as critical components in understanding the dynamics of board level strategic decision making. In the next three chapters we present the three studies. Each chapter provides a detailed analysis of the respective study including theoretical background, research methods, findings, discussion, and implications and limitations.
CHAPTER V: STUDY ONE
DEFINING THE ANTECEDENTS FOR PROCEDURAL RATIONALITY IN
BOARDROOM STRATEGIC DECISION MAKING

The primary work of boards of directors is to make decisions (Leblanc & Gillies, 2005; Useem, 2003) and evidence from practice demonstrates that board level decision making matters. Despite the centrality of decision making in corporate governance, we have little insight into the unique contributions made by individual board members, let alone how those contributions are shaped to result in the collective contribution of the board as a whole. Much of the research on corporate boards focuses on two board characteristics ─ structure and composition (Useem & Zelleke, 2006; Zahra & Pearce II, 1989). For more than a decade, there have been repeated calls for new directions in research on boards and corporate governance, with a specific focus on developing a better understanding of the working processes and effects of boards of directors (Daily et al., 2003; Davis, 2005; Gabrielsson & Huse, 2004; Hambrick et al., 2008; Pye & Pettigrew, 2005; van Ees, Gabrielsson, & Huse, 2009). To facilitate this understanding, scholars have advocated gaining deeper insights into the inner workings of the so-called “black box” of board operations (Finkelstein et al, 2009; Leblanc & Gillies, 2005; LeBlanc & Schwartz, 2007; Pettigrew, 1992; Roberts et al., 2005; Vigano et al., 2011). As McNulty and Pettigrew observed, “there is a need to get closer to boards and directors to collect primary data about processes of contribution, power and influence” (1999: 52).

Consistent with this call, this study seeks to understand more about the context and processes by which boards make strategic decisions. The study examines the strategic decision-making styles deployed by boards of directors of eight U. S. publicly
traded (NASDAQ) companies. More specifically, I seek to define the conditions that are most likely to influence the predominant decision-making style a board is likely to adopt.

Using a qualitative research approach, I conducted in-depth, semi-structured interviews with twenty-nine corporate directors and officers from the selected eight firms. Responses were then analyzed and three key characteristics for board-level strategic decision-making emerged. These included 1) strong alignment around a unified corporate purpose; 2) a stable and balanced power relationship between the board members and CEO, as well as amongst individual board members and 3) strong board chair leadership skills. Additionally, the leadership and facilitation skills of the board chair played a critical role in moderating the relationship between both a unified corporate purpose and balanced power relationships, and the operationalization of the board level strategic decision-making processes.

In the following section a review of the relevant theoretical background that informed this study is provided. An overview is then provided of the research methodology and data analysis techniques that were utilized followed by a presentation of the findings from the research. The paper concludes by discussing the significance of these findings while addressing the limitations of the study as well as outlining the important implications associated with future research and practice.

**Theoretical Background**

**Decision Making in the Boardroom**

When comparing decision making within boards of directors to other top management teams (TMTs), a number of features of the former need emphasizing. First, boards are comprised of senior level and very experienced business executives who
perform their role on a part-time basis while usually serving in a full-time executive capacity at another company. Secondly, while the members of the board are the apex of the decision control hierarchy within the company, they do not have responsibility for either the formulation or implementation of their decisions. Additionally, board members are expected to make strategic decisions in a consensual manner, with no member having any higher authority than the others. Board members also meet episodically, often not more than 12 days per year. Finally, a majority of the board members are “outsiders” to the company and therefore have a limited flow of information relative to the workings of the company and management team for which they are expected to oversee and evaluate. As a consequence, it is easy to understand why effectiveness of the board may be heavily impacted by the socio-psychological processes embedded within group dynamics. Said another way, as a result of their part-time roles, board members are especially vulnerable to interaction difficulties and are susceptible to “process losses” (Steiner, 1972) and the difficulties associated with “partial inclusion” (Weick, 1979).

Unlike routine decisions that are made on a regular basis in the normal course of carrying out the functioning of an organization, strategic decisions are those choices that shape a firm’s general direction by committing resources, setting important precedents, and/or directing important firm level actions (Mintzberg, Raisinghani, & Theoret, 1976). Many normative decision-making models have been developed, all suggesting a series of stages which move the decision from conceptualization through analysis of alternatives to final decision outcome (Bazerman, 2006). Progression through these stages, coupled with the interactions of team members, including how they gather and share information, build knowledge, and create decision outcomes define the decision-making processes
within a firm (Carter & Lorsch, 2004). Eisenhardt & Zbracki (1992) provide an analysis of three primary strategic decision making process styles – rationality or bounded rationality, politics and power, and garbage can models, of which the first two, commonly operationalized as procedural rationality and political behaviors, are most applicable to board level strategic decision making.

**Procedural Rationality as Decision Making**

The concept of rationality has had a long and profound impact on organizational studies from economics to organization theory and psychology (Dean & Sharfman, 1993). Bounded rationality was developed from the Carnegie School as an alternative to more accurately reflect the rationality-as-maximization model originally posited by the strict rationality model used in theoretical economics (Simon, 1955). Through the inherent cognitive limitations associated with humans, rationality-as-maximization is replaced in practice by activities such as truncating the process before optimal alternatives are identified (satisficing) and hindering the rank ordering of preferences. Incorporating the concepts of rationality and bounded rationality, procedural rationality is defined as “the extent to which the decision process involves the collection of information relevant to the decision and the reliance upon analysis of this information in making the decision” (Dean & Sharfman, 1993: 1071). Fundamental to this definition is the implicit understanding that rationality is a variable construct, anchored on one end by complete rationality and on the other by no rationality, with bounded rationality occurring on this continuum.
**Political Behaviors as Decision Making**

While Pfeffer (1980) defines power as the capability of one social actor to overcome resistance in achieving a desired outcome or result, it is often manifested through the political activities of the actors in an organization. The idea that the processes and outcomes of strategic decisions are partly shaped by politics is a central theme in decision-making research (Dean & Sharfman, 1996; Eisenhardt & Zbracki, 1992). In organizations, it is common to find coalitions of people with competing interests relative to the outcome of strategic decisions and as a result they will tend to exert influence – either formally or informally – on the decision-making processes (Pfeffer, 1972). As Hickson commented, “in a decision-making process…the search is not only for problem-solving information but for interest-accommodating alternatives” (1987: 173). A negative impact on strategic decision-making effectiveness is observed when excess political behavior, such as the focus on personal interests at the expense of organizational goals or the resistance to share relevant information, results in the organization creating decision outcomes that fail to align with its goals (Eisenhardt & Bourgeois, 1988; Ravasi & Zattoni, 2006).

Several common actions, often covertly applied, are associated with political decision making (Pettigrew, 1973). These behaviors included offline lobbying, controlling agendas, withholding information, behind-the-scenes coalition building and cooptation. These behaviors are done with the intent of enhancing the power of one group over another in an effort to influence decision outcomes to their personal advantage. Political behaviors contrast with procedural rationality in that the problem definition, data collection, data analysis, evaluation criteria and presentation of
alternatives can become “weapons used to manipulate decision outcomes towards personal ends rather than tools to inform a final decision” (Dean & Sharfman, 1993: 1071). While previous research (Eisenhardt & Bourgeois III, 1988) has shown political behaviors to be detrimental to effective decision making, other studies have argued the instrumentality of political behaviors to an effective strategic outcome (Pettigrew, 1973; Pfeffer, 1980). Like procedural rationality, political behaviors represent a variable construct with highly political behaviors at one end and no political activity at the other.

The impact of power differentials in the boardroom – and the subsequent political behaviors that arise from these differentials - has spawned a huge literature, largely focused on the extent to which board power relative to CEO power affects the incentives and ability of the former to monitor the latter (usefully summarized in Finkelstein et al, 2009 and Dalton et al, 2007). For example, Westphal and colleagues have been able to inform us as to how management and boards are able to either work around the independent behaviors of directors or discipline them (e.g. Westphal, 1998; Westphal & Khanna, 2003; Westphal & Milton, 2000; Westphal & Zajac, 1995). Similarly, other researchers have shown how management is able to avoid the control mechanisms instituted by vigilant board directors (Walsh & Seward, 1990). While the depth and breadth of research on board composition is exhaustive, the resultant conclusions relative to the impact on firm performance are confounding, presenting us with no clear conclusions (Dalton, Hitt, Certo, & Dalton, 2007). In a similar vein, the impact of CEO duality, as a measure of power, on firm performance has received considerable attention from both governance researchers and public policy analysts. Similar to the board
composition issue, the research findings provide no support for a relationship between board leadership structure and firm performance (Dalton et al., 1998).

**The Coexistence of Procedural Rationality and Political Behaviors**

Strategic decisions are complex decisions in that they often involve interdependent relationships, uncertain outcomes and conflicting views held by the various actors. As a result they are often inherently political. At the same time, not all decision processes involve politics. Allison (1971), in an analysis of the Cuban missile crisis described none of the behaviors typically associated with political decision-making processes. On the other hand, Pettigrew (1973) describes a decision regarding the purchase of an information system as so political that the only rational approach to decision making involves political behaviors. In an effort to define the relationship between procedural rationality and political behaviors, Dean and Sharfman (1993) conducted a study involving 61 strategic decisions in which they found procedural rationality and political behaviors to be independent dimensions within the strategic decision-making process. In other words, they can both be present or absent to varying degrees in each decision.

With that understanding, it is important to emphasize that strategic decision-making processes are patterns of behavior that develop in organizations and as such are visible to the actors involved (Fredrickson & Mitchell, 1984). While the predominant decision-making model under use in an organization is not always apparent, models of political behavior are distinguishable from procedural rationality when it is clear that either no over-arching organizational goal exists or if it does exist the decision outcome is inconsistent with the attainment of the goal (Pfeffer, 1980).
Legal tradition however, could lead us to a different expectation. The importance of actual processes to board performance is embedded in the laws of the state of Delaware, where most U. S. corporations are incorporated. Delaware Courts rely upon “the business judgment rule” when attempting to evaluate the performance of the board of directors. Under the “business judgment rule” boards are viewed as having two duties in their decision making 1) the duty of loyalty (i.e. allegiance to the enterprise over any self-interests) and 2) the duty of care (i.e. a commitment to act carefully while monitoring and directing the activities of management) (The American Law Institute, 1992). Essentially, the conceptualization of power and politics, through independence, has been embedded in the Delaware Courts through the “duty of loyalty.” Similarly, the requirement for due diligence as expressed in the “duty of care” serves as support for the efficacy of procedural rationality as the preferred decision making model in boards. Following the Court’s approach, to gain insights into how effectively a board is performing it is suggested that an examination of its processes will yield the greatest insights.

**Strategic Decision Making and Decision Outcomes**

The underlying processes associated with strategic decision making matter for organizational outcomes (Dean & Sharfman, 1996; Eisenhardt 1989b; Eisenhardt & Bourgeois III, 1988; Rajagopalan, Rasheed, & Datta, 1993). Previous research has identified the capabilities of the group as well as the interaction process through which the group produces its decisions as the two principal antecedents for quality strategic decision making (Amason, 1996). Quality strategic decision making occurs when the individual members of the group bring their diverse set of skills, knowledge, abilities and
perspectives to bear on the decision-making process (Bantel & Jackson, 1989). Studies have also shown that diverse teams make more effective decisions (Bantel & Jackson, 1989; Murray, 1989). However, in addition to the skills and capabilities within the group, quality decision making also reflects how decisions get made. Amason stated that high quality decision making “is best realized through critical and investigative interaction processes in which team members identify, extract, and synthesize their perspectives to produce a decision” (1996: 124). This critical analysis is often required to mediate against individual cognitive biases; situations which occur when individuals inappropriately apply a decision heuristic when developing a decision (Bazerman, 2006). Bazerman (2006) also identifies a second set of influences which affect our individual decision-making abilities, motivational and affective influences. These influences occur when “preoccupation with the transient goal or affective state lowers the overall benefit to the decision maker and is inconsistent with what the individual would prefer…when acting more reflectively” (Bazerman, 2006: 61). Again, through open communications and investigative interactions, groups can reduce the impact of these behavioral biases in strategic decision making.

Edmondson et al (2003) integrating insights from research on leadership, top management teams (TMTs), small group processes and negotiation, develop a theory of top management team effectiveness that provides a prescriptive model for how senior team leaders can improve decision-making effectiveness – even in situations where information and/or interest asymmetry exists - by managing the process choices associated with process control, outcome control and process design.
The importance of consensus based decision making in the boardroom is also seen in the types of tasks that the board is called on to provide. Board level strategic decision making does not involve problems with a single correct solution. Research has shown that groups outperform even their best individual decision maker in abstract problem solving, especially with increased complexity of the problems (Hill, 1982). Additionally, consensus decision making provides an answer to the problem “who shall watch the watchers”, by replacing a single decision maker with a self monitoring collective body influenced by peer pressure, reputational sanctions and social norms (Bainbridge, 2008).

Recognizing that the board’s productive output is a portfolio of decisions, it is reasonable to claim that good board processes are more likely to result in better board decisions and subsequently better firm outcomes. While attempts to demonstrate this phenomenon through governance research in which board structure and composition are proxies for board processes have yielded conflicting results, it is the intention of this study to provide greater insights through the direct observation of board processes.

**Research Method**

Given limited theory on how boards of directors, specifically, engage in effective decision-making processes, this study relied on inductive theory building using a multiple-case approach which included the robustness of comparative analysis (Eisenhardt 1989c; Yin, 1994) as well as the central mechanism for meaning making provided through narratives (Floersch, Longhofer, Kranke, & Townsend, 2010). The study deploys an iterative process (Glaser & Strauss, 2008), of constant comparison referring to the simultaneous collection and analysis of data, a process that affects the size and composition of the sample based on the identification and interpretation of
emerging themes and patterns (Suddaby, 2006). By comparing evidence across several cases I was able to discern patterns while also discovering the emergent antecedents related to the observed differences.

**Sample**

This study was conducted on eight large, publicly traded (NASDAQ) technology firms. Gaining research access to corporate boardrooms is extremely difficult. As LeBlanc and Schwartz observed, boards “tend to be closed groups, bound by confidentiality, privilege and custom, with significant access difficulties and other practical limitations as well” (2007: 845). To overcome concerns with confidentiality, I assured complete anonymity to the firms under investigation as well as the board members and company officers. I also enhanced credibility and access by gaining sponsorship through the leadership of a national directors’ organization.

Case selection relied upon both purposeful selection (Maxwell, 2005) and theoretical sampling (Corbin & Strauss, 2008). Purposeful selection “is a strategy in which particular settings, persons, or activities are selected deliberately in order to provide information that can’t be gotten as well from other choices” (Maxwell, 2005: 88). Theoretical sampling complements purposeful selection and is a method of data collection that allows the flexibility to “go where analysis indicates would be the most fruitful place to collect more data that will answer the questions that arise during analysis” (Corbin & Strauss, 2008: 145). I chose to limit the sample to publicly traded instead of privately owned companies, allowing me to avail in public documents information on corporate strategic initiatives as well as ownership structure, board
composition, financial performance and other pertinent board and company demographic information.

The study targeted the high-technology sector which provided an opportunity to address rapid-pace strategic decision making with greater board involvement (Eisenhardt & Bourgeois, 1988). The companies were identified from a database of approximately 1100 firms in which one or more of the directors were members of a national association of corporate directors providing governance training and board educational services for their members. Of the 1100 firms, 71 firms met the criteria for being publicly traded high technology firms. I then gathered detailed qualitative and quantitative data on these firms to assure they had a diffuse ownership structure and had undergone at least one significant transformation during the past two years; assuring myself that the board would have had to deal with at least one major strategic decision. A significant transformation included a major merger or acquisition, a significant financing transaction, the sale of a significant asset of the company, a change in the CEO, or a major change in the ownership structure of the company. The requirement for a diffuse ownership structure provided confidence that there would be minimal multiple interests associated with the firm’s ownership, thereby setting profit maximization as potentially the board’s primary objective. Seventeen of the firms met these criteria. The firms were then approached, from which the final eight firms were selected after agreeing to participate in the study (see Table 3).

The companies were geographically diverse, with three located on the west coast, three on the east coast and two in the central region of the United States. The average board member’s age was 62.3 years, with a range of 39 to 85 years. The average tenure of
service by a board member was 6.9 years, with the range from less than one to more than forty (40) years. Of the fifty-nine (59) total board members serving on these boards, only three were females and two were minorities. The selected boards were heavily represented by independent directors; only two of the eight boards had as many as two executive directors, five boards had only the CEO as the executive board member and one board did not have any executive directors. On two of the eight boards, the CEO also served as the board chair.

Data Collection

The study followed a multiple case embedded design, allowing me to conduct the analysis across several units while examining both the content and processes associated with strategic decision making (Yin, 1994). I first examined the backgrounds and demographics of each board’s members, as well as the key executive officers. This provided a contextual background to understand the observed decision-making processes. Next I reviewed the historical strategic activities of the company in an effort to ascertain the potential issues brought to the attention of the board. Finally I investigated each of the strategic decisions in an effort to better understand how the issue was raised to the board level, the deliberations and discussions that unfolded, and finally how decision closure was attained.

Data collection involved two primary sources; archives and interviews. Archival information was obtained from publicly filed documents, business press coverage and a review of board minutes and agendas. However, primary data collection was through semi-structured interviews conducted with board members and key company executives.
TABLE 3
Description of Eight Firms under Study

<table>
<thead>
<tr>
<th>COMPANY*</th>
<th>NUMBER OF EMPLOYEES</th>
<th>ANNUAL REVENUES</th>
<th>SIGNIFICANT CHANGE DURING PAST 2 YRS.</th>
<th>CHAIR</th>
<th>BOARD SIZE</th>
<th>NUMBER OF INTERVIEWS</th>
<th>CEO TENURE</th>
<th>CHAIR TENURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burning Tree</td>
<td>1323</td>
<td>$526M</td>
<td>Sale of Asset / New CEO</td>
<td>Non-Exec</td>
<td>9</td>
<td>3</td>
<td>1 yr.</td>
<td>7 yr.</td>
</tr>
<tr>
<td>Columbia</td>
<td>553</td>
<td>$98M</td>
<td>Acquisition / New CEO</td>
<td>Non-Exec</td>
<td>6</td>
<td>5</td>
<td>2 yr.</td>
<td>8 yr.</td>
</tr>
<tr>
<td>Congressional</td>
<td>216</td>
<td>$42M</td>
<td>Divestiture / New CEO</td>
<td>Non-Exec</td>
<td>7</td>
<td>3</td>
<td>&lt;1 yr.</td>
<td>7 yr.</td>
</tr>
<tr>
<td>En-Joie</td>
<td>450</td>
<td>$126M</td>
<td>Major Acquisition</td>
<td>CEO</td>
<td>6</td>
<td>3</td>
<td>10 yr.</td>
<td>10 yr.</td>
</tr>
<tr>
<td>Las Colinas</td>
<td>203</td>
<td>$53M</td>
<td>New CEO</td>
<td>Non-Exec</td>
<td>6</td>
<td>3</td>
<td>&lt;1 yr.</td>
<td>3 yr.</td>
</tr>
<tr>
<td>Potomac</td>
<td>900</td>
<td>$165M</td>
<td>Proxy Fight - Board Change</td>
<td>Non-Exec</td>
<td>7</td>
<td>4</td>
<td>2 yr.</td>
<td>&lt;1 yr.</td>
</tr>
<tr>
<td>Sawgrass</td>
<td>1400</td>
<td>$131M</td>
<td>Multiple Acquisitions</td>
<td>Founder</td>
<td>8</td>
<td>4</td>
<td>10 yr.</td>
<td>38 yr.</td>
</tr>
<tr>
<td>Turnberry</td>
<td>646</td>
<td>$180M</td>
<td>Board Re-Constituted</td>
<td>CEO</td>
<td>10</td>
<td>4</td>
<td>13 yr.</td>
<td>13 yr.</td>
</tr>
</tbody>
</table>

*(Pseudo-names provided to protect confidentiality)*
**Semi-structured interviews.** In-depth semi-structured interviews were conducted with twenty-nine (29) board members and key executives of the eight firms. Interviews were conducted with three to five individuals from each of the eight firms. Interviewees were selected with the intention of securing the most knowledgeable and representative informants associated with the board’s behaviors and decision-making processes. A diverse set of perspectives was sought in order to minimize the prospect of realizing a biased representation of the actual proceedings. As a minimum, the chairman of the board and the CEO were interviewed.

Open-ended questions were constructed to elicit responses in a conversational style and to minimize leading questions. Prior to conducting the formal interviews, four pilot interviews were conducted with board members not associated with the companies in the study. These interviews were observed by two researchers, the recordings reviewed and modifications applied to the questions in an effort to refine the interview protocol to assure a more conversational approach and in some cases less leading.

The research interviews, which ranged from 40 to 90 minutes, were all audio recorded and subsequently transcribed by a professional service. To assure consistency in the interview process, all interviews were conducted by the principal researcher. Short follow-up telephone interviews were scheduled with a few respondents to clarify or amplify responses. While structured questionnaires were developed prior to the interview, the interviewer was at liberty to advance the discussion into areas that appeared to provide additional value.

The interview protocol followed five segments. Informants were first asked to describe their personal and professional backgrounds, with an emphasis on their board
experience, including how they were selected to participate as a member of the subject board. In the second part of the interview the informants were asked to describe a typical board meeting including the agenda and how it was developed, what roles each board member played as well as the dynamics that typically occurred between board members and the CEO. The third part of the interview then focused on the informant describing their own particular role on the board and any particular beliefs and values they felt were critical in their boardroom interactions and deliberations.

The next two sections of the interview were focused on the informant describing a recent strategic decision that the board was involved in. Consistent with critical incident interview techniques (Boyatzis, 1982; Flanagan, 1954; McClelland, 1998) informants were asked to contrast approaches to decision making that they observed. The first description was regarding a decision they felt was handled particularly “effectively” by the board. The second entailed a decision that they felt was handled “ineffectively.” The informant was given the latitude to use their own criteria for defining an effective and ineffective decision, but was asked to describe why they felt it was effective or ineffective. In each case the informant was asked to provide a detailed description of the decision process, tracing the story from inception to closure while discerning facts and events from personal observations. Finally, the informant was asked to describe how they felt once the decision was finalized. Because the unit of analysis for our study was the board’s decision making processes, the study was seeking to ascertain a robust description of these processes. As a result it was not necessary for all of the informants within each case to address a common strategic decision. A copy of the interview protocol is provided in Appendix A.
Validity and reliability of the results were tested through triangulation, analysis with multiple researchers and discussions with interviewees and industry experts. Strict confidentiality and anonymity of all interviewees as well as their participant companies was maintained throughout the study.

**Data Analysis**

In the initial phase, within each case under study, I conducted thematic analysis with no a priori hypotheses. Thematic analysis is a commonly used process for encoding qualitative information that can be used in conjunction with multiple qualitative methodologies (Boyatzis, 1998) to elucidate descriptive patterns. I was able to articulate relationships among the identified themes arrived at through thematic analysis with the purpose to construct theories grounded in the data that describe a theoretical process (Floersch et al, 2010).

The data were analyzed using software, Atlas.ti, by assigning open codes to the interviews (line by line) in which I “broke the data apart and delineated concepts to stand for the blocks of raw data” (Corbin & Strauss, 2008: 198). Portions of potentially salient text – “codable moments” – were identified and labeled (Boyatzis, 1998). These “codable moments” were then assigned to either existing or newly created codes. I continued to identify additional relationships between the collected data and new discoveries by testing the coding schema as well as reviewing and analyzing patterns and themes. These open codes were then grouped under more abstract codes – commonly referred to as axial codes - by the patterns or themes that emerged from comparing their shared meanings and characteristics. Greater confidence in coding reliability was established by having one researcher working independently to code each of the
interviews while a second researcher validated the process and the coding discipline. Validity of this dataset was produced by double-checking to assure that the codes were: (1) consistently applied across all interviews (memos describing the meaning of each code were written to assure consistency in definitions); (2) appropriately grouped under the thematic codes; and (3) properly grouped under the axial codes.

These themes were then organized under higher-level constructs to show how emergent themes could be used to develop a conceptual framework for better understanding strategic decision making. A comparison of the within-case coding outcomes reinforced our confidence in the reliability of the assessment of the prevailing activities associated with strategic decision making within the boardroom. In the next phase of analysis, drawing on case study methods, I coupled within-case analyses with a cross-case search for patterns (Eisenhardt, 1989c), examining intergroup differences and similarities around the predominant decision-making styles of procedural rationality and political behaviors.

Figure 6 illustrates the final data structure, showing the codes and themes from which I developed findings and the relationships between them. Additional representative supporting evidence for the findings is shown in Figure 7.

Done in an iterative fashion, as insights emerged they called for additional data collection and an enrichment of the explanations. Following Eisenhardt (1989c), I referred to existing literature in an effort to continually refine our inductively derived theoretical insights. Additionally, through cross-case analyses I was able to either confirm or disconfirm inferences that were drawn from the cases as the research evolved.
Commitment to corporation
Shareholder focus
Independence of mind
Passion and excitement
Focus on future direction
Engagement in strategy process
Strategic understanding
Oversight of management
Service function of board
Clarity of board roles and responsibilities
Board member mutual respect and trust
Board collegiality
Psychological safety
CEO / Board respect and trust
Communications between board and TMT
Political Skills
Process Management
Outcome Control
Role clarity
Sensitivity to diverse opinions
Board selection process
CEO / Chair respect and trust
Understanding of business
Communications between CEO and Chair

Axial Level Codes

Commitment to corporation
Shareholder focus
Independence of mind
Passion and excitement
Focus on future direction
Engagement in strategy process
Strategic understanding
Oversight of management
Service function of board
Clarity of board roles and responsibilities
Board member mutual respect and trust
Board collegiality
Psychological safety
CEO / Board respect and trust
Communications between board and TMT

Thematic Codes

1. Agency Perspective
2. Hope and Shared Vision
3. Alignment Around Strategy
4. Board’s Role
5. Intra-Board Respect
6. CEO-Board Trust
7. Facilitation Skills
8. Organizational Awareness
9. Relationship with CEO

Emergent

Unified Corporate Purpose
Balanced Power Relationships
Board Chair Leadership Skills
**FIGURE 7**
Representative Data Associated with the Emergent Themes ‘Unified Corporate Purpose’ and ‘Balanced Power Relationships’

<table>
<thead>
<tr>
<th>Representative Evidence from Boards with Procedural Rationality</th>
<th>Axial</th>
<th>Representative Evidence from Boards with Political Behaviors</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image-url" alt="Text" /></td>
<td><img src="image-url" alt="Text" /></td>
<td><img src="image-url" alt="Text" /></td>
</tr>
</tbody>
</table>

1. **Agency Perspective**
   - “They are not thinking of the common shareholders; they’re just thinking in terms of the preferred shareholders. So even though they have a direct conflict of interest and a direct duty of care and loyalty to common shareholders, they really could care less about the common shareholders.” (CEO-Chair, Turnberry)

2. **Hope and Shared Vision**
   - “It was a function of not having a strategic objective, at least as a board. They (the preferred shareholders) were not interested in sitting down and crafting a direction for the entire board. As a result it did not function very well.” (CEO and Chair, Turnberry)

3. **Alignment Around Strategy**
   - “[T]hose people that remain on the board today still, after 40 years, really don’t have any fundamental understanding of the company.” (CEO-Director, Sawgrass)

4. **Board’s Role**
   - “The CEO, who was also the chair, chose to advise the board on matters when and if he felt compelled to do so. Whenever there was resistance he would yell louder until the board backed down.” (Director, En-Joe)

5. **Intra-Board Respect**
   - “It was argumentative and disrespectful from the very beginning. Egos were on the table on the part of some of the board members from the very, very start.” (Independent Director, Potomac)

6. **CEO-Board Trust**
   - “You would have thought the guy (the CEO) was a dirt bag that just crawled out of the gutter, listening to them (selected members of the board – including the chair) talk. No respect for him whatsoever.” (Independent Director, Potomac)

7. **Facilitation Skills**
   - “The CEO, who was also the chair, chose to advise the board on matters when and if he felt compelled to do so. Whenever there was resistance he would yell louder until the board backed down.” (Director, En-Joe)

8. **Organizational Awareness**
   - “It was argumentative and disrespectful from the very beginning. Egos were on the table on the part of some of the board members from the very, very start.” (Independent Director, Potomac)

9. **Relationship with CEO**
   - “You would have thought the guy (the CEO) was a dirt bag that just crawled out of the gutter, listening to them (selected members of the board – including the chair) talk. No respect for him whatsoever.” (Independent Director, Potomac)
Findings

This study asks, ‘What are the conditions - beyond structure and composition – that are most likely to influence the decision-making style a board is likely to adopt?’ From this analysis it became apparent that patterns of behavior developed in the eight organizations (see Figure 8.). As posited by Dean and Sharfman (1996), the boards in the study demonstrated procedural rationality and political behaviors as two independent constructs. While some level of procedural rationality and political behaviors were evident in all of the companies, a predominant strategic decision-making style tended to emerge within each company. These styles were labeled Engaged, Polarized and Mediated.

FIGURE 8
Board Decision-Making Typology
In attempting to understand the differences associated with these decision-making styles, analysis yielded three prevailing aggregated themes: ‘Unified Corporate Purpose’, ‘Balanced Power Relationships’ and ‘Board Chair Leadership Skills’. Before describing the emergent framework in greater detail, I begin by providing a more detailed description of the boards that comprise each quadrant of the strategic decision-making style topology.

**Defining the Predominant Strategic Decision-Making Style**

*Engaged boards.* Three of the boards in the study - Las Colinas, Burning Tree and Columbia – display a strong commitment to procedural rationality as a decision-making style. I labeled these boards as Engaged. Members of these boards demonstrate a strong commitment and involvement in the governance processes as well as the strategic direction of the company. Deliberations around strategic decisions include open discussions, vigorous debates and analysis of alternatives.

Board members from this group define an effective strategic decision primarily by the attributes of the process utilized to reach a collective decision. While this group referenced outcome when discussing effective strategic decisions, their focus was on the process preceding the decision. Prominent in their narratives were terms such as “process driven”, “deliberate”, “thorough”, “collaborative” and “consensus.”

Additionally, these boards tend to bring strategic decisions to closure by converging as a group on the final decision outcome. Rather than ceasing board deliberations when there is majority support for a particular position, these boards tend to work issues until all board members are at least comfortable with the final decision of the board. As one informant explained:
“And I think (the chair) was savvy enough to kind of convince the CEO that if he doesn’t get the board comfortable, it’s not gonna happen. And so he has to kind of really open up and talk and communicate and deal with our concerns in an honest way. And I think the fact there was a separate chairman really helped.”

**Mediated boards.** Like Engaged boards, Mediated boards – of which there were two in this study, Turnberry and Congressional - also demonstrate high levels of procedural rationality. In evaluating a strategic acquisition, the chair of Congressional explained the process this way:

“The CEO did the analysis. He did a good job on the analysis. Then we hired (an investment banker), who gave us a study on the (XXX) business. So over six months we got to know what the business was like. And after about three meetings of discussions we got excited about it and said “Let’s spend the money.””

However, Mediated boards differ from Engaged boards in that the divergent interests of the board members necessitate that the chair exhibit political behaviors in order to maintain functional decision-making processes within the boardroom. This is shown in another example provided by the Congressional chairman:

“I know where the power on the board is. There’s usually one leader, the alpha dog… And then two or three that are right below that level. That group is the influence on the board. The way they go, so goes the rest of the board, at least on every board I’ve ever been on.

It was clear on the (Congressional) board that the power on the board was (the chair), and just below (the chair) was (two other board members). So that was the influence of the board. So I knew if I had them, (the other director) would do anything I say ‘cause I brought him on the board and he was a rookie director.

I always knew I had all the votes I wanted, but (the founder) is the company, so I had to make sure he was onboard.

(Two board members) used to meet with the CEO all the time. And they said, “Look, this is going nowhere and we’re losing a lot of money.” And I asked, “What do you think?” And they said, “We ought to get out of the
(XXX) business.” This was a week before the board meeting. I said, “All right, let me call (another board member).”

So four of us were solid in our position, we wanted to get out of the business quick. So the board meeting came up. We had the solid block of the four of us. (The founder), at this point, was really adamant that we were spending way too much money, so he supported us too. So we had the votes. And we did it. We pulled the plug that day.”

As evidenced by this example and consistent with highly political processes (Eisenhardt & Bourgeois, 1988), Mediated boards tend to bring strategic decisions to closure once it is clear there is majority support amongst the board members for a decision. Once a vote is called, the majority decision rules and minority board members are left with no choice but to accept the decision.

**Polarized boards.** Three of the boards in the study, Potomac, En-Joie and Sawgrass converge around a decision-making profile labeled as Polarized. Rather than displaying a commitment to procedural rationality, these boards tend to exhibit the decision-making characteristics associated with highly political processes as outlined in Eisenhardt and Bourgeois (1988). While it is recognize that political activity is a reality in most decision-making processes, Polarized boards tend to exhibit an excess of these activities, making politics a normal part of their decision-making processes and thereby driving out the implementation of rational decision-making processes. Behind the scenes coalition building, off-line lobbying, withholding of information, attempting to change decision positions through private co-optation and controlling agendas are all behaviors common to Polarized boards. Another significant difference between the political behaviors exhibited by Polarized boards as compared to Mediated boards is that the political behaviors of Polarized boards tend to be motivated by self-interest rather than the collective interests of the organization.
One independent director expressed the process and behaviors within Potomac as follows:

“When the decision was made to separate the CEO, the meeting that had been called was not called for that issue. It was called to look at a potential buyer of the company, but then the chairman brought up the issue of wanting to separate the chairman. My feeling was that it was a ruse to get us to a board meeting, and the decision was pre-made. There was no real open discussion of the pros and cons of separating the CEO. The chairman was going through the motions and had already lined up the votes he needed to move the issue in the direction he wanted to take it. He could control the board. That’s what he did.”

Similar to Mediated boards, members of Polarized boards are less interested in achieving a consensus on each decision and tend to describe an effective board level strategic decision using terms such as “efficiency”, “majority vote”, and “fait accompli.”

As one Executive Chair and CEO noted:

“I did not fully communicate (a strategic decision) to the board. But it was a very effective decision – a very efficient decision - but done very ineffectively. And it caused me to reconsider and sober up about the fact that this board is here to give advice and not just to rubber stamp my stuff. It changed the relationship between my board and me. Still if I were to do it again, I would make sure we came to the same decision outcome.”

I labeled high political behavior – low procedural rationality boards as Polarized due to the high level of affective conflict that existed between factions within each of the boards as well as between the board and the management team. This conflict is expressed in the comments of the Potomac CEO:

“It was so apparent that their (a clear faction within the board) interests were not in the best interest of shareholders. It was very clear. There existed the biggest no trust whatsoever between the management, and particularly, the oversight committee. It was so transparent what they were trying to do. They weren’t trying to help the company.

The management team felt like they weren’t being supported. Several of them approached me about leaving, and I said, “That’s the wrong thing to
do. You’ll just turn over the keys to the kingdom. Stay and fight it out until you get to the point where you absolutely can’t do it anymore.”

It was dysfunctional. The communication between (the chair) and I almost didn’t exist. We weren’t communicating. If I provided him information, he would turn it around and use it against me. I got in the mode of protect.”

**Contrasting Engaged and Polarized Decision-Making Styles**

The analysis begins by contrasting the decision-making styles associated with Engaged and Polarized boards, since they exhibit the extreme cases in the study. I later bring in Mediated boards to demonstrate the board chair’s impact on decision making.

**Creating a Unified Corporate Purpose**

While board structure and composition, specifically through board structural independence, have been offered as key attributes necessary for open discussions, debate, and collaboration within the boardroom (Forbes & Milliken, 1999), the evidence from this study suggests that alignment around a set of attributes I aggregate and call a ‘Unified Corporate Purpose’ suggests a more comprehensive view. The concept of a Unified Corporate Purpose as a differentiator in strategic decision-making style is supported by four second order themes which emerged from the study – agency perspective, hope and shared vision, alignment around the corporate strategy and alignment around the role of the board.

*Agency perspective.* Notable amongst the board members of Engaged boards was their focus on representing the interests of the company. Rather than align themselves to a particular constituency or stakeholder interest, these directors spoke of their allegiance being to the success of the company.
Some members of Polarized boards differed from Engaged board members in that they often viewed their role as representing the interests of a particular constituency. In many instances their allegiance – consistent with agency theory – was aligned to the shareholders; though they acted in the best interests of a particular coalition of shareholders. This was particularly evident at Potomac where members attained their directorships through a proxy fight driven by minority shareholders. This perspective is demonstrated in the comment below:

“We had new Board members come in, four of whom had an association with a company that we had recognized for about a year and a half was interested in taking over (the Company). They had enough shares that they could, by proxy, get them on the Board. From that point on, regardless of the efforts on the part of other board members to try to build a team, we could not be successful.” (Director, Potomac)

**Hope and shared vision.** The body of work on emotional intelligence and leadership (Boyatzis & McKee, 2005; Goleman, Boyatzis, & McKee, 2002) demonstrates an important link between effective organizations and their sense of hopefulness for the future. Grounded in positive organizational psychology, hope is derived from an integrated sense of being able to clearly articulate goals that are believed to be attainable and the development of a plan to meet those goals; all coupled with the sense of well-being associated from this process (Snyder, 2002). Shared vision is inextricably linked to hope in that it provides the organizational level dreams necessary to inspire hope. Unlike rote strategic visions and the subsequent plans that flow from them, shared vision involves “the elements of heart and passion that are essential for building commitment” (Goleman et al., 2002: 208). In each of the cases associated with Engaged boards, it was
clear from the interviews that the CEO and the board had a strong shared vision for the strategic direction of the company.

This level of hope and shared vision translated to more than board / CEO alignment, but instead was better identified as attunement – “alignment with the kind of resonance that moves people emotionally as well as intellectually” (Goleman et al., 2002: 208). As one director of an Engaged board noted:

“We have a clear strategic plan that we are all – the board and management team - very excited about. We all know where the company is going. Everybody can understand the vision of what we’re trying to create here, and at the same time, as things are brought forward, they’re brought in the context of the strategic vision for the company – one that we are all passionate about, and committed to achieving.” (Director, Columbia)

Board members of Polarized boards, on the other hand, did not exhibit the same level of emotional attachment and commitment to a vision for the company. As exemplified by the comment provided by the Sawgrass CEO, there is clearly dissonance around the future direction of the company amongst factions within the board.

“(B)ecause what we do is engineering solutions, and they’re so complex and they’re outside of the background and experience of the board members that founded this company, they have no – it’s like it grows away from them and they have no ability to really understand it.

So if you don’t understand something, it’s very difficult to contribute to guiding it. And I think that goes back to when this company was really almost bankrupt, that was the driver behind it. It was something they didn’t understand.”

**Alignment around a corporate strategy.** Engaged boards were very involved in working with management to define, set and implement the strategic direction of the company. These boards participated in ways that were consistent with what McNulty and
Pettigrew (1999) referred to as “shaping of the content and context of the strategy.” The chairman of Burning Tree described his approach:

“What we need to do in there is eight people get together and ask the right questions, understanding the answers, and being able to sit with the CEO and his management team, put our feet up on the table, take our ties off, and dialogue with folks. Does this make sense? Have you thought about that? What about over here? That’s getting involved; that’s understanding. And clearly you then look for something more than mediocrity. You look for something more than growing a market, or if you can’t grow a market, at least now you can understand why.”

Polarized boards, on the other hand, participated in the strategic planning process with what McNulty and Pettigrew (1999) referred to as “taking strategic decisions.” Their involvement tended to come at the very end of the process when they had no ability to shape or influence the direction of the company. Instead they were expected to simply approve the plans as presented by the executive team. As one non-executive Chair described it:

“So while we were good at corporate compensation; we were good at corporate governance; we were good at auditing; we were good at finance; we were good at all these board functions out there, and we did great with Sarbanes-Oxley, by the way, we didn’t have a clue as to what it was that the company did. We pretty much left that up to the executive team.”

**Alignment around the role of the board.** Another significant difference between Engaged and Polarized boards is their alignment around the role of the board. Members of Engaged boards recognize the line between oversight and management. As such they are able to distance themselves from day to day management of the company – leaving that to the management team – but still able to intervene when they determine it to be necessary. Evidence of this was described by a director of Las Colinas:

“Today, I think the Board is focused on longer-term strategic issues. We’ve gotten away from the day-to-day operations. I think we had to
focus for a while on day-to-day operations because the company was missing too many of its forecasts. We were not making money; we were losing money. Management was somewhat misdirecting our attention and/or—frankly, my opinion was that management was not strong enough, there was not sufficient expertise in the company to properly manage and lead the company. The Board finally realized that and we replaced management; I think we made a good step forward, and I think we're now, as a Board, focused on what are the right long-term strategic directions for the company.”

As expressed by one non-executive director, the board of Potomac, typical of the other Polarized boards, was divided in their understanding of their role:

“From the very beginning, he (the chairman) was down into management’s business; he was trying to run the company. One of the ways that he tried to do that was to overwhelm management with these information requirements that made it very difficult for them to do their jobs, overloaded them, worked them seven days a week. It was "we and them" shouting and yelling and pointing and criticizing, and management was doing the best they could to provide the information, but I think the Chairman was going out of his way to make it so difficult on them that they could not do their jobs and answer his requirements at the same time.”

**Summary.** The evidence supports alignment around a Unified Corporate Purpose as an important theme in assuring the adoption of procedural rationality as the predominant strategic decision-making style within the boardroom. As a result, this leads to the following:

*Proposition 1A: The higher the level of Unified Corporate Purpose, the more likely boards are to adopt procedural rationality as a predominant strategic decision-making style.*

*Proposition 1B: The lower the level of Unified Corporate Purpose, the more likely boards are to adopt political behaviors as a predominant strategic decision-making style.*
Developing Balanced Power Relationships

Contrasting the power relationships found in Engaged and Polarized boards helped to identity two variables which seem to combine in explaining much of the observed differences associated with the development of balanced board power relationships both within the boardroom as well as between the board and CEO. Two traits emerged from the analysis to define Balanced Power Relationships; they were \textit{intra-boardroom respect and CEO/board member trust}.

\textbf{Intra-boardroom respect.} Sonnenfeld (2002) describes respect as the genesis of a virtuous cycle that drives quality strategic decision-making processes:

“Team members develop mutual respect; because they respect one another, they develop trust; because they trust one another they share difficult information; because they all have the same reasonably complete information, they can challenge one another’s conclusions coherently; because a spirited give and take becomes the norm, they learn to adjust their own interpretations in response to intelligent questions” (2002: 109).

In boardrooms we identified as Engaged, informants often spoke of the salient role respect played in their willingness to engage in quality strategic decision-making processes. Similarly, Polarized board members openly addressed the failure of all board members to feel respected and as a result they felt marginalized in the decision-making process. The two contrasting positions are exemplified by the following comments from board members of Engaged and Polarized boards:

“We had a really solid block and some tremendous people on the board. Nobody would buck that group ‘cause they had so much respect for it.” (Chair, Engaged Board)

“The two (board members) grew to hate each other. And they would scream and holler at each other at board meetings -‘You’re an xxx!’ - in the middle of board meetings. I’d have to stand up like a referee. It was absolutely horrible.” (Chair, Polarized Board)
To better understand what directors refer to when they speak of respect in the boardroom, we are informed by Cronin who asserts that “respect is always about feeling valued or important rather than marginalized or dismissed” and “At some level this feeling relates to one’s basic human dignity (Margolis, 2001; Rawls; 1971), yet it can also relate to one’s self standing in the peer group (Smith & Tyler, 1997)” (2010: 6). Essentially, respect is about the esteem or “sense of worth or excellence” that an individual feels.

The role of respect in board level strategic decision making has several important purposes. First of all as the problems that board members face become more abstract, with no clear answers, respect will allow board members to have the requisite faith to use the ideas of others in the face of uncertainty (Cronin, 2010). The linkage between high levels of performance in complex interactive tasks and interpersonal attraction among members of a group has been established in previous studies (Williams & O'Reilly, 1998). With increased board independence, board members are more geographically diverse and therefore do not share strong social ties with other directors, nor do they have the requisite face time needed to develop high levels of trust, making this an even greater challenge. Secondly, as board members continue to represent more diverse backgrounds and skill levels, respect will be necessary to bridge the gaps of understanding. Finally, since cognitive conflict is a necessary part of high quality decision-making processes, respect should serve to diminish the negative feelings that can arise during debate and discussion (Allred, 1999). The mechanisms through which respect will do this are by first of all ensuring appropriate behaviors towards each member of the group, but also by granting to those who you respect the “right” to challenge you, thereby minimizing
affective conflict that could unleash dysfunctional conflict spirals (Lovelace, Shapiro, and Weingart, 2001).

**CEO/Board member trust.** As described above by Sonnenfeld, respect leads to trust; another critical behavior for quality decision-making processes. The intertwined complexity of trust and governance has been addressed in extant research (Puranam & Vanneste, 2009). Scholars have also argued that trust is at the heart of one of the key paradoxes associated with the role of the board: the necessity to embrace the simultaneous need for control and collaboration (Demb & Neubauer, 1992; Sundaramurthy & Lewis, 2003). One informant captured the essence of this paradox:

“(T)rust plays an important role, but I think it’s a two-tier concept in my mind. Almost entirely, the reason why you have a board is because there’s a lack of trust, in some sense. The role of the board is oversight. So at that level you should have a freedom to express lack of trust in somebody’s proposal, challenge it, and all that stuff. But you need to also have ‘big T’ trust in the board so when you express something like that people are not going to question your motives or you feel inhibited that somebody will think that you’re not a loyal board member.”

Mayer, Davis and Schoorman define trust as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (1995: 709). While the importance of trust in board relationships is understood, there has been limited empirical research on the subject. An exception (Huse & Zattoni, 2008) investigated the role of trust in a setting of small to medium enterprises (SME) and determined that different types of trust, driven by phases in a firm’s life cycle drove differing board empowerment levels. Another study (van Ees,
van der Laan, & Postma, 2009) found support for trust as a moderator between board decision-making processes and task outcomes.

The examples listed in Table 3 are representative of the trust or the lack of trust in the interactions that occurred between the CEO and various board members. The importance of trust between the CEO and the board takes on special significance because of the unique information asymmetry that exists between the two parties. The primary source of information for a board member is the top management team (TMT), and specifically the CEO of the company, who have significant control over available information. This information asymmetry can often be used by the CEO to control the power balance between the board and CEO.

**Summary.** The evidence in this study points to the importance of balanced power relationships as a critical component in driving procedural rationality within the boardroom. This seems to support the following:

*Proposition 2A: The more symmetrical the board power relationships both amongst board members and between the TMT and board, the more likely boards are to adopt procedural rationality as a predominant strategic decision-making style.*

*Proposition 2B: The more asymmetrical the board power relationships both amongst board members and between the TMT and board, the more likely boards are to adopt political behaviors as a predominant strategic decision-making style.*

**The Critical Role of Board Chair Leadership Skills**

The importance of the board chair in determining the decision-making style is evidenced by the following comment from an independent director of a Polarized board:

“Quite frankly, the Chairman drove the company to the bottom with his own personality and his own agenda, which was supported by three of the other Board members. Some to a lesser extent, some to a greater extent, but the fact of the matter is that he believed that as Chairman of the Board,
Contrasting this statement with the comments from the CEO of an Engaged board gives further credence to the important role that board leadership plays in strategic decision making:

“(The chair) takes the leadership role of not only managing the board meetings, but ensuring that not only during board meetings but in between board meetings there is an open and continuous flow of dialogue among the independent directors. He’s also the focal point of independent director interaction.

(The chair) recognizes the difference between managing and governing. He is very careful not to get into attempting to manage the company, but rather manage the board and the accountability and governance side of the equation. He and I meet periodically between board meetings. We typically spend a couple hours a month, aside from e-mail, voicemail, and telephone communication, which is both updates of what is going on in the company and formulating issues and discussions for future board meetings. (We) work the agenda together. (The chair) manages the meetings and the interaction among the committee chairmen.”

This study identifies three activities which embody the primary differences associated with effective and ineffective board leaders. These include: facilitation skills, organizational awareness and the relationship with the CEO.

**Facilitation Skills.** A principal task of the board chair is the management of the board meeting. How the agenda is set and discussions are conducted has a significant impact on the conduct of decision-making processes. Our evidence shows that Engaged board chairs allow for considerably more open discussion and debate amongst all members of the board. As one independent director of Las Colinas commented: “We've
had meetings where everybody’s around the table, everybody has a chance to talk about it, everybody has expressed their views, and everyone, they knew what was going on, they had been briefed on it, and so when it came to the formalities, it was an automatic.”

Contrast that with the approach described by a director from a Polarized board, Potomac:

“The chair basically would discuss issues with members of the board on how he wanted issues to go at the board meeting. We were outside the circle of influence to the board. When it came to the agenda, we didn’t necessarily have a lot of input. We may have provided it, but it wasn’t necessarily listened to. At the board itself, when input was provided, it wouldn’t necessarily be heard. It may be heard, but it wasn’t listened to.”

Organizational awareness. Chairs in Engaged boards demonstrate an understanding of the interpersonal dynamics present within the board environment and work to mitigate potential issues. The evidence shows that Engaged board chairs allow for considerably more open discussion and resolution of issues. The following example describes the process used by an Engaged board:

“Clearly the chairman, who happens to be an independent chair in this case, realized that the board is not aligned and there are tensions.

He called me and said, “I see that you’re troubled. What’s going on?” So I explained to him that I’m worried that this is being pushed down our throats and I’m not sure that we are getting the best deal or not - from the CEO’s perspective he’s cashing out we might not be getting some sort of objective opinion and I don’t know that we are maximizing the shareholder value or if it is actually the right thing to do. And on the other hand I’m also concerned that if we say no these three guys (the executive team) can quit on us. Quit on us in the sense of not resigning literally but actually not do the work anymore, in which case the value of the company would be low. So we’re boxed in a little bit here.

And he said, “You’re not the only one.” He said, “I am also troubled, actually, personally.” So the two of us are the most troubled, there were four other board members who – independent board members who had said – who were less skeptical.

So we said, “Okay, we need to hash it out ourselves.” So the chair called a separate conference call just for the independent board members, and we
laid all our concerns on the table. We discussed it. And he went back to CEO and said, “You know, people don’t have any problem with the concept, but board members are worried about the process, how we came to this conclusion.”

**Relationship with the CEO.** The relationship between the CEO and chair in each of these cases played a critical part in our analysis. Each of the Engaged board chairs was independent, both structurally and in their mindset. In two of the three Engaged boards – Burning Tree and Columbia – the CEO of the company had been a non-executive independent board member of the company prior to assuming the role of the CEO. In each of these companies it was clear that the CEO had a firm understanding of the board’s role. Additionally, there were apparent strong relationships between the chairs and the CEOs.

At Las Colinas, the CEO had been an outside hire who joined the company just a little over one year ago. This was the CEO’s first time serving as a publicly-traded company CEO. The chair had considerable industry related experience as a successful public company CEO prior to joining the board. Five independent board members of Las Colinas averaged over 13 years of experience in the company and therefore had a strong understanding of the company, its personnel and markets. Additionally, for the six months prior to the hiring of the CEO, the Las Colinas independent Chair served in the capacity of acting CEO, gaining important insights into the operations of the company and its employees. As a result, for this first year the incoming CEO worked closely with the board chair gaining insights and support for carrying out his duties and responsibilities.
In contrast, the chairs of Polarized boards provided a different picture. While two boards, Potomac and En-Joie, had duality in their leadership structure, all three board chairs were entrenched; either through tenure in their role or in the case of the Potomac chair by a recent proxy fight. Additionally, within a year, the Potomac chair drove the board to fire the CEO, assuming the role himself. Typical of the dysfunction within Polarized boardrooms, one director commented:

“It was very frustrating trying to challenge the CEO. Whenever we met in executive session (without the Chair/CEO present) there was significant discontent raised by the directors regarding the CEO. However when we came together in the boardroom all of the directors immediately caved to whatever the CEO requested. In fact it had become a standing joke that we spent all of our board time on strategy - the strategy of how to provide the CEO with additional increases to his compensation package.”
(Director, En-Joie)

Understanding the Factors That Influence the Decision-Making Style of Mediated Boards

We turn our attention now to Mediated boards. These boards present an interesting case as the evidence shows that they have the same characteristics associated with Polarized boards – a lack of alignment around a Unified Corporate Purpose and asymmetric Board Power Relationships. Despite these characteristics, Mediated boards – unlike Polarized boards - demonstrate a strong inclination towards procedural rationality. Evidence indicates that the key differentiator between Mediated and Polarized boards is the quality of the board chair’s leadership skills.

Chair leadership at Congressional. The board chair at Congressional is a non-executive position with no significant entrenchment. His power comes from his reputation as a former director on a highly successful publicly traded growth company. As the founder and director of Congressional expressed it, “(The chair) is one of the guys
who did (a very large, publicly visible and successful public company offering). He’s a wheeler-dealer from way back when. We have really high quality; more than a company like ours deserves or maybe even needs.”

Probably more importantly, the chair is viewed as having no self-interest; he is focused entirely on the success of the company. As he stated - “I don’t kneel at the feet of the shareholder. I recognize my job is to represent them and the way you represent them is to make the company work. And the decisions I make are made to make the company work, not to make the shareholders happy in the short-term.” Consequently, when he deploys political behaviors it is perceived that they are done with the intent of creating an effective outcome for the company, not achieving a personal gain.

As described above in the description of Mediating boards’ decision-making processes, the Congressional chair is very sensitive to the human dynamics within the organization. His primary vehicle for an effective decision outcome is to manage the decision process, assuring that adequate voice and consideration have been given to all parties while insisting that decision closure is achieved in a satisfactory and efficient manner.

Chair leadership at Turnberry. While Turnberry represents the second Mediating board case, the circumstances are significantly different than at Congressional, though the decision-making style is similar. In the case of Turnberry, besides the CEO holding the dual title of chairman, he is also well entrenched, having served for thirteen years as both the CEO and chairman. Furthermore, a recent proxy battle allowed dissonant shareholders to assume seats on the board; however because of their status as preferred shareholders, they were not able to form a majority coalition on the board. As a
result, the Chair was able to personally select the other eight board members, retaining a majority (8 to 2) of the seats on the board. Consequently, the board fracture actually served to solidify the CEO power base.

The failure to align around a common corporate purpose is also extremely evident at Turnberry. As one director of Turnberry expressed it:

“I think most of the board is looking for this company to blossom. However, the preferred shareholder members - in my opinion - want the company to go bankrupt so that they can cash out as a result of their priority position in this company. They bring no value to the board and no value to the company, absolutely none.”

Like the chair of Congressional, the Turnberry CEO/Chair initiated a series of political behaviors in an effort to assure effective rational decision-making processes within the boardroom. However, instead of controlling the decision process, he focuses on process design and outcome control. Specifically, critical decision making is delegated down to the committee level where effective discussions and debates are conducted without the presence of the dissonant board members. They are excluded from participation in the committees as a result of their status as non-disinterested parties. Recommendations, after being fully vetted at the committee level and then tested with the remaining majority coalition, are then brought forward for a full vote of the board.

**Summary.** The evidence indicates the important role of the chair’s leadership skills both as a direct effect on the strategic decision-making style as well as in moderating the impact of decision-making styles within the boardroom. This leads to the following propositions:

*Proposition 3A:* The stronger the leadership skills of the board chair, the more likely boards are to adopt procedural rationality as a predominant strategic decision-making style.
Proposition 3B: The weaker the leadership skills of the board chair, the more likely boards are to adopt political behaviors as a predominant strategic decision-making style.

Proposition 3C: Board leadership positively moderates the relationship between both Unity of Corporate Purpose and Board Power Relationships with the board’s adoption of procedural rationality as a decision-making style.

Pulling together the findings for board level strategic decision making into a single framework results in the conceptual model provided in Figure 9.

FIGURE 9

Conceptual Model – Determinants of Board Level Decision-Making

Discussion

A rich body of literature is beginning to evolve to address the impact of behavior within and around the boardroom (e.g. Huse 2005, 2007, 2009a; LeBlanc & Gillies,
2005; McNulty, Pettigrew, Jobome, & Morris, 2011; van Ees et al., 2009) and this work adds to this research stream. I believe that the findings from this study provide a contribution to the understanding of board level strategic decision making in that they (1) provide deeper insights into our understanding of how boards engage in strategic decision-making processes; (2) identify two conditions – beyond structure and composition - for creating procedural rationality as a decision-making style within the boardroom; and (3) give support to the importance of the board chair in affecting strategic decision-making processes.

Theoretical Implications

As Roberts et al. (2005) argue, board structure and composition characteristics at best condition, rather than determine board effectiveness. Instead they suggest that the behavioral dynamics of the board, coupled with the group and interpersonal relationships between “outside” directors and executive team members have a far more reaching impact on the board’s ability to perform its tasks. Sonnenfeld expands on this thinking by identifying exemplary boards as “robust, effective social systems” (2002: 109). Nadler goes even further by stating that “better corporate governance lies in the working relationships between boards and managers (and) in the social dynamics of board interactions (2004: 102). In defining a framework for understanding the dynamism of relationships both inside and outside the boardroom, Huse (2005, 2007) addresses these concerns by highlighting the importance of the board’s “decision-making culture.” Our research provides support for these conclusions.

As we have seen from prior research, decision processes matter. More specifically, the chances of creating better decision outcomes increase when high quality
decisions, defined as procedural rationality, are adopted. A second finding in this study expands on the behavioral-based theory for boardroom decision making advanced by Forbes and Milliken (1999) that argues for addressing the importance of many of the behavioral characteristics required for implementing procedurally rational decision-making processes. Other researchers have, through empirical studies, explored the importance of these behavioral traits, especially trust (Huse & Zattoni, 2008; van Ees, van der Laan, & Postma, 2009) and board power (Golden & Zajac, 2001; McNulty et al., 2011; Pettigrew & McNulty, 1998; Wenstop, 2009). Where my research seeks to elaborate on their work is through the identification of two constructs—Unified Corporate Purpose and Balanced Power Relations—that I propose are critical for engaging in high quality board-level strategic decision-making processes.

A third contribution of this study, contrary to other studies on strategic decision making (e.g. Eisenhardt & Bourgeois, 1988; Dean & Sharfman, 1996), is support for the instrumentality of political behaviors in assuring more effective strategic decision making. As demonstrated by Mediated boards, political behaviors, appropriately applied and done in the interests of the collective organization rather than self-interests, can facilitate, rather than suppress procedural rationality.

Finally, the findings contribute to the body of literature on board leadership. More directly, I find support for the claim that board leadership matters. This study provides support for the separation of the role of the chair from the CEO. All of the boards in this study implementing high procedural rationality and low political behaviors are comprised of independent chairs. Similarly, all of the boards demonstrating low procedural rationality and high political behaviors have chairs who are clearly conflicted. In the case
of the Mediated boards, the leadership skills – more particularly the facilitation skills - of the two board chairs appeared to provide the difference in assuring the adoption of procedural rationality as a strategic decision-making style.

**Advancing the Concept of Engaged Decision Making**

Much of the common thinking on boards of directors projects them as rational decision-making bodies, little influenced by the dynamics normally associated with other corporate groups. Behavioral research studies of boards of directors serve to diminish this view. Still it is another significant leap to extend this view of board members as passionate and emotionally engaged decision-makers. The findings related to Engaged boards provide support for this view. To understand this better it is important to examine the integrative nature of Engaged board behavior that emerges from this analysis. By doing so we begin to see how this creates attunement between the board members and the company.

Beginning with selecting board members who bring both the required skills and capabilities to the company as well as a commitment to the long-term welfare of the entire company rather than a limited shareholder or parochial constituent perspective helps to support higher levels of respect and trust with both other board members and the executive team. As a result, these boards tend to become more involved in the companies for which they serve; partly because of their own inclinations but also because with a higher level of trust – driven by both behaviors and competencies - the CEO supports and encourages collaboration between the board and the executive team. This results in a deeper understanding of the company, its personnel and the marketplace. It also fosters stronger relationships amongst board members and between board members and the
executive team. In turn, this leads to board members becoming more deeply involved in the strategic planning process of the company which gives them a deeper understanding of both the internal and external issues faced by the leadership of the company. This then qualifies board members to engage in strategic decision making in a manner that McNulty and Pettigrew (1999) refer to as “shaping the context and content of the strategic decision.”

By engaging board members deeply in the process of developing an ideal vision of the future – while at the same time also envisioning their personal involvement and interaction with the company – the board begins to create the elements for attunement between the company and its board (Goleman et al., 2002).

Limitations

These findings should be considered in light of several potential limitations. The research sample was small, non-random and focused on U. S. publicly traded (NASDAQ) companies and therefore not necessarily representative of all corporate boards of directors, particularly non-U.S. enterprises. Additionally, in capturing the decision-making style deployed in each case, sensitivity to the influence of context on the decision process could result in biases.

Research data were collected by conducting interviews with open-ended questions of critical incidences that examined both effective and ineffective strategic decision making within the board environment. The interviews relied on recollection of past actions and events and responses were thus subject to recall bias. Some recollections may have been incomplete or some “facts” recalled and redefined to fit present-day positions. Additionally there is a human tendency to reflect on one’s past actions in a “best light”
mode and informants may reconstruct events that align with their self-view (Pasupathi, 2001). This risk has been noted to be relevant particularly in strategy research which relies on retrospective data from strategic-level managers (Huber & Power, 1985). However, interviewing multiple informants within the same case who described the same or similar interactions served to mitigate this risk.

**Implications on Future Research and Practice**

The resulting empirical findings reveal that boards have significant and divergent approaches to engaging in strategic decision making. While there has been significant research on board level decision making, work examining the actual behavior of boards is still unusual and responds to calls to gain access to process data (Huse, 2009b; Pye & Pettigrew, 2005; Vigano et al., 2011). For researchers, this study provides an additional step in helping to clarify the complexities associated with board level decision-making processes. While this study suggests the impact of two factors - Unified Corporate Purpose and Balanced Power Relationships - on the adoption of board level strategic decision-making styles, further research is needed to verify these factors and associated items.

The study’s findings point to a continuing need for further research. Of special interest is the leadership role of the board chair in facilitating the strategic decision-making processes within the boardroom. Additionally, an expansion of this study to explore how strategic decision-making styles impact board task performance and ultimately firm performance would provide great benefit. A third area of exploration would be an examination of the individual competencies required for effective board membership.
For practitioners, the findings from this study point to the importance of selecting and evaluating board members; not only on their knowledge and skills, but also their behaviors and inclinations, in an effort to gain alignment around a Unified Corporate Purpose. Furthermore, the findings indicate a need to stress the importance of the chair’s leadership and facilitation skills as an important factor in establishing a boardroom climate that encourages respect and trust, while maintaining a stable and balanced board power structure. Finally, the study’s findings demonstrate the importance of aligning the interests of board members and management around a common definition of the purpose of the firm and the role of the board. Without that, the incentives for self-dealing and the subsequent political behaviors have the potential to escalate into a crisis of governance.
CHAPTER VI: STUDY TWO
BOARDROOM CLIMATE: UNDERSTANDING HOW IT IMPACTS BOARD LEVEL STRATEGIC DECISION MAKING

The first decade of the 21st century has seen more changes in corporate governance than any other period since the Great Depression of the 1930’s (New York Stock Exchange, 2010). During the past ten years, these dramatic changes in corporate governance have been driven by numerous corporate scandals and failures: from the collapse of the “tech bubble” in 2000 to corporate acts of malfeasance at Adelphia, Enron, Tyco and World Com in 2002 to the demise in 2008 of once great financial institutions such as Lehman Brothers and Bear Stearns at the wake of the financial crisis they partly created (Lorsch, Bower, Rose, & Srinivasan, 2009). With each new crisis, there has been a call for governance reform coupled with the emergence of new laws and regulations designed to strengthen the power of boards of directors relative to those of CEOs (Carter & Lorsch, 2004).

During this period, research on corporate governance has suggested that boardrooms are increasingly adopting the structural characteristics outlined by public reform initiatives, including increased independence of directors, separation of the CEO and chair roles and enhanced corporate oversight through strengthened committee structures; all with the apparent intention of exercising greater control over managerial decision making (Chhaochharia & Grinstein, 2007; McDonald & Westphal, 2010). Built upon agency theory, on the surface, these initiatives present an appealing approach for enhancing firm and board performance. Unfortunately, analyses of the prominent contributions on corporate governance point to inconclusive findings with respect to the

Recently, scholars have called for a new research agenda that places greater emphasis on behavioral characteristics of boards and the internal board processes used to reach strategic decisions (Gabrielsson & Huse, 2004; Pugliese, Zattoni, Huse, Van den Bosch, & Volberda, 2009; Roberts et al., 2005; Tuggle, Sirmon, Reutzel, & Bierman, 2010). This requires opening the “black box” within the boardroom in order to relate social psychological processes to board task performance. In other words, it invites scholars to look beyond board structural characteristics i.e. what boards actually look like, and instead focus on what boards actually do and their drivers.

Drawing on the process oriented perspective of Forbes and Milliken (1999), this study seeks to analyze features of board dynamics and their impact on board effectiveness. In this chapter I address this broad issue by considering the level and types of collaborative behavior engaged in by board members and executive management teams and to what extent they determine the level at which boards can function efficiently, effectively and ultimately successfully in their strategic decision-making role. Specifically I examine the impact of relationships between board members and the executive management team on the decision-making processes. Additionally, I also examine the role played by “respect” within the boardroom relative to its impact on decision-making processes. Informed by group dynamics, procedural justice and particularly the “group engagement model”, I propose a model outlining how organizational climate mediates the impact of board structural characteristics on decision-making processes (Tyler & Blader, 2000, 2003). The study’s main thesis is that
corporate boards whose members experience higher levels of respect and collaboration from both their colleagues and executive team members will engage in more effective decision-making processes which in turn will improve the board’s accountability.

A central contribution of this paper is that it is perhaps one of the first to incorporate the concept of respect within the boardroom as a critical element in effective decision making. The study’s research findings also provide support for the importance of collaboration between board members and executive management team members in achieving more effective strategic decision-making processes. Additionally I find strong support for the board chair’s expertise in driving better collaboration, higher levels of respect and ultimately better decision-making processes. For practitioners, the results give cause to re-examine the impact of agency theory and its emphasis on shaping effective control mechanisms. A central implication of this study is that governance reform should be directed at building not only independent board structures, but also boards that have the prerequisite skills and behaviors that support the creation of a boardroom climate that will engender both collaboration and respect.

The remainder of this chapter is organized as follows: In the following section I review the key literature on board decision-making processes, group dynamics, procedural justice and board accountability. Next I formulate the theoretical underpinnings of the model and define the key hypotheses. I then present the research methodology and the study sample. Next the results of the analysis are provided followed by a section that provides a discussion of the findings. I conclude by presenting the implications of this study for scholarly research on board behaviors and policies for board practice.
Literature Review and Hypotheses

The Board’s Role and Criteria for Effectiveness

In their seminal work, Berle and Means (2007), argue that stockholders have traded away their legal position of private ownership for the role of the claimant of the residual returns of the corporation. Separating ownership and control by placing decision-making authority in a central authority distinct from the shareholders - the board of directors - is what makes the large publicly traded corporation feasible (Bainbridge, 2008). Fama and Jensen described the board of directors as the “common apex of the decision control systems of organizations, large and small” (1983: 311). However, unlike other elite workgroups, such as the top management team (TMT), we have little insight into the unique contributions made by individual board members, let alone how those contributions are shaped to result in the collective contribution of the board as a whole.

There is little disagreement amongst scholars and practitioners regarding the two primary functions of the board of directors; control and service. In their control role, board members are expected to oversee the internal controls and management of the company, set policy, review strategic initiatives, and also monitor and discipline management (Dalton et al., 2007; Fama & Jensen, 1983; Johnson, Daily, & Ellstrand, 1996). Agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) with its focus on agency control, places the board of directors at the center of corporate governance by giving it responsibility for monitoring and disciplining management. Consequently, this agency perspective has dominated governance studies (Daily et al., 2003; Shleifer & Vishny, 1997).
The other primary function of the board is its service role. Board members are expected to serve as advisors and counselors to the top management team, especially the CEO (Charan, 1998; McDonald & Westphal, 2003; Westphal, 1999). Additionally, board members may act as boundary spanners, linking the corporation to external resources and taking advantage of their interlocking relationships (Hillman & Dalziel, 2003; Kim, 2002; McDonald & Westphal, 2003; Pettigrew, 1992; Pfeffer, 1972; Price, 1963; Ruigrok, Peck, & Keller, 2006; Zald, 1969).

Much of the extant research on corporate boards focuses on two board characteristics ─ structure and composition (Roberts et al., 2005; Useem & Zelleke, 2006; Zahra & Pearce II, 1989). The former refers to size, committees, and the division of labor between the roles of the chairman and CEO and the latter to demographics and capabilities associated with the actual members of the board. These include such characteristics as the number of outside or non-executive directors, diversity of board members (ethnic, gender, education, functional skills, age, tenure, etc.) and equity holdings of the board members. Because agency theory has been the dominant theory in board research, common practice for researchers has been to use financial performance measurements as the primary dependent variables when considering the effectiveness of the board. Consequently, much of the research on board effectiveness has tested the relationships between board structure and composition and firm performance in terms of financial returns, as if the board structure and composition are primary determinants for effective boards (Finkelstein et al., 2009). This has resulted in a limited understanding of pivotal board processes that impact organizational outcomes since actual activities and
behaviors that go on within the boardroom occur in somewhat of a “black box”, (Daily et al., 2003; Finkelstein et al., 2009; LeBlanc & Schwartz, 2007; Useem & Zelleke, 2006).

More recently, researchers have made significant efforts to move closer to the phenomenon. For example, Leblanc and Gillies (2005) examined the strategic decision-making processes within more than thirty boards. Their data, indicating that strategic decision-making processes are greatly influenced by the behavioral characteristics of individual directors, motivated a prescriptive model linking the competencies and behaviors of individual directors to the strategy of the company. In a separate study, an analysis of hundreds of board transcripts provided a better understanding of how board members performed their control and monitoring role (Tuggle et al., 2010).

In an effort to understand boards of directors as effective strategic decision-making groups, Forbes and Milliken (1999), developed a model of board processes that integrated the literature on boards of directors with the literature on group dynamics and workgroup effectiveness. Their model highlights the complexities of board dynamics and the importance of socio-psychological processes in understanding the effectiveness of the board’s strategic decision making processes. A critical component of their model is a review and consolidation of the unique board features that impact these processes. First of all boards are comprised of senior level and very experienced business executives who perform their role on a part-time basis while usually serving in a full-time executive capacity at another company. Secondly, while the members of the board are the apex of the decision control hierarchy within the company, they do not have responsibility for implementation or administration. Additionally, board members are expected to make strategic decisions in a consensual manner, with no member having any higher authority
than the others. Board members also meet episodically, often not more than 12 days per year. Finally, a majority of the board members are “outsiders” to the company and therefore have a limited flow of information relative to the workings of the company and management team for which they are expected to oversee and evaluate. As a consequence, it is easy to understand why the effectiveness of the board may be heavily impacted by the socio-psychological processes embedded within group dynamics. Said another way, board members are vulnerable to “process losses” (Steiner, 1972) and the difficulties associated with “partial inclusion” (Weick, 1979) as a result of their part-time roles.

As previously discussed, most of the governance literature takes financial performance of the firm to be the dependent variable when considering boards’ effectiveness. Taking a different approach, Forbes & Milliken suggest that measures tapping into board level behaviors are more appropriate. Specifically, they recommend defining the dependent variable as board task performance, which is the ability to effectively perform the board’s two primary functions; control and service. Integrating these two functions into a single measurement is consistent with previous studies on board accountability (Huse, 2005; Roberts, McNulty & Stiles, 2005) which distinguish between external and internal perspectives of accountability. External perspectives are often contextual and driven by special interests. In addition, they are primarily rooted in agency theory and deal with the creation of shareholder value and the board’s control function. The internal accountability perspective tends to deal with the service function of the board. Because agency theory is focused on monitoring and control, it has been argued (Daily et al., 2003; Eisenhardt, 1989a; Roberts et al., 2005) that it provides only a
partial view of corporate governance. Consequently, to understand the board’s role in internal accountability various alternative theories have been proposed. For example, stewardship theory (Davis et al., 1997) extends the board’s role to include collaboration and mentoring as well as strategy development (Shen, 2003). Additionally, resource dependence theory (Pfeffer & Salancik, 1978) is often used to understand the board’s role in boundary spanning.

In an effort to better understand the decision-making behaviors within the board, I have chosen to build upon the concepts presented by Tyler and Blader’s (2000; 2003) “group engagement model.” This model elaborates on the motivations of group members to cooperate and provide discretionary work effort in their role as individual group members.

**The Board as a Decision Making Group and Its Key Processes: A Conceptual Model**

By integrating the process driven decision-making model of Forbes and Milliken (1999) with the concept of group cooperation from Tyler and Blader (2000; 2003), we can formulate a conceptual model of board decision making that formulates the internal and external perspectives of board performance, Figure 10.

An important addition to the board decision-making model provided by Forbes and Milliken is the placement of board climate as an antecedent to the factors that characterize the decision processes of the board. Specifically I argue that board climate is comprised of two basic components: 1) the level of respect shown by each board member to each other; and 2) the amount of collaboration that exists between the TMT and the board members. I will next outline the key constructs of the model, related research and advance a set of hypotheses that guided the empirical study.
Factors Affecting Board Decision Making

The power of accountability of the board carries with it the power to decide. As a consequence, the more accountability is expected, the greater authority is vested in the group. Achieving the proper balance between accountability and authority is a difficult, but necessary task in corporate governance (Bainbridge, 2008). Said another way, corporate directors must be held accountable for the effectiveness of their decision-making processes. However, this standard of accountability can only be ensured by preserving the board’s decision-making authority from being trumped by management.

Driven by the desire to lower transaction costs, group decision making can occur in one of two ways: authoritative and consensus. Where groups have different interests and information, authority based decision processes tend to be deployed. On the other
hand, when the members of the group have identical information and alignment of their interests, consensus decision making is more appropriate (Arrow, 1974). Through statutory requirements, the board of directors is assumed to behave like a consensus driven decision-making group. No individual director has the authority to act on behalf of the corporation, only as a body of directors. Additionally, as the Modern Business Corporation Act puts it “directors may act only at a meeting, unless expressly authorized by statute” (Bainbridge, 2008: 77). Consequently, the structure of the corporation places a consensus based decision-making group, the board of directors, at the head of an authority based decision-making hierarchy, the management team. This emphasis on collective action at the board level is further elaborated by Forbes and Milliken: “the very existence of the board as an institution is rooted in the wise belief that the effective oversight of an organization exceeds the capabilities of any individual and that collective knowledge and deliberation are better suited to this task” (1999: 490).

The importance of consensus based decision making is also seen in the types of tasks that the board is called on to provide. Most board level decision making does not involve problems with a single correct solution. Research has shown that groups outperform even their best individual decision maker in abstract problem solving, especially with increased complexity of the problems (Hill, 1982). Additionally, consensus decision making provides an answer to the problem “who shall watch the watchers”, by replacing a single decision maker with a self-monitoring collective body influenced by peer pressure, reputational sanctions and social norms (Bainbridge, 2008).

As previously stated, consensus decision making requires both alignment of interests and identical information. When we combine these requirements with Forbes
and Milliken’s description of the complexities of board dynamics, the necessity for effective decision-making processes within the board environment becomes even more apparent. Processes are defined as the interactions of team members in making strategic decisions, including how they gather and share information, build knowledge, and make decisions (Carter & Lorsch, 2004). Forbes and Milliken provide us with three key processes that enable boards to achieve their full potential as strategic decision-making groups. These processes are effort norms, use of expertise and skills, and cognitive conflict.

**Effort Norms.** Effort norms refer to the extent to which directors are prepared and engaged in the board’s work. Preparation deals with the board’s efforts to review materials and perform additional research and analysis to better understand the issues presented before the board. Board engagement addresses the extent to which board members are actively involved in board meetings through their attentiveness and willingness to participate in discussions and debates. Because of the collective nature of boards, there is the potential for some directors to “free ride” on the efforts of other board members. The extent to which there are shared beliefs about the level of effort each board member is expected to contribute, the clearer are the board’s effort norms. Additionally, boards that take an internal perspective on board accountability will hold each other to a higher standard, which in turn should drive more effective board task performance. This leads us to the first hypothesis:

*Hypothesis 1. More intense board effort norms will be positively related to board task performance.*
**Use of expertise and skills.** The presence of relevant knowledge and skills is an input reflecting the underlying characteristics of board members and will be discussed later. Suffice it to say, the mere presence of expertise does not assure that it will be utilized effectively. The “use of expertise and skills” is a process by which the board assures that members are identified by skills and expertise, are placed into positions that will make best use of this expertise and they then share this expertise with other directors. An effective board requires the extraction and integration of knowledge through enabling internal processes (Zona & Zattoni, 2007).

*Hypothesis 2. Use of higher and more diverse expertise and skills will be positively related to board task performance.*

**Cognitive conflict.** Previous research has identified the capabilities of the group as well as the interaction process through which the group produces its decisions as the two principal antecedents for quality strategic decision making (Amason, 1996). Quality strategic decision making occurs when the individual members of the group bring their diverse set of skills, knowledge, abilities and perspectives to bear on the decision-making process (Bantel & Jackson, 1989). Studies have shown that diverse teams make more effective decisions (Bantel & Jackson, 1989; Murray, 1989). However, in addition to the skills and capabilities within the group, quality decision making also reflects how decisions get made. Amason stated that high quality decision making “is best realized through critical and investigative interaction processes in which team members identify, extract, and synthesize their perspectives to produce a decision” (1996: 124). This critical analysis is often required to mediate against individual cognitive biases; situations which occur when individuals inappropriately apply a decision heuristic when developing a decision (Bazerman, 2006). Bazerman (2006) also identifies a second set of influences
which affect our individual decision-making abilities, motivational and affective influences. These influences occur when “preoccupation with the transient goal or affective state lowers the overall benefit to the decision maker and is inconsistent with what the individual would prefer…when acting more reflectively” (Bazerman, 2006: 61). Again, through open communications and investigative interactions, boards of directors can reduce the impact of these behavioral biases in strategic decision making.

*Hypothesis 3. Higher levels of cognitive conflict will be positively related to board task performance.*

**Climate as an Antecedent to Board Decision-Making Processes**

Roberts, McNulty and Stiles (2005) argue that board structure and composition characteristics at best condition, rather than determine board effectiveness. Instead they suggest that the behavioral dynamics of the board, coupled with the group and interpersonal relationships between “outside” directors and executive team members have a far more reaching impact on the board’s ability to perform its tasks. Tyler and Blader (2000; 2003), building on the insights from procedural justice and the relational model of authority (Tyler & Lind, 1992), developed the group engagement model to provide a better understanding of the antecedents of cooperation in groups. We now review this model to gain better insight into how the board’s climate conditions the effectiveness of the strategic decision-making processes.

*Top management team (TMT) and board collaboration.* Scholars have identified a natural tension that exists between the board and the corporation’s TMT centered on finding the balance between the board’s control function and the necessity for collaboration with the TMT in performing its service tasks (Demb & Neubauer, 1992;
Sundaramurthy & Lewis, 2003). Using vigilance and discipline, the board in its control role can curb limitations. On the other hand, a collaborative approach will generate greater organizational motivation through cooperation and empowerment. While the fear is in embracing one approach at the expense of the other, resulting in a downward spiral in performance, the key is the ability to embrace both approaches to drive organizational adaptation and learning (Sundaramurthy & Lewis, 2003).

Based upon in-depth research interviews conducted with 40 UK directors as part of the Higgs Review, Roberts et al. (2005) identified into three couplets, the behaviors and attitudes necessary for outside directors to combine the elements of control and collaboration in an effort to create accountability in the boardroom. These couplets were defined as “engaged but non-executive”, “challenging but supportive”, and “independent but involved.” Based upon a foundation of trust and openness established between the outside directors and the TMT, Roberts, McNulty and Stiles explain the dynamic this way:

“Our research interviews pointed to the potential, within the UK unitary board for a positive dynamic of relationships between executives and non-executives (“outside directors” under US terminology) based on executive perceptions of the relevance and value of non-executive contributions. This encourages executives into a greater openness and trust, which in turn builds non-executive knowledge and confidence. By contrast, a negative dynamic is possible, in which executives come to resent or be frustrated by non-executive contributions that they perceive to be either ill-informed or inappropriate. This in turn can contribute to a dynamic of deteriorating board relationships, characterized by withholding of information and mistrust.” (Roberts et al., 2005: S12)

The issue of information asymmetry between the TMT and the outside directors is a recurring theme in board dynamics (e.g. Carter & Lorsch, 2004; Pearce II & Zahra, 1991; Zhang, 2008 ). One of the major arguments against the movement towards more
independent boards with greater outsider representation is the lack of industry and firm specific knowledge (Westphal, 1999). As a result, the necessity for board member and TMT collaboration is even more critical.

Arrow (1974) reminds us that one of the two critical requirements for effective consensus decision making processes is the necessity for all parties to be working off identical information. As a result, this leads us to the following hypotheses:

*Hypothesis 4a.* Higher levels of TMT and board member collaboration will be positively related to effort norms.

*Hypothesis 4b.* Higher levels of TMT and board member collaboration will be positively related to use of expertise and skills.

*Hypothesis 4c.* Higher levels of TMT and board member collaboration will be positively related to cognitive conflict.

**Intra-boardroom respect.** As part of a qualitative research analysis on board level strategic decision making, U. S. directors often commented on the requirement of respect as a key condition for effective strategic decision making (Bailey, Peck, & Perelli, 2010). As one CEO and director commented:

“How do we create that atmosphere where people feel compelled to say what is on their mind and open the dialogue and discussion? Respect for each other. I think we know each other pretty well. There are no cronies on the board, nobody that owes an allegiance to somebody else.” (Bailey, 2009: 28)

By contrast, a lack of respect can also create a negative dynamic where board processes become dysfunctional. Quoting one independent board member of a U. S. publicly traded company that eventually was forced to declare bankruptcy:

“It was argumentative and disrespectful from the very beginning. Egos were on the table on the part of some of the board members from the very, very start. People lied, people actually came to board meetings knowing
that what they were going to say was a lie, and they would say it anyhow.”
(Bailey, 2009: 28)

To better understand what these and other directors refer to when they speak of respect in the boardroom, we are informed by Cronin who asserts that “respect is always about feeling valued or important rather than marginalized or dismissed” and “(a)t some level this feeling relates to one’s basic human dignity (Margolis, 2001; Rawls, 1971), yet it can also relate to one’s self standing in the peer group (Smith & Tyler, 1997)” (2010: 6). Essentially, respect is about the esteem or “sense of worth or excellence” that an individual feels.

The role of respect in board level strategic decision making has several important purposes. First of all as the problems that board members face become more abstract, with no clear answers, respect will allow board members to have the requisite faith to use the ideas of others in the face of uncertainty (Cronin, 2010). The linkage between high levels of performance in complex interactive tasks and interpersonal attraction among members of a group has been established in previous studies (Williams & O'Reilly, 1998). With increased board independence, board members are more geographically diverse and therefore do not share strong social ties with other directors, nor do they have the requisite face time needed to develop high levels of trust, making this an even greater challenge. Secondly, as board members continue to represent more diverse backgrounds and skill levels, respect will be necessary to bridge the gaps of understanding. Finally, since cognitive conflict is a necessary part of the decision-making process, respect should serve to diminish the negative feelings that can arise during debate and discussion (Allred, 1999). The mechanisms through which respect will do this are by first of all
ensuring appropriate behaviors towards each member of the group, but also by granting to those who you respect the “right” to challenge you, thereby minimizing affective conflict that could unleash dysfunctional conflict spirals (Lovelace, Shapiro, & Weingart, 2001).

To further understand the linkage between board task performance and respect, we turn now to the research on procedural justice, and more specifically the group engagement model (Tyler & Blader, 2003). The objective of the group engagement model is to understand what shapes the relationships that people form with their groups. The group engagement model argues that the primary reason people engage themselves within groups is to create and maintain their identities. Specifically, by receiving favorable feedback from the group, the group member’s feelings of self-worth and well-being are enhanced, resulting in a higher likelihood that they will be internally motivated to engage in higher levels of cooperation as well as discretionary behaviors. Prior board studies have confirmed the linkage between identity and cooperation (Milton & Westphal, 2005).

The group engagement model distinguishes identity judgments into three aspects: pride, respect and identification. Pride is derived from the individual’s evaluation of the group’s status. Clearly boards of larger companies and/or companies who are outpacing their competitors will tend to manifest greater levels of pride. Respect on the other hand, is an individual’s assessment of their status within the group. This assessment can be derived by the committee positions and chair roles held by members. Additionally, the way members engage with each other in seeking out information and opinions can also play a role in the evaluation of one’s respect by the group. The social norms of
engagement and communications that are utilized by members of the board will help to shape the individual’s perceived levels of respect. Finally identification derives from both respect and pride, and is a reflection of the degree to which group members merge their sense of self and their judgments of their own self-worth with their assessments of the characteristics and status of the group (Tyler & Blader, 2000).

Based upon the role that respect plays in creating a more positive decision-making climate I hypothesize the following:

*Hypothesis 5a.* Higher levels of respect within the boardroom will be positively related to effort norms.

*Hypothesis 5b.* Higher levels of respect within the boardroom will be positively related to use of expertise and skills.

*Hypothesis 5c.* Higher levels of respect within the boardroom will be positively related to cognitive conflict.

Additionally, I hypothesize that the interaction between respect within the boardroom and TMT and board member collaboration will serve to enhance the strategic decision making processes within the boardroom. Therefore:

*Hypothesis 6a.* The interaction of higher levels of TMT and board member collaboration with respect within the boardroom will be positively related to the intensity of effort norms.

*Hypothesis 6b.* The interaction of higher levels of TMT and board member collaboration with respect within the boardroom will be positively related to higher use of expertise and skills.

*Hypothesis 6c.* The interaction of higher levels of TMT and board member collaboration with respect within the boardroom will be positively related to higher levels of cognitive conflict.
Board Characteristics and Demographics

Two critical inputs to the board’s decision-making processes are presence of relevant knowledge and skills and structural characteristics associated with board power.

**Board member knowledge and skills.** Forbes and Milliken (1999) characterize the most relevant knowledge and skills for boards as functional area knowledge and skills as well as firm-specific knowledge and skills. Functional area knowledge spans the breadth of business skills such as accounting, finance and information technology. Additionally, these skills include more specific domains that address how the firm interfaces with its environment. An example would be investor relations or law.

Firm specific skills deal with the detailed information about the company’s operations and the marketplace in which it serves. These skills address specific competitive and strategic areas and are especially relevant to the board’s service role.

Board member skills are an integral input into the perception of respect within the boardroom. Board members who bring to the board more accomplished skill levels will tend to have greater levels of respect. However, over time, the general climate of respect in the boardroom will determine how these skills are deployed and utilized. A similar relationship exists regarding board member knowledge and skills and TMT and board collaboration. While higher skills will condition the environment for collaboration, it will be the actual behaviors and board leadership that will ultimately allow the skills to be utilized. Therefore I hypothesize:

*Hypothesis 7a. The impact of higher levels of board member knowledge and skills on strategic decision process performance will be fully mediated by the level of respect within the boardroom.*
Hypothesis 7b. The impact of higher levels of board member knowledge and skills on strategic decision process performance of the board will be fully mediated by the level of TMT and board member collaboration.

**CEO/Board power.** This structural characteristic describes the relative power that the CEO enjoys as compared to that of the board. CEO duality – the CEO engaging in the role of the chairperson – has been the most common proxy for determining the CEO/Board power relationship. It has also been one of the most recent areas of debate and controversy regarding board performance (Daily & Dalton, 1997; Elsayed, 2007; Gabrielsson, Huse, & Minichilli, 2007; Pearce II & Zahra, 1991). Critics have argued that if one of the roles of the board is oversight, it is not practical to expect the CEO to objectively oversee the one organization that is responsible for monitoring the company he is charged with leading. On the other hand, those who support CEO duality argue that it sends a less confusing message to the market relative to alignment of the board and the management of the company.

As previously discussed, a critical dimension in strategic decision-making effectiveness is the amount of information available to the board member. The primary source of information for a board member is the TMT, and specifically the CEO of the company, who have significant control over available information. This information asymmetry is often used by the CEO to control the power balance between the board and CEO.

The paradox associated with increasing the board’s power relative to that of the CEO is that an ever increasing number of board members are outsiders, with little firm or industry specific experience, less access to information about the company, and far less time to get educated on the workings of the company (Carter & Lorsch, 2004). Another
characteristic associated with the increase in outsiders is that they have fewer and weaker ties to the CEO. While this may create greater independence, the downside is that it may also impede the flow of information from the CEO to the board members (Westphal, 1999). Westphal (1999) also showed that social independence resulted in less board involvement and lower firm performance due to a decrease in the frequency of advice and counsel interactions between CEOs and outside directors.

The board chair plays the dominate role in setting the climate within the board room, whether that position is filled by the CEO or an independent director. I argue that it is not the structural characteristics of this position but rather the behavioral characteristics and skills of the individual residing in the position that will determine the boardroom climate. Consequently, the chair’s own management skills and capabilities play the major role in affecting the performance of the board through the development of a climate of respect and inclusion. This leads us to the following hypothesis:

_Hypothesis 8. The level of CEO/board power as measured by structural characteristics, will have no impact on the strategic decision processes of the board._

**Research Design and Methods**

**Sample and Data Collection**

To test these hypotheses, I designed a psychometric survey methodology that allowed me to get at the underlying concepts associated with the conceptual model. Directors and CEOs of U.S. publicly traded companies constituted the population. The Corporate Director’s Group (CDG), a professional organization dedicated to the education and networking of corporate directors representing a cross section of publicly traded companies on the various U.S. stock exchanges, supported this research by
providing access to their database of members as well as distributing the surveys. All 970 CDG member directors were sent an electronic copy of the survey in September 2010. Responses came back over a 6 week period from 151 directors which represented 119 unique companies. The director response rate of 15.6% was consistent with comparable elite executive survey studies. A series of procedures, shown to enhance response rates amongst surveys of corporate elites were undertaken: (1) all respondents were assured of anonymity, both individually as well as for their company; (2) a cover letter explaining the practitioner and academic nature of the research project was included from the researchers; (3) an additional note from the President and Chairman of the CDG was included, outlining his personal support of this research and encouraging member responses; (4) two further waves of the survey were sent at two week intervals, reminding CDG members to respond; and (5) CDG members were advised that they would have access to the survey results and analysis upon completion of the study.

Additional archival data on board membership including biographical and demographic characteristics were obtained from a specialist data provider, BoardEx. Characteristics of the respondents are provided in Table 5.

After exclusion of cases with missing secondary data, as well as combining data responses from duplicate boards, the final sample was made up of 104 unique board responses. All duplicate responses for any single board were averaged together to create a single case.

The independence of the board membership for the respondents showed that the average board size was 8.7 members with a range between 4 and 19 members. Independent members represented on average 7.0 members of each board or 80% of all
board members. Of the final 104 boards included in the dataset, 103 (99.0%) of the boards had a majority of their members classified as independent. Only one board, with a total membership of 9 members had a majority (5 members) who were not classified as independent.

**Measurement and Instrument Development**

The model constructs as shown in Figure 9 were developed by adapting existing scales where possible. Ie followed the scale development procedures suggested by DeVellis (2003). The item pool was reviewed and modified based upon the literature review and formed an initial set of eighty-four items. This set of items was then reviewed in-depth through five one-on-one interviews with practitioners to refine the questions and to ensure that they were comprehensible, accurate and reflected the construct under consideration (Schriesheim C. A., Powers, Scandura, Gardiner, & Lankau, 1993). The next step in the process included a Q-sort analysis to assess validity of the construct items relative to each construct (Brown, 1993). This process was conducted with five practitioners. The result of these two steps resulted in a refinement of the questionnaire to fifty-eight items.

At this point, a pilot test was conducted with forty-eight directors who were assembled in a single room as part of a director education initiative. This pilot test was used to develop further validity of the constructs as well as to assess the clarity and acceptability of the survey instrument. An analysis of the pilot survey resulted in further reduction of the survey instrument to forty-three items and nine demographic questions. Citations as well as the items for each construct in the final survey questionnaire are summarized in Appendix B.
**Dependent variable: Board task performance.** Examining the board’s ability to perform both its control and service tasks, we primarily used the instruments developed by McNulty and Peck (2010), with adaptation to reflect the differences between UK and US companies.

**TABLE 4**
Respondent Characteristics

<table>
<thead>
<tr>
<th>INDUSTRY SECTOR</th>
<th># Responses</th>
<th>% Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEROSPACE / DEFENSE</td>
<td>23</td>
<td>15%</td>
</tr>
<tr>
<td>RETAIL</td>
<td>6</td>
<td>4%</td>
</tr>
<tr>
<td>MANUF. / MINING</td>
<td>15</td>
<td>10%</td>
</tr>
<tr>
<td>TRANSPORTATION</td>
<td>5</td>
<td>3%</td>
</tr>
<tr>
<td>HIGH TECHNOLOGY</td>
<td>55</td>
<td>36%</td>
</tr>
<tr>
<td>CONSUMER GOODS</td>
<td>11</td>
<td>7%</td>
</tr>
<tr>
<td>FINANCIAL SERVICES</td>
<td>13</td>
<td>9%</td>
</tr>
<tr>
<td>HEALTH SERVICES</td>
<td>8</td>
<td>5%</td>
</tr>
<tr>
<td>OTHER</td>
<td>15</td>
<td>10%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>151</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>REVENUES</th>
<th># Responses</th>
<th>% Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $100M</td>
<td>30</td>
<td>20%</td>
</tr>
<tr>
<td>$100M and $500M</td>
<td>68</td>
<td>45%</td>
</tr>
<tr>
<td>$500M to $1 Billion</td>
<td>17</td>
<td>11%</td>
</tr>
<tr>
<td>Greater than $1 Billion</td>
<td>36</td>
<td>24%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>151</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tenure as Public Company</th>
<th># Responses</th>
<th>% Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>30</td>
<td>20%</td>
</tr>
<tr>
<td>Between 5 and 10 years</td>
<td>68</td>
<td>45%</td>
</tr>
<tr>
<td>Between 10 and 30 years</td>
<td>17</td>
<td>11%</td>
</tr>
<tr>
<td>Greater than 30 years</td>
<td>36</td>
<td>24%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>151</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RESPONDENT’S POSITION</th>
<th># Responses</th>
<th>% Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman and CEO</td>
<td>6</td>
<td>4%</td>
</tr>
<tr>
<td>CEO and Director</td>
<td>5</td>
<td>3%</td>
</tr>
<tr>
<td>Non-Executive Chairman</td>
<td>9</td>
<td>6%</td>
</tr>
<tr>
<td>Independent Director</td>
<td>118</td>
<td>78%</td>
</tr>
<tr>
<td>Executive Director</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>151</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tenure of CEO</th>
<th># Responses</th>
<th>% Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 years</td>
<td>36</td>
<td>24%</td>
</tr>
<tr>
<td>Between 2 and 5 years</td>
<td>47</td>
<td>31%</td>
</tr>
<tr>
<td>Between 5 and 10 years</td>
<td>36</td>
<td>24%</td>
</tr>
<tr>
<td>Greater than 10 years</td>
<td>32</td>
<td>21%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>151</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CEO serves as Chair</th>
<th># Responses</th>
<th>% Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>62</td>
<td>41%</td>
</tr>
<tr>
<td>NO</td>
<td>89</td>
<td>59%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>151</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Independent variables. The items in the construct for “presence of expertise and skills” were derived from the work of McGrath, MacMillan, & Venkataraman, (1995), with adaptations based upon Forbes and Milliken (1999). CEO/Board power as a construct was built from demographic data consistent with Pearce and Zahra (1991). I examined boards in which CEO duality existed as well as the tenure of the CEO in his position. I created a dichotomous construct which defined CEO controlled boards as those in which the CEO was the chair and/or had five or more years of tenure in the position of CEO. I assigned a one (1) to boards with duality and a zero (0) for those with a separate chair. Similarly, boards whose CEO had five or more years of experience in the role received a one (1), otherwise a zero (0) was assigned. This is consistent with prior definitions of CEO / Board power in which the CEO develops an asymmetric advantage over the board based upon either position authority (chair) or knowledge of the firm (tenure).

The constructs for decision making represented the three constructs informed by Forbes and Milliken (1999): “use of expertise and skills”, “effort norms”, and “cognitive conflict.” The items for these constructs were consistent with McNulty and Peck (2010), adapting for the differences between UK and US companies. Board climate consisted of two constructs, “boardroom respect” and “TMT / Board member collaboration.” Building off the work of Cronin (2004) and Tyler and Blader (2000; 2003), we adapted their construct items to reflect more directly the environment in which boards function. The construct for collaboration was adapted from Westphal (1999) and informed by (Macus, 2005; 2008).
Control variables. We controlled for four additional factors. Recognizing that board practices are both contingency and context specific we have characterized the variables by firm specific and environmental specific. Firm specific variables include firm size and its tenure as a public company. Environmental specific variables are related to the industry and economic characteristics which include the industry in which the firm operates as well as the stability of the economic environment.

Company size was measured by the previous year’s revenues. It is recognized that company size has an impact on a board’s involvement (Forbes & Milliken, 1999). Larger companies typically have larger boards which have been shown to be negatively related to the board’s involvement (Judge Jr. & Zeithaml, 1992). Another firm level measurement was the amount of time that the company has been listed on a public exchange. Tenure as a public company often denotes stability and a more seasoned and firm specific knowledgeable board of directors (Forbes & Milliken, 1999; Judge Jr. & Zeithaml, 1992). Two additional control variables looked at the market environment of the company. Environmental dynamism was the respondents’ assessment of the stability of the business environment over the past three years. It has been argued that during periods of higher environmental dynamism the board will tend to play a more hands-on approach and will engage more often, particularly in its control function (Finkelstein et al., 2009). Additionally, each company was classified according to their industry classification. Prior studies have demonstrated that the level of managerial discretion and industry are related (Hambrick & Abrahamson, 1995). For example, high technology companies tend to have boards that are more engaged in strategy due to the degree of change associated with this industry (Forbes & Milliken, 1999).
Validity and Reliability

The dataset was initially analyzed using SPSS and AMOS to determine the validity and reliability of the constructs and measurement model. Independent t-tests were run at the measurement item level to determine if any significant differences existed between early and late respondents. This was done as a proxy for determining if there was any significant difference in responses from respondents and non-respondents. It was determined that no item showed any significant difference, giving us confidence that our sample size did not differ significantly because of non-response.

The dataset was also screened by a visual assessment. Missing values were not an issue because the on-line process forced responses on all items. Using SPSS, each item was assessed for normality, multicollinearity, homoscedasticity, and outliers. All data were also scrutinized for sampling error and measurement error.

An exploratory factor analysis (EFA) was conducted on the sampled dataset using principal axis factoring with Promax rotation. For all but two items, communalities exceeded the minimal acceptable threshold of .60 (Hair Jr., Black, Babin, & Anderson, 2010). These two items were eventually dropped from the dataset. Additionally, both the Kaiser-Meyer-Olkin (KMO) value of .940 and Bartlett’s Test of Sphericity (p = .000), were well within the acceptable threshold levels (KMO > .50 and p < .05) indicating the appropriateness of an EFA analysis. The EFA resulted in seven factors, consistent with the conceptual model (excluding the dichotomous construct for CEO/Board Power). The resulting pattern matrix had each item loading on its factor with a value greater than .50 and no cross-loadings of more than .30. The total variance explained by these seven factors totaled 75.1%. The final number of items represented by the seven factors, after
completion of the EFA analysis, was 27 items. Those items which were dropped from each construct are identified in Appendix B. Additionally, the reliability of each of the final seven factors was computed as shown in Appendix B and in all cases far exceeds the minimum acceptable reliability with Cronbach’s Alpha > .70 (Nunnally & Bernstein, 1994). Table 5 provides the descriptive statistics and factor correlation table for the final factors.

**TABLE 5**
Descriptive Statistics and Factor Correlations

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respect</td>
<td>3.8673</td>
<td>0.87127</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td>4.0401</td>
<td>0.61645</td>
<td>0.628</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conflict</td>
<td>4.1495</td>
<td>0.79046</td>
<td>0.695</td>
<td>0.688</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collaboration</td>
<td>3.7262</td>
<td>0.84518</td>
<td>0.62</td>
<td>0.618</td>
<td>0.736</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of Exp.</td>
<td>3.8499</td>
<td>0.71248</td>
<td>0.519</td>
<td>0.501</td>
<td>0.645</td>
<td>0.611</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expertise</td>
<td>3.8087</td>
<td>0.63405</td>
<td>0.594</td>
<td>0.585</td>
<td>0.579</td>
<td>0.557</td>
<td>0.422</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Effort Norms</td>
<td>4.1501</td>
<td>0.85708</td>
<td>0.617</td>
<td>0.532</td>
<td>0.557</td>
<td>0.435</td>
<td>0.371</td>
<td>0.448</td>
<td>1</td>
</tr>
</tbody>
</table>

N = 104

I carried out a confirmatory factor analysis (CFA) to validate the derived factor structure. The measurement model was constructed incorporating each construct and associated items. The model was further trimmed and appropriate covariance relationships were added when theoretically justified (Byrne, 2010). The overall fit for the model is good, as represented: CMIN/DF = 1.539, CFI = .959, RMSEA .060 (LO = .049, HI = .071, PCLOSE = .067).

The composite reliability (CR) for each construct is provided in Table 7 and the CR values are all within the acceptable threshold levels (> .70), confirming the theorized construct structure. Also convergent validity with an average value extracted (AVE) > .5
is acceptable. For discriminate validity we show that for all constructs the maximum shared variance (MSV) and average shared variance (ASV) are less than the AVE (Fornell & Larker, 1981).

**TABLE 6**

Reliability and Validity Statistics

<table>
<thead>
<tr>
<th>Construct</th>
<th>CR</th>
<th>AVE</th>
<th>MSV</th>
<th>ASV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respect</td>
<td>0.96</td>
<td>0.79</td>
<td>0.54</td>
<td>0.24</td>
</tr>
<tr>
<td>Conflict</td>
<td>0.93</td>
<td>0.76</td>
<td>0.45</td>
<td>0.27</td>
</tr>
<tr>
<td>Collaboration</td>
<td>0.88</td>
<td>0.71</td>
<td>0.4</td>
<td>0.26</td>
</tr>
<tr>
<td>Use of Exp.</td>
<td>0.84</td>
<td>0.73</td>
<td>0.2</td>
<td>0.13</td>
</tr>
<tr>
<td>Expertise</td>
<td>0.93</td>
<td>0.87</td>
<td>0.17</td>
<td>0.13</td>
</tr>
<tr>
<td>Effort</td>
<td>0.83</td>
<td>0.71</td>
<td>0.54</td>
<td>0.3</td>
</tr>
<tr>
<td>Performance</td>
<td>0.89</td>
<td>0.54</td>
<td>0.14</td>
<td>0.08</td>
</tr>
</tbody>
</table>

Common method bias (CMB) was analyzed, especially in light of the use of a single key informant and single method for both the independent and dependent variables. Common Method Variance (CMV) creates a variance bias that is “attributable to the measurement method rather than to the constructs the measures represent” (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). While there is some dispute relative to the degree of the problem relating to CMB with even some researchers declaring it an “urban legend” (Spector, 2006), we deployed several ex-ante and ex-post strategies to reduce concern for CMB. We provided confidentiality for both respondents and the firm. We mixed questions so that the respondents could not get any relational sense to the constructs. Also included were some fact based items in the survey instrument, in lieu of opinion based questions. Ex-post, Harmon’s one factor test was conducted. The underlying assumption of this test is that if a substantial amount of the common method variance exists in the data, either a single factor will emerge or one general factor will
account for the majority of the variance among the variance. This factor analysis yielded 6 factors accounting for 78% of the variance and the first factor accounting for 50%. While marginal, it is acceptable. Running the more rigorous common marker analysis, we ended up with 24% variance. No items were dropped as a conclusion of the CFA.

**Structural Model**

The next step was to conduct a structural analysis on the hypothesized causal model, using the constructs and items from the CFA analyses. I used AMOS for two reasons: First AMOS is useful in studying models with latent variables and measurement errors. Second, AMOS is an effective tool for testing complex simultaneous equations. The AMOS model is used to construct the structural model and establish its validity. The final trimmed model was developed by reducing insignificant paths, adjusting modification indices and adding covariance paths where there was theoretical justification (see Appendix C). Data supported this model with an exceptionally good fit: $\text{CMIN/DF} = 1.154$, $\text{CFI} = .994$, $\text{SRMR} = .0410$, $\text{RMSEA} = .039$, ($\text{LO} = .000$, $\text{HI} = .097$, $\text{PCLOSE} = .569$).

**Findings**

The SEM analysis demonstrated for the presence of direct, mediation and moderation effects, as hypothesized. They are summarized in Table 8. I evaluated the mediation hypotheses (H7A, H7B and H8) following Baron and Kenny (1986) as calculated through AMOS. The total, indirect and direct effects are provided in Appendix D. Statistical significance of mediation was determined through the Sobel test (Soper, 2010). All mediation effects were determined to be significant. These results are also provided in Appendix D.
TABLE 7
Summary of Tests on Hypothesized Relationships

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Supported?</th>
<th>Estimate</th>
<th>p value</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: More intense board effort norms will be positively related to board task performance</td>
<td>YES</td>
<td>0.201</td>
<td>0.012</td>
</tr>
<tr>
<td>H2: Use of higher and more diverse expertise and skills will be positively related to board task performance</td>
<td>NO</td>
<td>xxx</td>
<td>n. s.</td>
</tr>
<tr>
<td>H3: Higher levels of cognitive conflict will be positively related to board task performance</td>
<td>YES</td>
<td>0.38</td>
<td>***</td>
</tr>
<tr>
<td>H4a: Higher levels of TMT and board member collaboration will be positively related to effort norms</td>
<td>YES</td>
<td>0.178</td>
<td>0.049</td>
</tr>
<tr>
<td>H4b: Higher levels of TMT and board member collaboration will be positively related to use of expertise and skills</td>
<td>YES</td>
<td>0.304</td>
<td>0.003</td>
</tr>
<tr>
<td>H4c: Higher levels of TMT and board member collaboration will be positively related to cognitive conflict</td>
<td>YES</td>
<td>0.261</td>
<td>***</td>
</tr>
<tr>
<td>H5a: Higher levels of respect within the boardroom will be positively related to effort norms</td>
<td>YES</td>
<td>0.576</td>
<td>***</td>
</tr>
<tr>
<td>H5b: Higher levels of respect within the boardroom will be positively related to use of expertise and skills</td>
<td>NO</td>
<td>xxx</td>
<td>n. s.</td>
</tr>
<tr>
<td>H5c: Higher levels of respect within the boardroom will be positively related to cognitive conflict</td>
<td>YES</td>
<td>0.474</td>
<td>***</td>
</tr>
<tr>
<td>H6a: The interaction of higher levels of TMT and board member collaboration with respect within the boardroom will be positively related to the intensity of effort norms</td>
<td>NO</td>
<td>xxx</td>
<td>n. s.</td>
</tr>
<tr>
<td>H6b: The interaction of higher levels of TMT and board member collaboration with respect within the boardroom will be positively related to higher use of expertise and skills</td>
<td>YES</td>
<td>See Plots</td>
<td>***</td>
</tr>
<tr>
<td>H6c: The interaction of higher levels of TMT and board member collaboration with respect within the boardroom will be positively related to higher levels of cognitive conflict</td>
<td>YES</td>
<td>See Plots</td>
<td>0.005</td>
</tr>
<tr>
<td>H7a: The impact of higher levels of knowledge and skills on strategic decision process performance will be fully mediated by the level of respect within the boardroom</td>
<td>YES</td>
<td>Various</td>
<td>***</td>
</tr>
<tr>
<td>H7b: The impact of higher levels of knowledge and skills on strategic decision process performance will be fully mediated by TMT and board member collaboration</td>
<td>YES</td>
<td>Various</td>
<td>***</td>
</tr>
<tr>
<td>H8: The level of CEO/board power will have no impact on the strategic decision processes of the board</td>
<td>YES</td>
<td>xxx</td>
<td>n. s.</td>
</tr>
</tbody>
</table>

Of the fifteen hypothesized relationships, twelve were supported. As predicted, CEO/Board power (H8) was not supported as having any impact on the decision-making processes – direct or indirect. Support for the impact of board knowledge and skills was fully mediated by TMT and board member collaboration on all three decision-making processes (H7b). The impact of board knowledge and skills on both effort norms and cognitive conflict was found to be fully mediated by respect (H7a). There was no support found for the mediation effect of board skills on the use of expertise. The impact of the
decision processes - cognitive conflict and effort norms (H1 and H3), was found to be significant on board task performance. However the hypothesis - the use of expertise would positively impact board task performance (H2) - was not supported.

The direct effects of both boardroom respect and Board/TMT collaboration having a positive impact on the three decision processes (H4a,b,c and H5a, c) was fully supported with the exception of the impact of respect on use of expertise (H5b), which had no support. The impact of the interaction of collaboration and respect on effort norms (H6a) was not supported. However there was support for the interaction effect on both use of expertise and cognitive conflict (H6b and H6c). The final structural model is provided in Figure 10 along with a representation of the significant paths.

**FIGURE 11**
Final Structural Model
Significant relationships were found regarding the interaction of the constructs for boardroom respect and TMT and board collaboration. There was no support for the impact of the interaction on effort norms. The interaction effect on the decision-making process, cognitive conflict, is graphed in Figure 11. As anticipated this interaction results in an amplifying effect. As shown by the support for hypothesis H4c, the greater the collaboration the greater the cognitive conflict. Similarly, the higher the levels of boardroom respect, the greater the cognitive conflict (H5c). However when both conditions exist, TMT and board collaboration as well as boardroom respect, the result is a positive impact that amplifies the effect on cognitive conflict.

**FIGURE 12**
Interaction Effect on Cognitive Conflict

As shown in Figure 12, respect negatively moderates the relationship of collaboration on use of expertise. For boards with higher levels of respect, collaboration will have less of an impact on the use of expertise when there is greater collaboration; and more of an impact when there is lower collaboration. Similarly, for boards with a
lower climate of respect, collaboration will have a greater impact on the use of expertise where there are higher levels of collaboration, but lower impact with low levels of collaboration.

**FIGURE 13**  
Interaction Effect on Use of Expertise

![Graph showing the interaction effect on use of expertise]

**Discussion**

Taken as a whole, the theory and findings presented in this study point to the basic conclusion that boardroom climate plays a critical role in the effectiveness of strategic decision making. Moreover, it is apparent that placing the primary focus of regulatory reform on structure and demographics is often misplaced. While these characteristics may serve as convenient proxies for the analysis of board performance, they do not begin to get at the nuanced and critical implications associated with the interactions of board members amongst themselves as well as with the TMT. Similarly from a research perspective, these findings support the premise that the inconclusive findings reached by board scholars deploying a structural and demographic approach to
board effectiveness is not surprising; the range of factors, intervening organizational climate as well as processes between boards and corporate performance make the modeling process subject to huge causal leaps of faith. It is suggested that it is board processes, conditioned by the board climate and structure that jointly serve a much larger role in determining board effectiveness.

Furthermore, the findings show that the shift towards more independent boards (103 of the 104 boards we studied had a majority of their directors classified as independent), does not preclude boards from being able to effectively work together as well as collaborate with the TMT. This finding points to the importance of effective leadership within the boardroom.

As a theoretical accomplishment, the purpose of this paper has served to further shift attention away from structural characteristics. While the study finds support for Forbes and Milliken’s (1999) basic premise that an understanding of decision-making processes is critical to gaining a deeper understanding of what drives board effectiveness, I extend their thinking by integrating the theoretical advances in procedural justice and organizational behavior. The concept of respect, while often used colloquially by practitioners as an important antecedent to boardroom behavior, has had relatively little consideration from a research perspective. The analysis of respect took into account both Tyler and Blader’s (2000; 2003) perspective that respect is an important dimension in one’s sense of identifying with a group and in turn will serve to drive increased engagement and effort on the part of the members of the group. Additionally, Cronin (2004) extended the definition of respect to include “esteem” and with it the importance
played in facilitating more effective decision-making processes, particularly cognitive conflict. Both of these perspectives were supported by the study’s findings.

Building upon the perspective of the board’s need to create accountability (Roberts et al., 2005), support is also provided for the importance of creating a collaborative environment between the board and TMT. Recognizing that the basic tension of control and collaboration is inevitable (Sundaramurthy & Lewis, 2003), we support Roberts et al. (2005) that working within this tension is critical for effective board accountability; it is not an either/or proposition. Closely related to this is the importance that effective boards place on the requirement to build appropriate levels of knowledge and skills relative to the company and its environment. This requires an effort on the part of independent directors to build their knowledge about the company outside of formal board meetings by developing relations with the executive team so that they can be perceived as informed, engaged, and supportive rather than distant, critical, and naive (McNulty & Peck, 2010).

Contrary to Forbes and Milliken’s (1999) prediction that the use of effort and skills will have a positive effect on board task performance, the study found no support for this position. This finding is a bit surprising given the importance found upon both the presence of knowledge and skills as well as the central role that it plays in effective cognitive conflict. It may have been that the use of knowledge and skills is absorbed through the dimensions of cognitive conflict debate and discussions, which as predicted was determined to be a significant factor on board task performance.

In summarizing, the study’s findings support the view that knowledgeable board members, placed in a board climate that emphasizes organizational respect and
addition cultivates a safe and secure relationship between board members and the executive team, can be expected to apply higher standards of effort norms while engaging in a dialogue of challenging give and take on boardroom issues. This in turn, will ultimately drive better board task performance and accountability. What is not evident from this research but seems a natural conclusion is that this dynamic will serve to fuel a positive spiral of relationships the will serve as a self-reinforcing system within the board and between the board and the TMT.

Limitations

These findings should be considered in light of several potential limitations. The research sample was of U. S. based public companies and therefore not necessarily representative of all boards of directors, particularly not-for-profit, non-public or non-U.S. companies. Of particular note, the constructs of collaboration and respect may be much more culture dependent and therefore not easily transferrable to other nationalities.

Because this survey was a self-administered questionnaire, it is difficult to discover a true representation for what people actually do. Babbie said, “(s)urveys cannot measure social action: they can only collect self-reports of recalled past action or of prospective or hypothetical action” (2007: 276). Said another way, to truly understand how board behavioral dynamics reveal themselves it is necessary to augment this research with field observations and ethnography.

Finally, no statistical test can assure against a bias-free analysis (Podsakoff et al., 2003). While efforts were taken to assure against common method bias, it would have been preferable to have had more representation from each respondent company and to have used different objective measures for the dependent variables. Recognizing the
difficulties of this, the research used an “informed observer” approach to best represent the actions within the boardroom.

Implications for Practice and Future Research

This study assessed the impact of board members on the strategic decision-making processes within publicly traded corporations. In an effort to understand how boards actually make decisions, the study was able to get inside the “black box” of the board room. This allowed for a better understanding of the complexities and nuances associated with board level strategic decision making.

The resulting empirical findings reveal that board climate and processes have a significant impact on what constitutes effective board level task performance. Expanding this research to non-U. S. boards would provide additional insights on its general applicability. Developing a more nuanced understanding of board climate and decision making could also be better achieved by extending this research through qualitative studies via case studies, ethnographic studies and in-depth interviews. The use of multi-methods is strongly encouraged and should provide additional insights. Of additional value would be to better understand the leadership characteristics that facilitate a more conducive environment for board level decision making. Recognizing that board behavior is both contingent and contextual, studying board behaviors and processes in different environments and industries, including longitudinal studies, would provide additional insights. While there has been much discussion on the importance of leadership in the boardroom, particularly the role of the chair and the CEO, actual behavioral research in this area has been relatively scarce (for exceptions see Gabrielsson et al., 2007; McNulty et al., 2011; Pettigrew & McNulty, 1995, 1998).
Managerial Implications

The theory and findings are relatively straight forward regarding the implications for corporate governance policy. It is becoming increasingly clear that efforts to increase board control over management through structural and demographic reforms do not provide a reliable solution to creating greater accountability in the boardroom, either in board task performance or corporate financial performance. At the same time, it is misbegotten to think that increased independence and board control are by themselves to be blamed for the potential dysfunctional behaviors within boards and corporations. What is clear is that the right leadership at the top, affected by competent, engaged, knowledgeable and diligent boards of directors who hold company executives and themselves accountable is the key to building and maintaining long term value creation for shareholders.
CHAPTER VII: STUDY THREE TRUST, DISTRUST, AND POWER IN THE BOARDROOM

Scholars and practitioners alike have little disagreement over the primary functions of the board of directors. First of all, board members are expected to oversee the internal controls and management of the company, set policy and oversee strategic direction, and also monitor and discipline management (Dalton et al., 2007; Fama & Jensen, 1983; Johnson et al., 1996). Second, they can act as boundary spanners, linking the corporation to external resources and taking advantage of their interlocking relationships (Hillman & Dalziel, 2003; Kim, 2002; McDonald & Westphal, 2003; Pettigrew, 1992; Pfeffer, 1972; Price, 1963; Ruigrok et al., 2006; Zald, 1969). Finally, board members may serve as advisors and counselors to the top management team, especially the CEO (Charan, 1998; McDonald & Westphal, 2003; Westphal, 1999). These three roles, the first of which is commonly referred to as the board’s control function and the latter two as the board’s service function, are at the foundation of virtually every theoretical analysis regarding boards of directors (Finkelstein et al., 2009).

Governance reform over the past two decades has been about initiating structural reforms to allow board members to assume greater accountability to shareholders through exercising greater control and vigilance over management; in essence strengthening the power of boards of directors relative to those of CEOs (Pearce II & Zahra, 1991). Initial efforts, driven by large institutional investors such as CalPers, the New York State Retirement Fund and TIAA-CREF called for greater board independence through the inclusion of a greater proportion of outside non-executive directors and separation of the chairman and CEO roles. Later, corporate scandals, most notably MCI and Enron, led to
the passage of the Sarbanes-Oxley Act in 2002, as well as additional governance reforms from the stock listing agencies such as the New York Stock Exchange and the NASDAQ. This resulted in greater emphasis on board committee independence, beginning with the audit committee and later extending the requirement for full independence to both the compensation and nominating committees. These same authorities called for the initiation of the lead independent director, and required separate meetings to be held by the board without management’s presence (Carter & Lorsch, 2004).

While evidence has shown that these reforms have resulted in the desired changes in both board structure and practices (Chhaochharia & Grinstein, 2007), the challenges facing boards of directors continue to grow, with an increasing gap between the realities of what boards actually do relative to the expectations that shareholders place upon them. The recent global financial crisis has exposed two long buried truths: many boards are not really engaged in the strategy of their company nor do they understand the underlying risks associated with the key strategic decisions made by both the board and management (Charan, 2009). Boards, rather than working collaboratively with management, too often perpetuate dysfunctional relationships that “…cast directors as corporate police who enforce rules and trace managers’ missteps, rather than guides who help managers choose the right path” (Lorsch & Clark, 2008: 104). Said another way, board members’ increased vigilance has served to lower the trust levels between the board and management, making it more difficult for board members to perform both their control and service functions.

Addressing the need to balance boards’ service and control functions, Sundaramurthy and Lewis (2003) propose a paradoxical framework to elaborate the
underlying tensions within the boardroom as well as to emphasize the value of simultaneous control and collaboration as reinforcing cycles supported by concurrently embracing both trust and conflict while promoting diversity and shared understandings.

Scholars have noted the key role trust plays in both collaborative behavior (Sheppard, 1995) and control (Arrow, 1974; Ouchi, 1980). The importance of trust in the effective functioning of the board is particularly critical due to informational asymmetries between board and executive team members (Sonnenfeld, 2002). At the same time, overly trusting board relationships that result in excessive levels of cohesion have been theorized to result in dysfunctional decision making (Forbes & Milliken, 1999), exemplified by group think (Janis, 1983) and pluralistic ignorance (the active suppression of distrust) (Westphal & Bednar, 2005). While conflict serves to stimulate critical thinking and open dialogue, excessive amounts run the risk of actuating political behaviors that serve to breakdown social ties and fuel distrust.

Similar to control and collaboration, trust and distrust have been argued to coexist, allowing rational actors to contain and manage social uncertainty and complexity (Luhmann, 1979). This functional coexistence has been argued to be foundational to high-performance teams (Lewicki et al., 1998); “distrust that gives rise to questioning and differences in perspective may be essential for effective group functioning. By the same token, distrust that gives rise to questioning is of little value if team participants have insufficient trust in their peers to voice reservations and alternative perspectives” (Lewicki et al., 1998: 453).

While the importance of trust in board effectiveness has been theorized (Roberts, 2001; Roberts et al., 2005; Sundaramurthy & Lewis, 2003) few empirical studies (e.g.
Huse & Zattoni, 2008; McInerney-Lacombe, Bilimoria, & Salipante, 2008; van Ees, van der Laan, & Postma, 2009) have actually examined the direct impact of trust on board dynamics or effectiveness. As a consequence, we have little understanding of how trust is created and maintained either in the boardroom or between the CEO and the board. Furthermore, research has not yet explored the more complicated notion of how interpersonal trust is maintained while simultaneously instituting distrust in the board environment, allowing boards to effectively achieve both control and collaboration.

The purpose of this chapter is to assist in filling this gap by exploring how boards of directors create and maintain an environment of both simultaneous high trust and high distrust.

Using a qualitative research approach, I examine the board dynamics associated with eight U. S. publicly traded (NASDAQ) companies through semi-structured interviews of twenty-nine corporate directors and officers from the selected firms. Following an analysis of their responses theoretical insights concerning the organizational behaviors and processes that characterize high trust / high distrust board climates emerged. First, the study found board members and executive team members exhibit a high level of respect for each other that is manifested primarily through values congruence. Second, high interpersonal trust is maintained through the systematic maintenance of distrust which is operationalized through a strong process orientation. The findings in this study also demonstrate two factors that played a critical role in moderating the relationship between these characteristics and the operationalization of the board’s trust levels. The first is a stable and balanced power relationship between
board members and CEO, as well as amongst individual board members. The second is the leadership and facilitation skills of the board chair.

In the following section I provide a review of the relevant theoretical background that informed this study. An overview is then provided of the research methodology and data analysis techniques that were utilized. I then present the primary findings from the research study. The paper concludes by discussing the significance of these findings while addressing the limitations of the study as well as outlining the important implications associated with future research and practice.

**Theoretical Background**

**The Board’s Control Role**

Agency theory (Jensen & Meckling, 1976) is at the center of much of the debate and scholarship associated with governance reform. Addressing the need to bridge the separation of ownership and control that exists in the modern corporation (Berle & Means, 2007), agency theory’s central tenet lies in the premise that the potential for shirking and opportunistic behaviors exists when the interests of owners (principals) and managers (agents) diverge (Dalton et al., 2007). This rests on the simple assumption that the basic unit of analysis is the individual’s preoccupation with maximizing their utility (Roberts, 2001). At its essence, agency theory can be described as a theory about trust, or more accurately, ‘distrust’ between principals and agents.

The mitigation of agency behaviors results in “agency costs” which are derived from incentives that seek to align the agent’s interests with those of the principal or through enforcement of the principal’s interests via monitoring. The structural solution for the mitigation of agency costs is the board of directors, which has been described as
the “common apex of the decision control systems of organizations, large and small” (Fama & Jensen, 1983: 311). It has been argued that the board’s propensity to monitor and control management is directly related to its members’ independence from management (for an extensive discussion on this see Dalton, et al., 2007). Independent board members have been defined as those who today or in the recent past have not had substantial business dealings with the firm nor employment by the firm. During the past two decades, governance reform has primarily been directed at enhancing board independence through a series of structural and process initiatives that include but are not limited to: 1) a greater proportion of the board members as independent members versus insiders; 2) separation of the role of the board chair and CEO; 3) membership on the three primary board committees (audit, compensation and nomination) comprised solely of independent directors; 4) establishment of an independent lead director (in cases where the CEO serves in the dual role of board chair); and 5) regular mandatory sessions of only the independent director of the board. While posited as initiatives designed to increase board independence, in reality these governance reforms attempt to diminish the power of the CEO relative to that of the board.

While empirical studies have shown that these changes can facilitate oversight of management by the board (Judge Jr. & Zeithaml, 1992; Johnson et al., 1993), a paradoxical argument suggests that increasing the board’s independence relative to the CEO through an ever increasing number of board members as outsiders, with little firm or industry specific experience, less access to information about the company, and far less time to get educated on the workings of the company creates an even greater dependence on management.
A critical dimension in defining the board’s effectiveness in monitoring the actions of management is the amount and quality of information available to the board member. This information comes from several sources; members of the top management team (TMT), other board members, and external sources such as analyst and industry reports. However, the primary source of information for a board member is the TMT, and specifically the CEO of the company, since he or she has significant control over the information that flows from the company to the board. This information asymmetry is often a vehicle used by the CEO to control the power balance between the board and CEO. Lorsch and MacIver quote one board member on this matter:

“I think the CEO determines how effective a board is through the way he sets up the agenda, the way he arranges presentations, and the amount of discussion he schedules. There are lots of ways to avoid discussion if a CEO wants to…” (Lorsch & MacIver, 1989: 82).

As previously mentioned, another critical source for information exchange is corporate director interaction. Again, however, the concern is that with increased independence, board members are more geographically diverse and therefore do not share strong social ties with the other directors, nor do they have the requisite face time needed to develop trust and cohesion. The lack of close personal ties may contribute to a board level group dynamic referred to as “pluralistic ignorance” (Westphal & Bednar, 2005). A social-psychological bias, pluralistic ignorance occurs when a director has concerns over a strategic issue but will tend to underestimate the concern because he or she believes - based on limited previous interactions with the other directors - that they do not share a similar concern over the strategic issue. As a result of this bias, concerns are not raised and appropriately investigated as part of the strategic decision-making process. Said
another way, active suppression of distrust is institutionalized within the boardroom. In addressing this lack of social ties, Forbes and Milliken stated, “board members must trust each other’s judgment and expertise, and such trust will be difficult to sustain on boards with very low levels of interpersonal interaction” (Forbes & Milliken, 1999: 496).

The Board’s Service Role

Competing theoretical perspectives regarding the role of the board provide an alternative view to agency theory. Resource dependency theory (Pfeffer & Salancik, 1978) goes beyond monitoring and control by positing the provisioning of advice and counsel as an important role that the board is capable of assuming. Extending this further, a resource-based perspective (Barney, 1991) provides the impetus for board members assisting in establishing a competitive advantage for the firm by serving as boundary spanners that link the company to outside resources and capabilities while also enhancing their “training, experience, judgment, intelligence, relationships and insight” (c.f. Dalton et al. 2007: 10).

Stewardship theory (Davis et al., 1997) promotes an alternative perspective of management/shareholder relationships by addressing some of the theoretical limits associated with agency theory. Specifically, by labeling all human activity as self-serving, following the model of Homo Economicus (Economic Man), it is argued that agency theory – which emerges from the disciplines of economics and finance - fails to address the complexities associated with human interactions (Doucouliagos, 1994). Meanwhile, stewardship theory, rooted in sociology and psychology, attempts to define human relationships around a more robust behavioral model. Rather than assuming a divergence of principal and agent interests, stewardship theory postulates instances in
which a convergence of interests can occur, resulting in a more collaborative approach to governance.

The premises of stewardship theory carry the underlying assumption that “pro-organizational, collectivist behaviors have higher utility than individualistic, self-serving behaviors” (Davis et al., 1997: 24). Consequently, the satisfaction of stewards (managers) is tightly linked to the success of the organization, thereby creating organizationally centered behaviors. Because the steward can be trusted to behave in a manner that is aligned with the interests of the principals, the resources required for control and monitoring can be reduced. It has been argued that by potentially undermining the pro-organizational behaviors of the manager, control and monitoring can potentially be counter-productive (Zand, 1972). Consequently, like agency theory, the essence of stewardship theory is a theory about trust. Only unlike agency theory, it is about the ‘trust’ relationships between principals and agents rather than their ‘distrust’.

As in the control function of the board, the board’s effectiveness in performing its service role is predicated upon symmetrical information sharing between board members and the TMT. This then gets back to the issue of board member independence. Another characteristic associated with the increase in outsiders is that they have fewer and weaker ties to the CEO. While this may create greater independence, the downside is that it also impedes the flow of information from the CEO to the board members.

Additionally, Forbes and Milliken (1999) theorized that the part-time nature of the board role also creates a characteristic that inhibits full group acceptance described as “partial inclusion” (Weick, 1979). Westphal (1999) showed that social independence contributed to less board involvement and lower firm performance due to a decrease in
the frequency of advice and counsel interactions that CEOs had with their outside directors. In a separate study, (Gulati & Westphal, 1999) CEO-board relationships characterized by independent board control, demonstrated a reduction in the likelihood of alliance formation due to distrust between corporate leaders, while cooperative CEO-board behaviors appeared to promote alliance formation by enhancing trust.

**Reconciling Control and Collaboration in the Boardroom**

In a descriptive study outlining the mechanisms for creating accountability in the boardroom, Roberts et al. (2005) identified the necessity for the simultaneous linkage between control and collaboration. Going further they offer that “the practical challenges associated with creating and sustaining accountability within the board are not well served by conceptual distinctions between ‘control’, ‘service’ and ‘resourcing’ roles of the board” (Roberts et al., 2005: S18). Instead they argue that it is impossible for the board to exercise effective control over management without having an associated understanding both of the business and its strategy.

In a theoretical presentation of board relationships, Sundaramurthy & Lewis (2003) similarly propose a simultaneous need for control and collaboration within the boardroom. Incorporating the control requirements from agency theory with the collaborative requirements of stewardship theory, they contend that the paradox of good corporate governance rests in the ability to simultaneously embrace both control and collaborative behaviors. The alignment around one dominant set of behaviors at the expense of the other results in a dysfunctional reinforcing cycle. Usefully summarized by Roberts et al., their theory is described as follows:
“Collaboration and past success, they suggest, can sow the seeds of complacency, group-think and faulty attribution that may lead to inappropriate strategic persistence. Similarly, they suggest that an over-emphasis on control may be counter-productive. Control may be read as distrust, and set up a self-fulfilling cycle that produces the very behaviors it is designed to prevent. Executive frustration may rise, motivation may be damaged and information flows may become restricted, thereby feeding mutual distrust and providing a rationale for further increase in controls” (Roberts et al., 2005: S10).

As a prescription for fostering functional self-correcting cycles that enable strategic flexibility and organizational renewal rather than the dysfunctional reinforcing cycles described above, Sundaramurthy and Lewis (2003) encourage board relations to embrace both conflict and trust and to promote diversity and shared understandings. In support for the position posited by Sundaramurthy and Lewis (2003), Zand (1972) models the relationship of trust to information, influence and control, demonstrating a virtuous cycle that is encapsulated in the relationships associated with trust.

**Trust, Distrust and Power**

*Understanding trust and trustworthiness.* Our working definition of trust is taken from Hosmer which incorporates principles from the intellectual traditions of organizational theory and philosophical ethics:

> “Trust is the expectation by one person, group, or firm of ethically justifiable behavior – that is, morally correct decisions and actions based upon ethical principles of analysis – on the part of the other person, group, or firm in a joint endeavor or economic exchange.” (Hosmer, 1995: 399)

While generally indispensable in social relations (see Barnard, 1938; Blau, 1964; Luhmann, 1979), trust, to exist, involves an unavoidable element of risk and doubt (Lewis & Weigart, 1985). Unlike hope, which simply manifests confidence despite uncertainty, trust is based upon a critical alternative that assumes the harm resulting from the breach of trust is greater than the benefit gained from the granting of trust.
Consequently trust is calculating, but unlike risk-taking – which assumes the gains from taking the risk are greater than the potential losses - its validity is established only after the fact, when it has either been honored or broken (Deutsch, 1958).

Luhmann argues that “(T)rust reduces social complexity by going beyond available information and generalizing expections of behavior in that it replaces missing information with an internally guaranteed security” (1979: 93). The ability of trust to reduce the complexities associated with life is fundamental to an understanding of trust. Luhmann (1979) posits that a critical element of trust is reliability of future expectations, which are better understood when we have familiarity, thus making familiarity a precondition for trusting relations. This simplified image of the environment in which trust is based, manifests the fragility of trust. For example, a board does not exercise control over the operations of the management team, but rather over the extent to which they are prepared to trust management to function in the interests of the shareholders. The board must be assured that they are not just trusting unconditionally but rather within limits and within proportion to the rational expectations of performance (Luhmann, 1979). Trust can not be demanded, but only offered and accepted. As a result, trust becomes more attainable with the help of symbolisms of trustworthiness.

Embedded in an understanding of trust is the concept of trustworthiness. Mayer, Davis, & Schoorman (1995) assert three characteristics required of the trustee to establish trustworthiness: ability, benevolence and integrity. Ability is the set of skills and competencies that allow an individual to have influence over a specific domain. Note the specificity of the domain is critical, consistent with the concept of trust as domain specific (Zand, 1972). Benevolence attributes motivation to the trustee; it characterizes
the extent to which the trustee is believed to want to do good for the trustor. Integrity assumes value congruence between the trustor and trustee in that it involves the trustor’s perception that the trustee adheres to a set of principles that are acceptable to the trustor.

**Contrasting personal and system trust.** While various classifications of trust have been suggested (for examples see: Lewicki & Bunker, 1995; Sako, 1992) for our purposes, a useful approach is the contrasting of personal trust from system trust (Giddens, 1990; Luhmann, 1979). Personal trust exists between two individuals. The importance of personal trust in the upper echelons of an organization is highlighted by the fact that executives carry a level of responsibility that far exceeds their individual capacity for that level of responsibility, exemplified by their limited capabilities in information processing. As a result, very significant relationships of personal trust must exist between superiors and their subordinates. Extending this to the boardroom, in a high trust environment board members are, in the words of Luhmann, “obliged to confer personal trust, and the other side seizes on this trust, is sensitive to its conditions and limits, cultivates it, uses it as a basis for personal influence in the trustor – and justifies it by appropriate behavior, for otherwise the symbiosis which is advantageous to both sides cannot be maintained in the long run” (1979: 63). Consequently, personal trust is a learned process established through social interactions which allow individuals to display trust (or distrust). Its difficulty is that it takes face-to-face contacts and is a gradual process that takes time and effort to establish and maintain (Bachmann, 2006). While important for the constitution of trust, personal trust is not sufficient for the production of the quantity of trust that is necessary for complex social and economic exchanges (Zucker, 1986). Instead, personal trust fills a supplementary function for system trust.
Rather than personal interaction, system trust counts on explicit processes for the reduction of complexity. It is the stable working institutional arrangements (e.g. legal and regulatory systems), standards of expertise, rules and procedures – all of which are represented by individuals and their associated personal trust – that serve as the central source for system trust (Bachmann, 2006). At a systems level, trust depends on the inclination towards risk being kept under control through the minimization of disappointments. In systems of greater complexity - requiring greater trust - it follows that more distrust, in the form of institutionalized controls would also be required. The explicit requirement for control as an instrument for establishing trust is presented by Luhmann as follows:

“Controls must be built into the system which require trust, and those controls must be made quite explicit in them, if they are not organized. Trust in the ability of systems to function includes trust in the ability of their internal controls to function. The propensity to risk things must be kept under control within the systems themselves.” (1979: 57)

The co-existence of trust and distrust. Paradoxically, this refusal to trust – manifested in the underlying assumption of negative expectations - leads to more distrust. In essence, distrust serves as the functional equivalent to trust as a means to reduce complexity, allowing individuals to move rationally and take protective actions based upon these negative expectations. Luhmann (1979) goes on to argue that institutionalized distrust, as exemplified by control systems, specific roles (internal audit), etc., allows for the depersonalization of distrust activities, allowing for the simultaneous existence of personal trust.

Similarly, Braithwaite (1998) argues that the institutionalization of distrust will result in the enculturation of trust. This is not done by weakening institutions because
they are judged untrustworthy, but rather by having strong institutions that can exercise countervailing power against abuses of trust by other institutions. Thus trust as a moral obligation of those in institutions, such as board members serving as trustees of shareholders, is achieved when they “cognitively accept that they have obligations and who act to honor them” (Braithwaite, 1998: 344). Braithwaite labels this ‘trust as obligation.’

Lewicki et al. (1998) extend Luhmann’s theoretical insights through the development of a theoretical framework that views trust and distrust, not as bipolar constructs, but rather as concepts which can simultaneously coexist, supporting Luhmann’s argument that “systems are able to provide trust and distrust alongside one another, indeed in many ways to interlock them so that they intensify one another” (1979: 92). Within a two dimensional framework, four relationship conditions are identified: (1) Low Trust / Low Distrust, (2) High Trust / Low Distrust, (3) Low Trust / High Distrust, and (4) High Trust / High Distrust. Each condition is characterized by a distinct orientation and set of relationship challenges. Condition 4 – High Trust / High Distrust is presented by the authors with the expectation that it is the most prevalent form in modern, complex business relationships, allowing for stable social structures through a healthy dose of both trust and distrust.

**The role of power on trust relationships.** The failure to invest trust in a relationship is often associated with the evaluation that the risk is seen as intolerably high. In those circumstances, actors can choose to reduce the complexity in the relationship by assuming another mechanism – power (Bachmann, 2006). Following Knight, “to exercise power over someone or some group is to affect by some means the
alternatives available to them” (1992: 41 c.f. Farrell, 2004). Through the diminuation of future alternative courses of action, power, like trust and distrust, thereby serves to reduce complexity, however the mechanisms which trust and power activate are very different.

In the case of trust the assumption is that the trustee will behave in a way that is acceptable to the trustor. While in power relationships, the powerful actor perceives that the less powerful actor will have an unacceptable behavior that should be avoided.

Essentially, the powerful actor is willing to bear the risk of open conflict rather than the risk of broken trust. Bachmann (2006) argues that where organizations have low levels of system trust, power is often chosen as the dominant mechanism for simplifying complexity. Conversely, “where trust is produced on an institutional basis, i.e. in the form of system trust, and the risk of betrayal can be deemed relatively low…system trust is likely to be the prevailing social coordination mechanism under these conditions” (Bachmann, 2006: 461).

Farrell (2004) maintains that power asymmetries can have an impact on trust and trustworthiness. The more powerful actor (the one who perceives he has relatively more attractive alternatives in a relationship) may be more willing to take advantage of the less powerful actor in the relationship. In turn these power asymmetries can serve to drive out trust, creating distrust.

**Research Method**

This study aims to gain a better understanding of how boards of directors create and maintain a High Trust / High Distrust environment. Given limited theory in how boards of directors engage in building and maintaining trusting relationships, I relied on inductive theory building using a multiple-case approach which included the robustness
of comparative analysis (Eisenhardt, 1989c; Yin, 1994) as well as the central mechanism for meaning making provided through narratives (Floersch et al., 2010). We deployed an iterative process (Glaser & Strauss, 2008), of constant comparison referring to the simultaneous collection and analysis of data, a process that affects the size and composition of the sample based on the identification and interpretation of emerging themes and patterns (Suddaby, 2006). By comparing evidence across several cases we were able to discern patterns while also discovering the emergent antecedents related to the observed differences.

**Sample**

Our study was conducted on eight large, publicly traded (NASDAQ) technology firms. Gaining research access to corporate boardrooms is extremely difficult. As LeBlanc and Schwartz observed, boards “tend to be closed groups, bound by confidentiality, privilege and custom, with significant access difficulties and other practical limitations as well” (2007: 845). To overcome concerns with confidentiality, the researchers assured complete anonymity to the firms under investigation as well as the board members and company officers. The researchers also enhanced credibility and access by gaining sponsorship through the leadership of a national directors’ organization.

Case selection relied upon both purposeful selection (Maxwell, 2005) and theoretical sampling (Corbin & Strauss, 2008). Purposeful selection “is a strategy in which particular settings, persons, or activities are selected deliberately in order to provide information that can’t be gotten as well from other choices” (Maxwell, 2005: 88). Theoretical sampling complements purposeful selection and is a method of data
collection that allows the flexibility to “go where analysis indicates would be the most fruitful place to collect more data that will answer the questions that arise during analysis” (Corbin & Strauss, 2008: 145). This study chose to limit the sample to publicly traded instead of privately owned companies, allowing researchers to avail in public documents information on corporate strategic initiatives as well as ownership structure, board composition, financial performance and other pertinent board and company demographic information.

The study controlled for industry by targeting the high-technology sector. The companies were identified from a database of approximately 1100 firms in which one or more of the directors were members of a national association of corporate directors providing governance training and board educational services for their members. Of the 1100 firms, 71 firms met the criteria for being publicly traded high technology firms. I then gathered detailed qualitative and quantitative data on these firms to assure they had a diffuse ownership structure and had undergone at least one significant transformation during the past two years; assuring that the board would have had to deal with at least one major strategic decision. A significant transformation included a major merger or acquisition, a significant financing transaction, the sale of a significant asset of the company, a change in the CEO, or a major change in the ownership structure of the company. The requirement for a diffuse ownership structure provided confidence that there would be minimal multiple interests associated with the firm’s ownership, thereby setting profit maximization as potentially the board’s primary objective. Seventeen of the firms met these criteria. We then approached these firms, from which the final eight firms were selected after agreeing to participate in our research (see Table 8).
TABLE 8
Description of Eight Companies under Study

<table>
<thead>
<tr>
<th>COMPANY*</th>
<th>NUMBER OF EMPLOYEES</th>
<th>ANNUAL REVENUES</th>
<th>CHAIR</th>
<th>LEAD DIRECTOR</th>
<th>BOARD SIZE</th>
<th>NUMBER OF INTERVIEWS</th>
<th>CEO TENURE</th>
<th>CHAIR TENURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burning Tree</td>
<td>1323</td>
<td>$526M</td>
<td>Non - Exec</td>
<td>NA</td>
<td>9</td>
<td>3</td>
<td>1 yr.</td>
<td>7 yr.</td>
</tr>
<tr>
<td>Columbia</td>
<td>553</td>
<td>$ 98M</td>
<td>Non - Exec</td>
<td>NA</td>
<td>6</td>
<td>5</td>
<td>2 yr.</td>
<td>8 yr.</td>
</tr>
<tr>
<td>Congressional</td>
<td>216</td>
<td>$ 42M</td>
<td>Non - Exec</td>
<td>NA</td>
<td>7</td>
<td>3</td>
<td>&lt; 1 yr.</td>
<td>7 yr.</td>
</tr>
<tr>
<td>En-Joie</td>
<td>450</td>
<td>$126M</td>
<td>CEO</td>
<td>NO</td>
<td>6</td>
<td>3</td>
<td>10 yr.</td>
<td>10 yr.</td>
</tr>
<tr>
<td>Las Colinas</td>
<td>203</td>
<td>$ 53M</td>
<td>Non - Exec</td>
<td>NA</td>
<td>6</td>
<td>3</td>
<td>&lt; 1 yr.</td>
<td>3 yr.</td>
</tr>
<tr>
<td>Potomac</td>
<td>900</td>
<td>$165M</td>
<td>CEO</td>
<td>NO</td>
<td>7</td>
<td>4</td>
<td>2 yr.</td>
<td>&lt; 1 yr.</td>
</tr>
<tr>
<td>Sawgrass</td>
<td>1400</td>
<td>$131M</td>
<td>Founder</td>
<td>NA</td>
<td>8</td>
<td>4</td>
<td>10 yr.</td>
<td>38 yr.</td>
</tr>
<tr>
<td>Turnberry</td>
<td>646</td>
<td>$180M</td>
<td>CEO</td>
<td>NO</td>
<td>10</td>
<td>4</td>
<td>13 yr.</td>
<td>13 yr.</td>
</tr>
</tbody>
</table>

*(Pseudo-names provided to protect confidentiality)

Data Collection

The study followed a multiple case embedded design, allowing analysis to be conducted across several units while examining both the content and processes associated with strategic decision making (Yin, 1994). Focusing on the strategic decision-making processes within the boardroom provided the opportunity to examine the interactions and behavioral characteristics of both individual board members as well as the socialization of the group. I first examined the backgrounds and demographics of each board’s members, as well as the key executive officers. This provided a contextual background to understand the observed decision-making processes. Next I reviewed the historical strategic activities of the company in an effort to ascertain the potential issues brought to the attention of the board. Finally I investigated each of the strategic decisions in an effort to better understand how the issue was raised to the board level, the deliberations and discussions that unfolded, and finally how decision closure was attained.
Data collection involved two primary sources; archives and interviews. Archival information was obtained from publicly filed documents, business press coverage and a review of board minutes and agendas. However, the primary method of data collection was semi-structured interviews conducted with board members and key company executives.

**Archival research.** Public documents outlining the company’s strategy such as annual reports and SEC filings were reviewed to gain insights on the company and its board members. Information from additional sources including company websites, industry analyst reports and business publications were also reviewed. These sources provided further context around board members as well as environmental concerns. Additionally, I reviewed board meeting agendas and minutes when made available by participating companies. This information allowed triangulation with information collected in the interviews, increasing confidence associated with the reliability of the assessments. Archival information also provided data regarding board structure, composition and processes.

**Semi-structured interviews.** In-depth semi-structured interviews were conducted with twenty-nine (29) board members and key executives of the eight firms. Interviews were conducted with three to five individuals from each of the eight firms. Interviewees were selected with the intention of securing the most knowledgeable and representative informants associated with the board’s behaviors and decision-making processes. A diverse set of perspectives was sought in order to minimize the prospect of realizing a biased representation of the actual proceedings. As a minimum, the chairman of the board and the CEO were interviewed.
Open-ended questions were constructed to elicit responses in a conversational style and to minimize leading questions. Prior to conducting the formal interviews, four pilot interviews were conducted with board members not associated with the companies in the study. These interviews were observed by two researchers, the recordings reviewed and modifications applied to the questions in an effort to refine the interview protocol to assure a more conversational approach and in some cases less leading.

The research interviews, which ranged from 40 to 90 minutes, were audio recorded and subsequently transcribed by a professional service. To assure consistency in the interview process, all interviews were conducted by the principal researcher. Short follow-up telephone interviews were scheduled with a few respondents to clarify or amplify responses. While structured questionnaires were developed prior to the interview, the interviewer was at liberty to advance the discussion into areas that appeared to provide additional value.

The interview protocol followed five segments. I first asked the informants to describe their personal and professional backgrounds, with an emphasis on their board experience, including how they were selected to participate as a member of the subject board. In the second part of the interview the informants were asked to describe a typical board meeting including the agenda and how it was developed, what roles each board member played as well as the dynamics that typically occurred between board members and the CEO. The third part of the interview then focused on the informant describing their own particular role on the board and any particular beliefs and values they felt were critical in their boardroom interactions and deliberations.
The next two sections of the interview were focused on the informant describing a recent strategic decision that the board was involved in. Consistent with critical incident interview techniques (Boyatzis, 1982; Flanagan, 1954; McClelland, 1998) informants were asked to contrast approaches to decision making that they observed. The first description was regarding a decision they felt was handled particularly “effectively” by the board. The second entailed a decision that they felt was handled “ineffectively.” The informant was given the latitude to use their own criteria for defining an effective and ineffective decision, but was asked to describe why they felt it was effective or ineffective. In each case the informant was asked to provide a detailed description of the decision process, tracing the story from inception to closure while discerning facts and events from personal observations. Finally, the informant was asked to describe how they felt once the decision was finalized. Because the unit of analysis for the study was the board’s decision making processes, we were seeking to ascertain a robust description of these processes. As a result it was not necessary for all of the informants within each case to address a common strategic decision.

Validity and reliability of the results were tested through triangulation, analysis with multiple researchers and discussions with interviewees and industry experts. Strict confidentiality and anonymity of all interviewees as well as their participant companies was maintained throughout the study.

Data Analysis

In the initial phase, within each case under study, I conducted thematic analysis with no a priori hypotheses within each case under our study. Thematic analysis is a commonly used process for encoding qualitative information that can be used in
conjunction with multiple qualitative methodologies (Boyatzis, 1998) to elucidate descriptive patterns. I was able to articulate relationships among the identified themes arrived at through thematic analysis with the purpose to construct theories grounded in the data that describe a theoretical process (Floersch et al., 2010).

The data were analyzed using a software package, Atlas.ti, by assigning open codes to the interviews (line by line) in which we “broke the data apart and delineated concepts to stand for the blocks of raw data” (Corbin & Strauss, 2008: 198). Portions of potentially salient text – “codable moments” – were identified and labeled (Boyatzis, 1998). These “codable moments” were then assigned to either existing or newly created codes. I continued to identify additional relationships between the collected data and new discoveries by testing the coding schema as well as reviewing and analyzing patterns and themes. These open codes were then grouped under more abstract codes – commonly referred to as axial codes - by the patterns or themes that emerged from comparing their shared meanings and characteristics. Greater confidence in the coding reliability was established by having one researcher working independently to code each of the interviews while a second researcher validated the process and the coding discipline. Validity of this dataset was produced by double-checking to assure that the codes were: (1) consistently applied across all interviews (memos describing the meaning of each code were written to assure consistency in definitions); (2) appropriately grouped under the thematic codes; and (3) properly grouped under the axial codes.

These themes were then organized under higher-level constructs to show how emergent themes could be used to develop a conceptual framework for better understanding how trust was developed and maintained in the boardroom. A comparison
of the within-case coding outcomes reinforced confidence in the reliability of the assessment of the prevailing activities associated with trust building activities within the boardroom. In the next phase of analysis, drawing on case study methods, I coupled our within-case analyses with a cross-case search for patterns (Eisenhardt, 1989c), examining intergroup differences and similarities around the predominant trust environments that were identified, specifically high trust / high distrust and low trust / high distrust.

**Defining the board’s trust environment.** This research study asks how boards of directors create and maintain an environment of both simultaneous high trust and high distrust. Before describing our emergent framework I describe how trust and distrust were measured to differentiate the various taxonomies.

Using the theoretical framework presented by Lewicki, et al., (1998) as a template, I analyzed the qualitative assessments from informants, mapping their responses against the characteristics associated with each cell in the Trust / Distrust taxonomy. As illustrated in Figure 13 our eight sample firms aligned with the characteristics associated with two of the framework’s quadrants.

Four of the firms – Turnberry, Potomac, Sawgrass, and EnJoie – were classified as Low Trust / High Distrust (LT/HD) environments, characterized by negativity and paranoia, often exhibiting political behaviors to manage interactions. The following comments were representative of the environments in which the boards of these firms operated:
“It was so apparent that their (a clear faction within the board) interests were not in the best interest of shareholders. It was very clear. There existed the biggest no trust whatsoever between the management, and particularly, the oversight committee. It was so transparent what they were trying to do. They weren’t trying to help the company.” (CEO, Potomac)

“I think (the CEO) sees himself, maybe, a little bit sometimes threatened by the board; he doesn’t like to get too much direction from the board.” (Director, Sawgrass)

“I think most of the board is looking for this company to blossom. However, the preferred shareholder members - in my opinion - want the company to go bankrupt so that they can cash out as a result of their
priority position in this company. They bring no value to the board and no value to the company, absolutely none.” (Director, Turnberry)

“It was very frustrating trying to challenge the CEO. Whenever we met in executive session (without the Chair/CEO present) there was significant discontent raised by the directors regarding the CEO. However when we came together in the boardroom all of the directors immediately caved to whatever the CEO requested.” (Director, En-Joie)

The remaining firms – Columbia, Las Colinas, Burning Tree and Congressional - were classified as having High Trust / High Distrust (HT/HD) environments. These boards were characterized by: (1) a propensity to trust but verify, (2) relationships that are segmented and bounded, (3) aggressive pursuit of opportunities coupled with, (4) a commitment to monitor risks. Representative comments from informants of these firms include:

“On our board there is clearly a high level of trust and respect that exists between the CEO and the Chair, and that also permeates to the entire boardroom.” (Chair, Burning Tree)

“Of the Boards I've been on, this is by far the best and I think it's because the people are open, comfortable with one another, and able to say what they think, lay it on the table, and we'll analyze it the way anything is said or done.

Anybody can say anything they feel and can take a very negative stand. I know I did in the early days; I took some pretty strong stands about what was happening or not happening that perhaps, at that time, the Board had not understood or addressed, but I've always felt that every member of the Board is respected and can in part their thoughts and ideas.

That doesn’t mean we're all right every time, but I believe that's the way a good Board functions. I think it's important that you get ideas and thoughts from everybody. We are fortunate in that we've got a breadth of backgrounds and experiences – that doesn’t have to be in the technology – I maybe bring more from the technology or manufacturing side than the others, but it's important to listen and to gain insight, financial sales and marketing, operational, or whatever. I think everybody feels very comfortable in speaking their mind and they don't – nothing is held back.” (Director, Las Colinas)
Figure 14 illustrates the final data structure, showing the codes and themes from which I developed the findings and the relationships between them. Additional representative supporting evidence for the findings is shown in Table 10.

Done in an iterative fashion, as insights emerged they called for additional data collection and an enrichment of the explanations. Following Eisenhardt (1989c), I referred to existing literature in an effort to continually refine the inductively derived theoretical insights. Additionally, through cross-case analyses I was able to either confirm or disconfirm inferences that were drawn from the cases as the research evolved.

**Findings**

In attempting to understand the differences associated with the two trust environments displayed by the research sample, the study’s analysis yielded two prevailing aggregated themes which we labeled ‘Respect’ and ‘Process Orientation’. Additionally, I found two additional factors that served to moderate the impact of these themes in determining the degree to which boards developed a High Trust / High Distrust (HT/HD) environment: Board Power Symmetry and the Board Chair Leadership Skills.

**Respect as an Antecedent for High Trust / High Distrust (HT/HD)**

Sonnenfeld (2002) describes respect as the genesis of a virtuous cycle that drives quality strategic decision-making processes:

“Team members develop mutual respect; because they respect one another, they develop trust; because they trust one another they share difficult information; because they all have the same reasonably complete information, they can challenge one another’s conclusions coherently; because a spirited give and take becomes the norm, they learn to adjust their own interpretations in response to intelligent questions” (2002: 109).
FIGURE 15
Data Structure

Axial Level
- Domain knowledge
- Industry knowledge
- Governance abilities
- Candor
- Fairness
- Emotional Intelligence
- Loyalty to corporation
- Strategic Understanding
- Role clarity
- Preparedness
- Engagement in strategy process
- Outside accomplishments
- Status of position
- Commitment to board

Thematic Codes
1. Knowledge
2. Integrity
3. Alignment of Purpose
4. Effort
5. Reputation
6. Output Control
7. Process Control
8. Process Design

Emergent Construct
RESPECT

PROCESS ORIENTATION
FIGURE 16
Representative Data Associated with the Emergent Themes

**Representative Evidence from Boards with High Trust / High Distrust Environments**

- "We fought over that decision tooth and nail—we have a lot more people with expertise—in fact, Columbia is the best board I am on. We've got people who really understand the industry and how businesses work on that board now." (Director, Columbia)

- "I'm able to go in and on occasion talk to the CEO. He brings me up to date on anything I ask and many things I don't ask, so I'm really pleased with the openness of the company. I know other board members have no problem calling and getting their questions answered. I'm pleased with the openness of our CEO. Our CEO is quite willing to tell us what he thinks and in his own style, will lay out most anything we want to discuss." (Director, Los Colinas)

- "I don't kneel at the feet of the shareholder. I recognize my job is to represent them and the way you represent them is to make the company work. And the decisions I make are made to make the company work, not to just make shareholders happy." (Director, Burning Tree)

- "Management, working with the board of directors over a period of several months on the strategy... identifying where we wanted to play... allowing all of us to have a common understanding of the direction of the company." (Director, Columbia)

- "We had a really solid block and some tremendous people on the board. Nobody would buck that group 'cause they had so much respect for it." (Chair, Congressional)

**Thematic Codes**

1. Knowledge

2. Integrity

3. Alignment of Purpose

4. Effort

5. Reputation

**Representative Evidence from Boards with Low Trust / Low Distrust Environments**

- "Those people that remain on the board today still, after 40 years, really don't have any fundamental understanding of the company." (CEO-Director, Sangross)

- "The CEO, who was also the chair, chose to advise the board on matters when and if he felt compelled to do so... whenever there was resistance he would yell louder until the board backed down." (Director, En-Joie)

- "They are not thinking of the common shareholders; they're just thinking in terms of the preferred shareholders. So even though they have a direct conflict of interest and a duty of care and loyalty to common shareholders, they really could care less about the common shareholders." (CEO-Chair, Turnberry)

- "The rest of them (board members) don't think, spend much time or energy and aren't really that inclined to—it wasn't a success but not really inclined to help." (Executive, Turnberry)

- "I think you had a majority of new directors that had gotten there through a very hostile process. There had been a lot of very nasty exchanges... I always felt that it was like a perception that they were like an occupied country... I think it was always tense." (Director, Potomac)
FIGURE 16 (Cont’d)
Representative Data Associated with the Emergent Themes

**Representative Evidence from Boards with High Trust / High Distrust Environments**

- "Here is where the chairman does his job in herding the sheep and getting adequate dialogue. At the end of the day, after multiple meetings, we came to what management and the board felt is a successful conclusion. I’d say that one of the roles of the chairman is consensus building.”
  (CEO and Director, Burning Tree)

- "The fact that the [chair] is a very savvy reader of human behavior, I think was very helpful, not just analytically good, but also a good human relations kind of guy and understood actually the dynamics of the boardroom.”
  (Director, Burning Tree)

- "The board met, reviewed the material in detail…through consensus designated subcommittees to operate in collaboration with the CEO to expand the understanding of the opportunity, to seek necessary advisory and consulting resources to assist. The committee reported back on periodic and consistent basis with the board; got guidance from the board." 
  (CEO and Director, LasColinas)

**Representative Evidence from Boards with Low Trust / Low Distrust Environments**

- "I think [the chair] more like a dictator. I think he expects that this decision is final; what he thinks is the correct decision. I think occasionally he does listen, but I think he plays the role of okay, this is what I think, this is what we’re going to do, and he will usually persist until he gets that. He used to be even worse.”
  (Director, Savgrass)

- "The chair basically would discuss issues with members of the board on how he wanted issues to go at the board meeting. We were outside the circle of influence to the board. When it came to the agenda, we didn’t necessarily have a lot of input. At the board itself, when input was provided it wouldn’t necessarily be heard.”
  (Director, Potomac)

**Thematic Codes**

- 6. Output Control
- 7. Process Control
- 8. Process Design
In boardrooms identified as HT/HD, informants often spoke of the salient role respect played in creating the boardroom environment. Similarly, LT/HD boards openly addressed the failure of all board members to feel respected and as a result they felt marginalized in the boardroom. The two contrasting positions are exemplified by the following comments from board members of HT/HD and LT/HD boards:

“We had a really solid block and some tremendous people on the board. Nobody would buck that group ‘cause they had so much respect for it.” (Chair, HT/HD Board)

“The two (board members) grew to hate each other. And they would scream and holler at each other at board meetings -“You’re an xxx!” - in the middle of board meetings. I’d have to stand up like a referee. It was absolutely horrible.” (Chair, LT/HD Board)

To better understand what directors refer to when they speak of respect in the boardroom, we are informed by Cronin who asserts that “respect is always about feeling valued or important rather than marginalized or dismissed” and “(a)t some level this feeling relates to one’s basic human dignity (Margolis, 2001; Rawls; 1971), yet it can also relate to one’s self standing in the peer group (Smith and Tyler, 1997)” (2010: 6).

Essentially, respect is about the esteem or “sense of worth or excellence” that an individual feels.

The concept of Respect as a differentiator in creating the HT/HD board environment is supported by five second order themes which emerged from the study. The first three – knowledge, integrity, and alignment of purpose – are similar to the three factors comprising the concept of trustworthiness (ability, integrity and benevolence) as defined by Mayer et al. (1995). The remaining two themes are effort and reputation.

**Knowledge.** The set of competencies, skills and characteristics that enable an individual to have influence in the boardroom were grouped under knowledge.
Knowledge as a factor in creating Respect entailed strong functional capabilities, an understanding of the industry in which the company operated and a fundamental grasp of the regulations and laws applicable to effective governance. The chairman of one HT/HD board described their process for selecting board members:

“I created a grid as to what do we want on the board. What are the competencies? Knowledge in the industry; knowledge in finance; academia; technology; investment banking; finance; and you regionalize it, too. One of the things we were lacking was somebody with Asian experience; somebody from Asia.

So I had some holes in that grid, and I went out there and I filled them…That creates the respect.”

This approach contrasts with the experiences revealed by the executive of one company with a LT/HD board. He describes the knowledge level within the boardroom and its impact on the effectiveness of the board as follows:

“I think there’s not a real good understanding of what we do, and so, therefore, it’s hard for them (the board) to have an appreciation or really contribute in any major way to what we do. It’s at best – for most of them, it’s at a B52 level looking down. And there’s also a generational gap. I mean most of the guys are a lot older and their experience base, if they have it in the industry, is not necessarily contemporary, and the businesses may have changed.

So that leads to some issues, and because we don’t really meet on a more-often basis there’s always a learning curve. So that said, I mean the board generally all come to a consensus and everybody has an opinion, and we kind of go through it, but there’s limited assistance, if you will, from the board members in terms of actually moving the business forward.”

**Integrity.** Board members associated with High Trust / High Distrust board environments described integrity as a sense of openness, candor, and fairness amongst board members as well as between the board members and the executive team. This resulted in board room dialogues and discussions that tended to allow for greater levels of
exchange and discourse versus the more political behaviors that were seen in Low Trust / High Distrust environments. They also described board members as having higher levels of emotional intelligence, allowing for members to pick up on the mood of the room and respond accordingly.

The following example of a decision-making process exemplifies the degree of candor and openness as well as sensitivity to individual concerns that were highlighted by HT/HD board members:

“Clearly the chairman, who happens to be an independent chair in this case, realized that the board is not aligned and there are tensions.

He called me and said, “I see that you’re troubled. What’s going on?” So I explained to him that I’m worried that this is being pushed down our throats and I’m not sure that we are getting the best deal or not - from the CEO’s perspective he’s cashing out we might not be getting some sort of objective opinion and I don’t know that we are maximizing the shareholder value or if it is actually the right thing to do. And on the other hand I’m also concerned that if we say no these three guys (the executive team) can quit on us. Quit on us in the sense of not resigning literally but actually not do the work anymore, in which case the value of the company would be low. So we’re boxed in a little bit here.

And he said, “You’re not the only one.” He said, “I am also troubled, actually, personally.” So the two of us are the most troubled, there were four other board members who – independent board members who had said – who were less skeptical.

So we said, “Okay, we need to hash it out ourselves.” So the chair called a separate conference call just for the independent board members, and we laid all our concerns on the table. We discussed it. And he went back to CEO and said, “You know, people don’t have any problem with the concept, but board members are worried about the process, how we came to this conclusion.”

Board members of Low Trust / High Distrust environments provided much different evidence relative to the level of openness and candor within their boardrooms:
“When the decision was made to separate the CEO, the meeting that had been called was not called for that issue. It was called to look at a potential buyer of the company, but then the chairman brought up the issue of wanting to separate the CEO. My feeling was that it was a ruse to get us to a board meeting, and the decision was pre-made. There was no real open discussion of the pros and cons of separating the CEO. The chairman was going through the motions and had already lined up the votes he needed to move the issue in the direction he wanted to take it. He could control the board. That’s what he did.”

**Alignment of purpose.** HT/HD board environments differentiated themselves from LT/HD boards relative to their ability to create alignment around a common purpose. Similar to benevolence as described in Mayer, et al. (1995), alignment of purpose was associated with board members creating an attachment to the corpus of the corporation while also establishing and respecting the unique roles required of management and the board. The three dimensions that defined the broader theme of alignment of purpose were loyalty to the corporation, hope and shared vision, and role clarity.

**Loyalty to the corporation.** Notable amongst the board members of HT/HD boards was their focus on representing the interests of the company. Rather than align themselves to a particular constituency or stakeholder interest, these directors spoke of their allegiance being to the success of the company. This was expressed by one board member of Congressional:

“(T)here’s a consensus among the board that if we – the directors and the management team – really run the company the way it should be…. shareholder value will be an offshoot of that.”

Some members of LT/HD boards differed from HT/HD board members in that they often viewed their role as representing the interests of a particular constituency. This was particularly evident at Potomac where members attained their directorships
through a proxy fight driven by minority shareholders. This perspective is demonstrated in the comment below:

“We had new board members come in, four of whom had an association with a company that we had recognized for about a year and a half was interested in taking over (the Company). They had enough shares that they could, by proxy, get them on the board. From that point on, regardless of the efforts on the part of other board members to try to build a team, we could not be successful.” (Director, Potomac)

**Hope and shared vision.** The body of work on emotional intelligence and leadership (Boyatzis & McKee, 2005; Goleman, Boyatzis, & McKee, 2002) demonstrates an important link between effective organizations and their sense of hopefulness for the future. Grounded in positive organizational psychology, hope is derived from an integrated sense of being able to clearly articulate goals that are believed to be attainable and the development of a plan to meet those goals; all coupled with the sense of well-being associated from this process (Snyder, 2002). Shared vision is inextricably linked to hope in that it provides the organizational level dreams necessary to inspire hope. Unlike rote strategic visions and the subsequent plans that flow from them, shared visions involve “the elements of heart and passion that are essential for building commitment (Goleman et al., 2002: 208). In each of the cases associated with HT/HD boards, it was clear from the interviews that the CEO and the board had a strong shared vision for the strategic direction of the company.

This level of hope and shared vision translated to more than board / CEO alignment, but instead was better identified as attunement – “alignment with the kind of resonance that moves people emotionally as well as intellectually” (Goleman et al., 2002: 208). As one director of a HT/HD board noted:
“We have a clear strategic plan that we are all – the board and management team - very excited about. We all know where the company is going. Everybody can understand the vision of what we’re trying to create here, and at the same time, as things are brought forward, they’re brought in the context of the strategic vision for the company – one that we are all passionate about, and committed to achieving.” (Director, Columbia)

Board members of LT/HD boards, on the other hand, did not exhibit the same level of emotional attachment and commitment to a vision for the company. As exemplified by the comment provided by the Sawgrass CEO, there is clearly dissonance around the future direction of the company amongst factions within the board.

“(B)ecause what we do is engineering solutions, and they’re so complex and they’re outside of the background and experience of the board members that founded this company, they have no – it’s like it grows away from them and they have no ability to really understand it.

So if you don’t understand something, it’s very difficult to contribute to guiding it. And I think that goes back to when this company was really almost bankrupt, that was the driver behind it. It was something they didn’t understand.”

**Role clarity.** Another significant difference between HT/HD and LT/HD boards is their alignment around the role of the board. Members of HT/HD boards recognize the line between oversight and management. As such they are able to distance themselves from day to day management of the company – leaving that to the management team – but still able to intervene when they determine it to be necessary. Evidence of this was described by a director of Las Colinas:

“Today, I think the Board is focused on longer-term strategic issues. We’ve gotten away from the day-to-day operations. I think we had to focus for a while on day-to-day operations because the company was missing too many of its forecasts. We were not making money; we were losing money. Management was somewhat misdirecting our attention and/or – frankly, my opinion was that management was not strong enough, there was not sufficient expertise in the company to properly manage and
lead the company. The Board finally realized that and we replaced management; I think we made a good step forward, and I think we’re now, as a Board, focused on what are the right long-term strategic directions for the company.”

As expressed by one director, the board of Potomac - typical of the other LT/HD boards - was divided in their understanding of their role:

“From the very beginning, he was down into management’s business; he was trying to run the company. One of the ways that he tried to do that was to overwhelm management with these information requirements that made it very difficult for them to do their jobs, overloaded them, worked them seven days a week. It was “we and them” shouting and yelling and pointing and criticizing, and management was doing the best they could to provide the information, but I think the Chairman was going out of his way to make it so difficult on them that they could not do their jobs and answer his requirements at the same time.”

Effort. High Trust / High Distrust boards differentiated themselves from Low Trust / High Distrust boards in their description of the effort norms they ascribed to their members. HT/HD boards described members who tended to be more prepared for board meetings; having received and reviewed board documents well in advance of the upcoming meetings.

HT/HD boards also differed from LT/HD boards in the level of engagement they applied to the company’s strategic process. HT/HD boards were very involved in working with management to define, set and implement the strategic direction of the company. These boards participated in ways that were consistent with what McNulty and Pettigrew (1999) referred to as “shaping of the content and context of the strategy.” The chairman of Burning Tree described his approach:

“What we need to do in there is eight people get together and ask the right questions, understanding the answers, and being able to sit with the CEO and his management team, put our feet up on the table, take our ties off, and dialogue with folks. Does this make sense? Have you thought about
that? What about over here? That’s getting involved; that’s understanding. And clearly you then look for something more than mediocrity. You look for something more than growing a market, or if you can’t grow a market, at least now you can understand why.”

LT/HD boards, on the other hand, participated in the strategic planning process with what McNulty and Pettigrew (1999) referred to as “taking strategic decisions.”

Their involvement tended to come at the very end of the process when they had no ability to shape or influence the direction of the company. Instead they were expected to simply approve the plans as presented by the executive team. As one executive director at Sawgrass described their process:

“Once the strategic plans are developed, we primarily look to present them to the board in such a way as to support why we believe that these are the appropriate goals and strategies, and ask for their affirmation or whatever other input they have as to why they think that those may need to be changed or are not appropriate.

So it’s really that executive team of people that develop the strategies and look to the board to get confirmation.”

**Reputation.** Respect within the boardroom was also attributed to reputational factors which were defined around three dimensions: (1) a board member’s accomplishments outside of the board, (2) the level of status associated with their existing or prior external positions, and (3) their commitment to the existing board. One member of a High Trust / High Distrust board described his board in the following terms:

“(The Chairman) came from (a notable investment banker)…. (The chair of the audit committee) used to be CFO at (a Fortune 500 company). He’s imminently qualified. (Name) is a venture capitalist. (The chair) is one of the guys who did (the IPO of a highly successful company). He’s a wheeler-dealer from way back when. (Name), has been the CEO of (a world famous high-end consumer goods brand) for 20 some years. (We) have really high quality, far more than a company like ours deserves or maybe even needs.”
Board member reputations are also built by how they engage with executive team members, as the executive of one company noted:

“Even though his contemporaries may have come and gone, his legacy lives on, if you will. And he worked for a couple companies in this business when he came out (of the military), and frankly, I hope I have that much energy when I’m his age. He’s still very engaged and very willing to help come up with ideas and all that kind of stuff. He’s one of the guys that if we call, he will help and he will make phone calls and he will help guide us in terms of the (client) and what to do and not to do and who you might want to talk to. And he seems to be fairly progressive in terms of his thoughts and how the board should operate and the roles of the board versus management and kind of staying out of the day-to-day business.”

Contrast that with the comments of the CEO and director of Sawgrass, a company we identify as having a Low Trust / High Distrust environment:

“To tell you the truth, the board made decision upon decision upon decision about nothing – something that they did not know about, and made bad decision upon bad decision upon bad decision. And I was able to see that from the outside (before joining). And this company had a legacy of horrible decisions. And that’s why the change in our board today is being driven by my office.”

**Summary.** Evidence supports alignment around *Respect* as an important theme in assuring the development of a High Trust / High Distrust environment within the boardroom.

*Proposition 1A:* The higher the level of boardroom Respect, the more likely boards are to create and maintain an environment of High Trust / High Distrust.

*Proposition 1B:* The lower the level of boardroom Respect, the more likely boards are to create and maintain an environment of Low Trust / High Distrust.
Process Orientation as an Antecedent for High Trust / High Distrust (HT/HD)

As discussed above, control, and the conflict that it often generates, has the potential of creating dysfunctional distrust (Sundaramurthy & Lewis, 2003). A prescriptive model for decision-making presented by Edmondson, Roberto, & Watkins (2003) postulates that by managing processes in a contingent manner, upper echelon teams can produce better outcomes. Our findings indicate that boards with High Trust / High Distrust environments differ from Low Trust / High Distrust boards by effectively adapting what we label a Process Orientation by utilizing the three various process choices presented by Edmondson, et al. (2003). These choices include outcome control, process control and process design.

Outcome control. Outcome control addresses how final decisions are made in the boardroom. A unique characteristic of decision-making in the boardroom is that unlike the TMT, there is no decision leader. In other words, board members are expected to make strategic decisions in a consensual manner, with no member having any higher authority than the others. Additionally, board level consensus decision making provides an answer to the problem “who shall watch the watchers”, by replacing a single decision maker with a self monitoring collective body influenced by peer pressure, reputational sanctions and social norms (Bainbridge, 2008). The study’s evidence indicates that the normative approach can differ from this ideal. In HT/HD boards evidence tended to support a consensual approach. However initiating discussion closure through voting was the normal practice amongst Low Trust / High Distrust boards. The following examples highlight this approach:
“I don’t think it was a collective board decision. That decision was made by the Chairman, and he directed these other members to vote for it, and they did. It wasn’t an open discussion. This was, “We need to separate this guy, and we’re going to do it.” Some small talk in between, and then they moved into a vote and had the separation. It was a four to three decision. That was the vote.” (CEO, Potomac)

The Chairman and CEO of EnJoie was also dismissive of the need to find consensus amongst the board. As he described two separate decisions:

“This unanimous consent thing, I think is bull(xxxx), personally. I think that not everybody agrees. For example, I wanna raise $50 million and three guys agree and four guys disagree, that’s fine. It doesn’t carry. If four guys agree and three guys disagree, it carries.”

“And I remember the controversy that decision created among certain board members, one in particular, and he effectively voted against taking the deal, but we took it anyways ‘cause we had (the votes) – I think it was 6 to 1 and we went forward with that decision.” (Executive Chairman and CEO of En-Joie)

**Process control.** The manner in which the board deliberates, shares information and sets the agenda establishes the criteria for what I defined as process control. Again there were significant differences in how HT/HD boards dealt with these items when compared to LT/HD boards. As one member of a HT/HD board described process control in their boardroom:

“He (the chairman) would make sure that we were following procedural rules, and one of the things that he did so well was that on every single issue, every board member had an opportunity to speak and to express his or her thoughts. The beauty of that team was that not only did people speak, but others listened. So one person would have an opportunity to say something and then others would either pile on or ask a question, but it was all done in an effort to make the company better.”

Similarly, another HT/HD board member described his experience:

“And I think (the chair) was savvy enough to kind of convince the CEO that if he doesn’t get the board comfortable, it’s not gonna happen. And
so he has to kind of really open up and talk and communicate and deal with our concerns in an honest way.”

The approach amongst LT/HD boards tended to be more political. For example agenda setting was not open to input from all board members, nor was active discussion and debate around issues encouraged:

“(the chairman) took a recommendation from the board to publish the agenda for each board meeting sufficiently in advance with the background material, so that we could have an opportunity to study them and come to the meetings better prepared to discuss them. He agreed to that. It never happened, and moreover, when he became the acting CEO, he totally disregarded any need for any agenda or input from the other board members. He would just decide on his own what needed to be discussed. (Director, Potomac)

*Process design.* The manner in which the board chooses to structure itself makes a difference in how interactions occur and subsequently how trust is built. The study’s conceptualization of process control included the structure and composition of committees, use of special committee structures and duality of the CEO position. Governance reform has brought significant structural changes and a high degree of conformity. Nevertheless, boards still have significant flexibility. This includes the determination of CEO duality, the choice regarding the appointment of a lead director, the establishment of additional board committees to deal with specific issues such as M&A, strategy, and executive decisions. Differences in the approach to these factors were evident between HT/HD and LT/HD board environments.

For example, none of the HT/HD boards had an executive chair, while three of the four LT/HD boards were chaired by the CEO. Additionally, none of the LT/HD boards adopted the recommended best practice of installing a lead director when the CEO also serves as the chairman of the board. While both HT/HD and LT/HD boards utilized
some form of special committee structure, the difference was in implementation. For
HT/HD boards the committees were given significant latitude to operate but also had a
responsibility to integrate with the entire board structure. This was described by one
HT/HD director and CEO:

“The board met, reviewed the merger in detail...through consensus
designated a subcommittee to operate in collaboration with the CEO to
expand the understanding of the opportunity, to seek necessary advisory
and consulting resources to assist. The committee reported back on a
periodic and consistent basis with the board; got guidance from the
board.” (CEO and Director, Las Colinas)

This contrasted from the implementation at Potomac:

(The chair) established at the onset an executive committee consisting of
himself, (and two other board members). The governance was such that
the committee charter ran out and was never renewed, even though we
brought it up several times before the chair. The executive committee’s
charter was gone, and they were operating without any ability, but he
ignored those issues. The whole tone was that the CEO didn’t trust the
chair, and the chair didn’t trust the CEO. The intent of the committee was
to run the company. They set their own agenda, and they pursued that
agenda with or without board input. It didn’t make any difference to
them.” (Director, Potomac)

**Summary.** The evidence supports alignment around *Process Orientation* as an
important theme in assuring the development of a High Trust / High Distrust environment
within the boardroom. This leads to the following:

*Proposition 2A: The greater the level of Process Orientation adapted by
the board, the more likely the board will create and maintain an
environment of High Trust / High Distrust.*

*Proposition 2B: The lower the level of Process Orientation adapted by
the board, the more likely the board will create and maintain an
environment of Low Trust / High Distrust.*
Moderating the Impact of Respect and Process Orientation on Trust

As previously noted, the study’s findings also demonstrate two factors that played a critical role in moderating the relationship of Respect and Process Orientation with the operationalization of the board’s trust levels. These two – the leadership skills of the board chair and a stable and balanced power relationship between the board members and CEO – are described below.

**Board leadership skills.** The importance of the board chair in determining the trust environment in the boardroom is evidenced by the following comment from an independent director of Potomac, a Low Trust / High Distrust board:

“Quite frankly, the Chairman drove the company to the bottom with his own personality and his own agenda, which was supported by three of the other board members. Some to a lesser extent, some to a greater extent, but the fact of the matter is that he believed that as chairman of the board, he was first among equals and had more power and influence than anybody else, and because he had a 4-3 vote on the board, he could do it. So he hurt people, he drew the company down, in my view, in a sad, sad way. I mean, from the very beginning as the chairman of the board, he thought he was in charge of the company. He thought he was running the company.” (Director, Potomac)

Contrasting this statement with the comments from the CEO of Burning Tree, a High Trust / High Distrust board gives further credence to the important role that board leadership plays in effecting board relationships:

“(The chair) takes the leadership role of not only managing the board meetings, but ensuring that not only during board meetings but in between board meetings there is an open and continuous flow of dialogue among the independent directors. He’s also the focal point of independent director interaction.

(The chair) recognizes the difference between managing and governing. He is very careful not to get into attempting to manage the company, but rather manage the board and the accountability and governance side of the equation. He and I meet periodically between board meetings. We
typically spend a couple hours a month, aside from e-mail, voicemail, and telephone communication, which includes both updates of what is going on in the company and formulating issues and discussions for future board meetings. (We) work the agenda together. (The chair) manages the meetings and the interaction among the committee chairmen.”

**Board power symmetry.** The analysis of board power relationships has often used demographic and structural indicators as a proxy for the distribution of power within the boardroom. Low Trust / High Distrust boards tend to exhibit the characteristics typically associated with boards that exhibit an asymmetrical power relationship; CEO duality, long tenure of members, etc. But as Pettigrew & McNulty (1995) point out, besides a structural element, power also has a relational element made up of individuals’ awareness, possession, control and tactics in using power sources. Said another way, the mere presence of power will not create dysfunctional asymmetrical relationships unless there is a willingness to deploy these advantages (Pettigrew, 1973). High Trust / High Distrust boards differ from Low Trust / High Distrust boards in their proclivity towards power usage.

The following passage from the CEO of Burning Tree provides an example of how members of the board as well as board members and executives jointly work through issues:

“I think there is both respect, collegiality, and a tremendous amount of competence around the table that given that it’s a board who leaves its egos outside the boardroom, we get a lot of work done inside. The board really operates as independent directors. This is a board that challenges the CEO, presses the CEO, and really operates very much as a group of independent directors separate from the management, but it’s also a real resource to the management.

I think the last piece is that we have an incredible access to each other. I can pick up the phone, as I do in any given week, any time of day or night, and have access immediately to every one of my board members. I use that access to gain insights and to sometimes get them to open doors for
me. Other times, as a sounding board, so there is a high degree of comfort, but also a clarity of where the accountability and the inter-relationships exist.”

This approach is sharply contrasted at Low Trust / High Distrust boards as demonstrated by the following comments from two different LT/HD boards:

“It was very frustrating trying to challenge the CEO. Whenever we met in executive session (without the Chair/CEO present) there was significant discontent raised by the directors regarding the CEO. However when we came together in the boardroom all of the directors immediately caved to whatever the CEO requested. In fact it had become a standing joke that we spent all of our board time on strategy - the strategy of how to provide the CEO with additional increases to his compensation package.” (Director, En-Joie)

“I mean, and truth be known, the personality of the Board Chairman is very strong and can be overwhelming. I think he's more like a dictator. I think he expects that his decision is final, what he thinks is the correct decision. I think occasionally he does listen, but I think he plays the role of okay, this is what I think, this is what we're going to do, and he will usually persist until he gets that. Now, it used to be worse. I mean, there used to be some pretty heated exchanges between the Chairman and some of the people in the room, where he would say well, you know you're challenging my authority, and things like that. So I think that the Chairman's job, in my sense, is more of a leader than a Director, and we've gotten more a Director than a leader.” (Director, Sawgrass)

Summary. Evidence indicates the important role of the Chair’s Leadership Skills as well as Board Power Symmetry in moderating the impact of Respect and Process Orientation on the trust environment within the boardroom. This leads to the third and fourth propositions:

**Proposition 3:** Board leadership positively moderates the relationship between both Respect and Process Orientation with the board’s development and maintenance of a High Trust / High Distrust board environment.

**Proposition 4:** Board Power Symmetry positively moderates the relationship between both Respect and Process Orientation with the board’s development and maintenance of a High Trust / High Distrust board environment.
Conceptual model. Pulling the study’s findings together, they are presented in the conceptual model shown in Figure 15.

Discussion

This study opens the ‘black box’ of boardroom behavior and adds to the theories of corporate governance and particularly the study of boardroom dynamics. While agency theory proponents advocate the implementation of structural reforms for greater control and oversight, the evidence suggests that these changes serve only to condition the boardroom environment.

FIGURE 17
Conceptual Model
Instead individual board members and the processes they use for decision making and oversight create the environment that allows for both control and collaboration through the simultaneous creation and maintenance of trust and distrust. One independent director from Burning Tree (a High Trust / High Distrust board) succinctly and eloquently articulated the need for simultaneous trust and distrust during the interview:

“(T)rust plays an important role, but I think it’s a two-tier concept in my mind. Almost entirely, the reason why you have a board is because there’s a lack of trust, in some sense. The role of the board is oversight. So at that level you should have a freedom to express lack of trust in somebody’s proposal, challenge it, and all that stuff. But you need to also have big ‘T’ trust in the board so when you express something like that people are not going to question your motives or you feel inhibited that somebody will think that you’re not a loyal board member or something.”

The Integration of Respect and Process Orientation

Integrating Lewicki et al.’s (1998) framework for the simultaneous existence of both High Trust / High Distrust environments with Sundaramurthy and Lewis’s (2003) articulation of the need for concurrent boardroom control and collaboration, we build on their theories by providing empirical evidence for how Respect and Process Orientation serve as antecedents for High Trust / High Distrust board environments. While Luhmann (1979) contrasts the separate roles played by personal and system trust, the data indicate similar mechanisms at work within High Trust / High Distrust boardrooms.

Specifically, Respect serves as the primary mechanism for creating interpersonal trust in the boardroom, but as Zucker (1986) points out, this form of trust takes large amounts of time and energy; the nature of the modern, more diverse and structurally independent board makes this difficult to achieve. Consequently, reputation plays a critical initial role in defining interpersonal respect, since it is immediately visible.
Personal trust becomes the starting point for developing trust, but as Zucker (1986) points out, by itself personal trust is insufficient to produce the level of trust required in highly complex systems, such as corporate governance systems. Consequently system trust is essential for the constitution of trust (Bachmann, 2006). Both sets of boards in this study exercise high levels of control and subsequently create high levels of distrust. The difference between the two sets of boards is supported by the evidence showing that boards with high trust levels implement much greater levels of procedures and processes which serve to formalize the control function within the governance system. Essentially, much as Luhmann (1979) articulates, high trust boards build in control systems – institutionalized, consistent and reliable systems – through adherence to structured and procedurally just processes which serve to depersonalize the control function consistent with Braithwaite’s (2006) articulation of ‘trust as obligation’. In other words, the board’s control function is distanced from individual board members, essentially depersonalizing it and therefore allowing the simultaneous existence of personal trust.

**Understanding the Power-Trust Dialectic**

In boardrooms with low trust, the study’s evidence supports the existence of asymmetrical power relationships. While these relationships serve to dampen the establishment of trust in the boardroom, the findings also suggest support for the use of power as a substitute for trust in the boardroom. Low trust boards exhibited the political behaviors – agenda control, co-optation of board members, ad-hoc meetings, etc. – associated with influence techniques observed in asymmetric power relationships. The study’s finding which links board power relationships to the creation of trust in the
boardroom - as well as the substitution of power in lieu of trust - provides a unique empirical insight.

The findings in this study also provide support for agency theorists advocating structural and process changes as important steps in governance reform. While not statistically significant, boards represented by Low Trust / High Distrust exhibit many of the structural characteristics which have been argued to create less independence. These include CEO duality as well as long tenure of board members. Additionally, none of the boards with CEO duality and low trust instituted the recommended best practice of appointing a lead director.

**Concluding Remarks**

A rich body of literature is beginning to evolve to address the impact of behavior within and around the boardroom (e.g. Huse 2005, 2007, 2009a; LeBlanc and Gillies, 2005; McNulty et al., 2011; van Ees, van der Laan, & Postma, 2009). It is hoped that this study will assist in advancing this body of work.

**Study Limitations**

These findings should be considered in light of several potential limitations. The research sample was small, non-random and focused on U. S. publicly traded (NASDAQ) companies and therefore not necessarily representative of all corporate boards of directors, particularly non-U.S. enterprises. Of particular concern is that the sample size was predominantly majority male board members and therefore does not represent potential differences as a result of a more demographically diverse sample. Previous studies (e.g. McInerney-Lacombe et al., 2008) provide support for the different role that
women play in the organizational dynamics in the boardroom. Additionally, in capturing data used in this study, sensitivity to the influence of context on the decision process could result in biases.

Research data were collected by conducting interviews with open-ended questions of critical incidences that examined both structures and processes within the board environment. The interviews relied on recollection of past actions and events and responses were thus subject to recall bias. Some recollections may have been incomplete or some “facts” recalled and redefined to fit present-day positions. Additionally there is a human tendency to reflect on one’s past actions in a “best light” mode and informants may reconstruct events that align with their self-view (Pasupathi, 2001). This risk has been noted to be relevant particularly in strategy research which relies on retrospective data from strategic-level managers (Huber & Power, 1985). However, interviewing multiple informants within the same case who described the same or similar interactions served to mitigate this risk.

Implications on Future Research and Practice

The resulting empirical findings reveal that boards have significant and divergent processes for interacting and decision making. While there has been significant research on board level power dynamics and decision making, work examining the actual behavior of boards is still unusual and responds to calls to gain access to process data (Huse, 2009b; Pye & Pettigrew, 2005; Vigano et al., 2011). For researchers, this study provides an additional step in helping to clarify the complexities associated with the interpersonal nature of board dynamics and processes. While this study suggests the impact of two factors - Respect and Process Orientation - on the creation and maintenance of High Trust
High Distrust board environments, further research is needed to verify these factors and associated items.

The study’s findings point to a continuing need for further research. Of special interest is the leadership role of the board chair in facilitating board meetings and processes, as well as board member interactions. Additionally, an expansion of this study to explore how the trust environment impacts board task performance and ultimately firm performance would provide additional benefit. A third area of exploration would be an examination of the individual competencies required for effective board membership.

For practitioners, the findings point to the importance of selecting and evaluating board members; not only on their knowledge and skills, but also their behaviors and inclinations, in an effort to determine their proclivity to create and maintain respect and trust. Furthermore, the findings indicate a need to stress the importance of the chair’s leadership and facilitation skills as important factors in establishing a boardroom climate that encourages respect and trust, while maintaining a stable and balanced board power structure. Finally, the findings demonstrate the importance of institutionalizing through outcome control, process control and process design, well defined and procedurally just processes for control and decision making.
CHAPTER VIII: INTEGRATED FINDINGS AND DISCUSSION

The purpose of this dissertation is to develop a deeper understanding into the processes associated with how boards of directors contribute to firm effectiveness. To accomplish this I examined the decision-making processes of publicly traded corporations with the understanding that the board’s primary job is decision making, thus allowing a window into how boards conduct the bulk of their business. Throughout the research the focus has been on process effectiveness rather than outcome effectiveness; the exception being Study Two, whereby the linkage of decision-making processes to board task performance was extended. The objective of Study One was to understand the specific antecedents that differentiated boards that adopt predominantly procedurally rational decision-making processes from those that exhibited a propensity for political behaviors. Study Two expanded this understanding by finding support for behavioral structures and processes that influenced the efficacy of procedurally rational decision-making processes. This study also demonstrated support for the linkage between these procedurally rational decision-making processes and board task performance. Finally, in Study Three I explored the mechanisms that help create and maintain a specific behavioral structure – trust – that has been posited to enhance boardroom decision-making.

In this chapter the findings from these three studies are integrated into what I consider the most important insights to be gained from the research. After introducing these insights I present a potential process model that is suggested from the findings. I follow this with some thoughts on what I refer to as a set of alternative decision premises that serve to create some of the dysfunctionalities shaping board behaviors.
Integrating the Findings

While agency theory predicts that formal structures – particularly board independence and incentive systems – play a key role in establishing the efficacy of corporate governance, the key insight and guiding theme that emerged from this research is the important role that both behavioral structures and behavioral processes play in the creation of effective board decision making. Looking from afar, the companies in this study could all be viewed as the paragon for modern corporate governance; board membership entailed a super-majority of independent members with incentive systems that included a strong element of equity compensation both for the executive team and the independent directors. However, upon closer examination, despite convergence around a set of common structural features, the boards in this research study demonstrated divergent decision-making processes which emerged from disparate behavioral structures and processes.

Integrating the findings from the three studies presented in Chapters 5 through 7, I have identified the factors that are critical to shaping boardroom dynamics. Expanding on the Hambrick, Werder, & Zajac (2008) typology presented in Chapter 3, I have grouped the factors into three categories: (1) individual board member characteristics, (2) behavioral structures, and (3) behavioral processes. A fourth factor, the leadership skills of the board chair, creates an overarching condition that shapes every aspect of board dynamics from board member selection through decision outcome. While there are certainly other factors that are likely to impact the effectiveness of the board’s decision making processes, the factors I have identified emerged as the most informative and
influential pertaining to the boards in this study. The factors are discussed in more detail below.

**Individual Board Member Characteristics**

The vast majority of board research has focused on the board as a social system, subordinating individual board member traits and characteristics to those of the group. Our evidence however, demonstrates that individual board member behaviors matter. The biases and belief structures they bring to the boardroom based upon their experiences, backgrounds and values impact boardroom dynamics. Respondents spoke of the importance of the *effort* that board members apply to their task as an important indicator; board members who commit their time and energy to understanding the corporation and its issues, as well as preparing for board meetings were held in higher esteem.

A second board member characteristic identified by respondents was *trustworthiness*. Consistent with Davis et al. (1997) trustworthiness, as witnessed in this study, was defined around three traits. First the skill level of the individual board member, specifically her understanding of the company and the competencies that she brings to the tasks of the board. Second, the integrity that the board member demonstrates – manifested through value congruence amongst the board members and with the CEO. The third trait, benevolence, is the extent that a director is motivated to do good for the trustor. In the boardroom this is often measured by the directors’ commitment to the success of the corporation and/or shareholder value maximization. Stout (2003) argues that if we are to expect directors to serve the interests of the firm and
its shareholders – rather than their own self interests - it is important to select directors who are predisposed to collectivism and a willingness to cooperate altruistically.

**Behavioral Structures**

Giddens defines structures as the “recursively organized sets of rules and resources….not ‘external’ to individuals: as memory traces and instantiated in social practices, it is in a certain sense more ‘internal’ than exterior to their activities” (Giddens, 1984: 25). The behavioral structures presented by the findings which I determined to be most important in shaping board dynamics were *respect, trust, power, and shared vision*.

As identified in Study One and supported in Study Two, *respect* within the boardroom serves several important purposes particularly as the problems that board members face become more abstract. Respect for other board members opens oneself up to accepting the ideas presented by others (Cronin, 2010) while simultaneously serving as a vehicle to diminish the negative feelings that can arise during debate and discussion (Allred, 1999).

Our understanding of the concept of *trust* in the boardroom is expanded in Study Three. By design, the board is structured as a mechanism for mitigating the agency problem of shirking and opportunism presented by the separation of control and ownership; in essence it is an institution grounded in distrust. However, as shown, the board’s task performance is predicated upon an ability to balance the inherent tensions associated with control and collaboration (Sundaramurthy & Lewis, 2003). Our findings show that the boards that effectively balance these competing tensions do so through the creation and maintenance of two trust mechanisms; interpersonal trust which manifests
itself out of the familiarity that comes through engagement and interaction, and system trust, which is the consequence of board processes and external institutions.

The role of power is a central theme in agency theory and its influence on board dynamics has been well researched (e.g. McNulty et al., 2011; Pearce & Zahra, 1991; Pettigrew & McNulty, 1995; 1998; Wenstop, 2009; Westphal & Zajac, 1995; Zald, 1969). We know that the existence of a structural power mechanism (e.g. CEO duality) in and of itself does not manifest negative board dynamics; Study Two provided no support for CEO duality as a structural mechanism in effecting board dynamics.

However, through interviews conducted as part of both Study One and Study Three, the importance of board power asymmetries as an integral factor in board dynamics was evidenced. Board members whose inclination was to suppress their power advantage were seen as creating a supportive and psychologically safe environment (Edmondson, 1999) which encouraged both collaboration and dissent amongst the boardmembers as well as between board members and the executive team.

*Shared vision* emerged as an important factor in both Study One and Study Three. Board members who engaged in what McNulty & Pettigrew (1999) describe as ‘shaping the content, context, and conduct of strategy’ through collaboration both within the boardroom and more importantly while engaging with the top management team outside of regularly scheduled board meetings developed, amongst themselves, alignment around a common purpose and vision for the corporation. This served as an effective guide for decision making within the boardroom. Additionally, it created a visible passion amongst board members, committing them to the company both emotionally as well as intellectually.
Behavioral Processes

Team members collaborate and interact in an effort to share information, build knowledge and ultimately make strategic decisions. The routines, rituals and activities board members use to accomplish these activities define the board’s processes. Three processes emerged from this research which I determined to be most important in defining the effectiveness of the boards examined in this study. They were: (1) board member / TMT collaboration, (2) procedural rationality, and (3) procedural justice.

Collaboration between board members and the top management team (TMT) was, for effective boards, an important factor in sharing information and building knowledge as evidenced in all three studies. Boards that had ready accessibility to members of the TMT were perceived to have a much better understanding of their respective corporations. Often this collaboration was formalized through a strategic planning process that engaged board members throughout the process, resulting in what was described earlier as a shared vision for the company.

As discussed in Chapter 5, procedural rationality involves the collection of relevant information and the subsequent use of this information in the analysis of the decision recommendation (Dean & Sharfman, 1996). The presumption throughout this research is that firms deploying procedural rationality as the predominant decision-making style, in lieu of political behaviors, are expected to better leverage the decision-making capabilities of individual board members in order to create more effective board decisions and therefore effective board task performance. Consequently, Study One began with the understanding that procedural rationality serves as the dependent variable for effective board decision making. In Study Two, the efficacy of procedural rationality
on board task performance was validated. Utilizing rational decision making processes as presented by Forbes and Milliken (1999), support for the relationship between cognitive conflict and effort norms on board task performance was found.

Studies One and Three, by analyzing board interviews elicited a deeper understanding of the decision-making procedures utilized in the boardroom. From these studies it became clear that effective boards demonstrated a commitment to *procedural justice* throughout the decision-making process. Procedural justice defines a just process as one that is conducted consistent with standards of impartiality and respect (Sapienza, Korsgaard, Goulet, & Hoogendam, 2000). In a procedurally just decision-making process board members are given the opportunity to provide input and their input is given fair consideration. In essence they are afforded dignity and respect. Informed by the group engagement model as presented by Tyler and Blader (2003), procedural justice generates pro-social outcomes including the building of trust, discretionary behaviors, and a greater sense of obligation and responsibility.

Fair procedures serve to indicate the trustworthiness of board members, assuring that board decisions are made with integrity and in a benevolent manner (Tyler & Lind, 1992). A second benefit associated with a just process is the affirmation it provides to members of the board that they are all valued and of equal status (Tyler & Lind, 1992). This is especially important in a board environment where the formation of the board is based upon the legal premise that as a consensus decision-making body, with no member serving as the decision leader, every board member is accorded equal status such that no board member has authority over any other board member. A third advantage of procedural justice is its importance in securing the commitment of the board member and
the TMT to the decision, assuring greater likelihood of implementation success. Finally, boards which deploy procedural justice are more likely to maintain cohesion and a commitment to continue to work together.

**Leadership Skills of the Board Chair**

Throughout the study, respondents indicated the saliency of the board chair’s leadership skills in creating a supportive enabling board environment. While neither regulatory nor legal sanctions demand the separation of the CEO and chairman positions, agency theorists posit that it creates a greater level of board independence. In almost half of the boards under evaluation these roles were split, leaving the other half functioning with CEO duality. It is worthwhile to point out that all of the boards determined to be effective in their decision making processes were chaired by non-executive independent chairmen. Their ability to generate open dialogue, inclusive discussion and a more just process was noted by respondents. Of particular note was the tendency these boards had for decision outcomes to be the result of a thorough and fair process (i.e. the final consensus often emerged without the need to close the decision process through a formal vote) rather than an event (i.e. decision closure through a formal vote, often with a split outcome).

The influence of the board chair was noted by respondents to extend well beyond process management and decision closure. Effective board chairs were involved in helping to establish the board structure and its membership. This extended to include the establishment, structure and make-up of the board committees. Another important feature associated with the board chair in effective boards was the quality of the relationship between the CEO and the chair. In these boards, there was an active and
open dialogue between the two actors. Associated with this relationship was a clear
delineation between the role of the chairman and the CEO, assuring clarity within the
organization around responsibilities and accountability.

Effective chairs also worked to assure divergence of power away from their
position as the board leader (Tost, Gino, & Larrick, 2011). As a result this served to
enable more open dialogue and debate within the boardroom. The importance of this in
the boardroom is especially pertinent given the nature of the board as a consensus
decision-making body.

**Moving Towards a Behavioral Model of Board Decision Making**

Returning to the Board of Directors Model (Figure 4) presented in Chapter 3, I
summarize the indicators for board decision-making effectiveness as described above to
present a more robust view of the board’s ‘black box’ now re-conceptualized in Figure
18. Represented in this view of the board’s inner workings is the duality of the board’s
structures where “the structural properties of the social systems are both medium and
outcome of the practices they recursively organize” (Giddens, 1984: 25). Said another
way, the board’s structures – both formal and behavioral - help to determine the
behavioral processes of the board, these in turn serve to reshape the board’s behavioral
structures through a series of feedback loops. The important implication of this being
that the board’s formal and visible features – its formal structure, composition and
policies - play an important and critical role in shaping the behavioral structures and
processes that occur in the privacy of the boardroom. However, while vital to the
effective operation of the board, these visible features are also not sufficient.
FIGURE 18
A Behavioral View of the Board’s ‘Black Box’
Alternative Decision Premises

The convergence of political and rational decision making processes can serve to suppress divergent decision premises within the boardroom. As a consequence, directors can be found to “talk past each other” because they hold very different beliefs about both the desired ends, as well as the means of achieving those ends; in essence they see the world differently. These differences can often serve as the basis for political behaviors in the boardroom, resulting in conflict and dysfunction; however, “constructive exploitation of political disputes, not their elimination, is necessary to foster organizational commitment and cooperation” (Walsh & Fahey, 1986: 327). In this section we examine a few of the macro-level decision premises that are common in boardrooms and emerged during this research study.

A common refrain echoed during boardroom discussions is the directors’ obligation to his or her fiduciary duty. Upon closer examination, while every director will admit to this obligation, few will agree as to what it means. The term fiduciary assumes a relationship of trust. While it is clear that directors are to serve the interests of the shareholders, in reality the courts provide significant latitude in this regard, stating that the board is responsible for assuring management acts in the interests of the firm and the residual risk takers (Production Resources Group v. NCT Group Inc. II CY, 2004). A strict adherence to a shareholder primacy ‘decision premise’ will drive a director to act to optimize the utility of a single constituent, the shareholder. For a director who sees her fiduciary duty as being responsible for the firm, she can assert that all constituents are factors in the firm’s production and therefore must be considered in the best interests of the firm during the decision-making process.
Directors are also allowed significant discretion in how they perform their fiduciary duties. Low discretion assumes they act in a strict principal-agent relationship, essentially taking direction from shareholders. However an alternative view, a trustee-beneficiary relationship, leads to wider discretion on the part of directors in that they are presumed to be positioned to know what is in the best interests for the shareholder and to act with that in mind. The level of discretion is increased even further when a company approaches the ‘zone of insolvency.’ In this situation directors are expected to serve the best interests of the “community at large.”

Another ‘decision premise’ which is subject to interpretation by directors deals with the degree of discretion they choose to exercise in overseeing the management of the firm. Here again, considerable ambiguity exists; the business and affairs of a Delaware corporation are managed by or under its board of directors (Smith v. Van Gorkom, 1985). Conflicts often arise over differing interpretations as to the level of delegation to grant to management, in essence to what degree should the board involve itself in the operations of the company in order to effectively perform its fiduciary duty. To the CEO who is responsible and ultimately accountable for the performance of the company the desire is to have as limited involvement from the board of directors as possible. However, depending upon the situation, e.g. in the middle of a financial crisis, the board may not be willing to accommodate as much autonomy.

These ‘alternative decision premises’ are presented to show what are often the unspoken beliefs that individual directors bring with them to the boardroom. While they are sometimes resolved through compliance with the prevailing norms of the boardroom, more often they are assumed and not addressed. A bigger problem emerges when they
are not fleshed out with the CEO, creating considerable conflict as both the board and the CEO go through a proverbial ‘Kabuki’ dance trying to define the acceptable boundary conditions and ‘decision premises’ through trial and error.

Summary

In this chapter I attempted to consolidate the findings from the three studies into a single integrated framework that captures the significant indicators that I determined to have the greatest impact on shaping the dynamics of the boardrooms examined in this study. Together these indicators serve to inform us regarding the inner-workings of the private deliberations that occur in public company boardrooms. The behavioral view of the ‘black box’ provides us with a perspective on how behavioral structures shape the behavioral processes, which in turn shape the behavioral structures, creating a recursive feedback loop. From these findings it becomes apparent that the outwardly visible features of the board, while vital for board functioning are not sufficient to assure its effectiveness.

The chapter concluded with a brief introduction to some of the commonly held ‘alternative decision premises’ which board members bring to their roles, creating dysfunction in the decision-making processes. Active resolution of these disparate beliefs would serve to reduce unnecessary board conflict. In the final chapter we conclude the study by highlighting the limitations associated with this research study, its implications for both research and practice, and finally some concluding comments.
CHAPTER IX: CONCLUSION

Limitations of Research

As with any study, this research involves a number of limitations. The specific limitations of each of the three individual studies is detailed and presented as part of Chapters 5, 6 and 7. Suffice it to say I will not repeat those limitations here. Instead I would like to address a broader set of limitations applicable to the research in general.

Sampling Biases

First of all, the set of companies analyzed in this study represent a unique sampling that should not be generalized to all publicly traded companies. The companies in this study represent market capitalization values that range from about $100M to $1.4B. Their business models were relatively simple with little diversity in their portfolio of offerings. As compared to more complex, larger companies such as the Fortune 500, this affords board members the opportunity to better understand their respective company’s business model, providing the opportunity for greater engagement as a board member. One would expect in larger more complex companies it would be more difficult for directors to take as active a role in the oversight of the company. This profile of companies is also typically run by relatively new and less experienced CEOs. This provides two anomalies. First of all, the CEOs in these companies are often serving in their capacity for the first time, and therefore more likely to be open to advice and counsel from the board. On the other hand, for most of the CEOs this is their first experience serving as a board member, and have little exposure and understanding as to their role as a director, not to mention their expected relationship between the board and the CEO, creating greater opportunities for misunderstanding and conflict.
The boards in this study were relatively homogeneous. Of the 59 total board members serving on the eight boards examined in the qualitative studies, only three (5.1%) were women and two (3.4%) were minorities based upon race and ethnicity. This is significantly below the national averages for Fortune 500 companies where 15.7% of the seats are filled by women (Soares, Combopiano, Regis, Shur, & Wong, 2010) and 12.9% by ethnic minorities (Diversity, 2011). Studies have shown that the involvement of women in the boardroom has an impact on the dynamics associated with decision making (McInerney-Lacombe, Bilimoria, & Salipante, 2008). Consequently it would be reasonable to expect that in boards with a more diverse mix of directors, the outcome could be different.

**Situational Biases**

Another factor that plays a role in understanding the limitations of this study is the specific economic environment in which the study was conducted as well as the specific context of the companies sampled in this study. As shown in Chapter 2, the role of the board is very context specific, shaped by political, institutional, economic and societal pressures. At the time of this study, the nation was working its way out of the largest economic recession since the Great Depression. For example, on 29 September 2008 the stock market realized its biggest ever point drop in the Dow Industrial Average, yielding a loss in market value of $1.2 trillion (Twin, 2008). All of the companies in this study experienced significant reductions in their market capitalization values during this period and in many cases their performance suffered due to the resulting economic slowdown. This created a set of pressures within boardrooms that varied from company to company. For example, two of the companies in the study were subjected to hostile shareholder
activity, in both cases this resulted in a boardroom shakeup which during the time of the study was being addressed by both companies. Three of the companies were going through severe cash flow issues, resulting in bank covenant violations. This marketplace dynamism had the impact of boards having to exercise greater involvement due to the impending crises faced by these companies. In a different economic environment one could expect to see different patterns of decision making and behaviors.

This study was also conducted at a point in time. Rather than a longitudinal study which captures the changes in board dynamics as situations, composition, and issues change over time, the nature of this study was to examine the decision-making processes for the sample companies at the time of data collection. This was also the case for the quantitative survey results. As a result, the findings in this study represent only a snapshot of the decision-making processes in each company which could vary subject to the context and situation being explored.

**Researcher Biases**

Finally, in every study the researcher brings his or her own set of biases to the research. I am no exception. One way of addressing these biases is to acknowledge they exist (Corbin & Strauss, 2008). While it is not practical to list my entire set of biases relative to this research study, one important potential area of bias is associated with my membership as a public company director. In order to assure a detached analysis of the data I consistently and thoroughly subjected the study’s data, the findings and their analysis to multiple independent reviews by members of my dissertation committee, additional governance scholars as well as practitioners. Their insights, thoughts, and
suggestions provided validation that, in so much as is practical, I accurately represented
the findings as presented.

**Implications for Research and Practice**

Studies of corporate governance rarely include a look into the processes, let alone
the characteristics of boardroom behaviors that go on in the privacy of public company
boardrooms. This study, through a series of detailed one-on-one interviews provides a
glimpse into that world. What emerges from this study are insights that inform our
understanding of the behavioral structures and processes that affect boardroom dynamics.
This aspect of corporate governance is both largely under-theorized and largely
unaddressed, despite as this study shows, it can do much to improve our understanding of
the effectiveness of corporate governance.

For corporate governance scholars, agency theory has provided the bedrock for
further theoretical inspiration and discovery. Its influence has had enormous reach for
both scholars as well as public policy analysts. Still, for those who spend their lives
immersed in the practice of corporate governance, or give deeper consideration to the
boardroom as a dynamic social system, it fails in many ways to capture the human
relationships that comprise the essence of the board experience. The findings of this
study support agency theory’s premise that the board’s formal structures are essential to
good governance. However, as discussed in the introduction, this research goes beyond
what boards look like, examining instead, what boards actually do. The findings in this
research provide empirical support for the importance of both behavioral structures and
behavioral processes on board effectiveness.
**Key Theoretical Contributions**

A key contribution of this research is an understanding of the mechanisms that serve to create a supportive environment for procedurally rational decision-making processes to be deployed in the boardroom. Unlike TMTs, where a decision leader is placed in charge of the decision-making group, corporations place the board at the apex of the corporate hierarchy as a consensus driven decision-making group. The importance of creating an environment that creates procedurally rational as well as procedurally just processes is necessitated by this unique structure. The findings in this study show how the alignment around a common corporate purpose, while also assuring balanced power relationships both within the boardroom, as well as between the board and the TMT is essential for assuring that these processes play out.

A second key finding was the development of respect as an important behavioral structure for effective boardroom functioning. While popular articles on boardroom effectiveness have accorded respect a prominent role in the boardroom, this is the first study to explicitly define the parameters, as well as provide empirical support for respect as an antecedent in creating collaborative decision-making processes.

In a similar fashion, another key finding of this study provides a deeper understanding of the board’s decision-making processes through another important behavioral structure, trust. Extending the concept of the existence of both high trust with high distrust, in what is popularly referred to as ‘trust but verify’, this study is the first empirical analysis of how boards create and maintain, a High Trust / High Distrust environment through the deployment of both interpersonal and system trust.
Shared vision emerged from the findings of this study as another behavioral structure through which board members are able to develop higher levels of respect and trust. An important contribution of this study is how shared vision gets created through the collaborative strategic planning processes between the board members and the top management team. Boards with formal strategic planning processes serve to transfer knowledge and understanding of the company to the board members, the findings of this study demonstrate that these processes also have a secondary affect by creating an emotional connection between board members and the company, as well as between board members and the TMT.

Much of the research on understanding board effectiveness has addressed the board as a unit of analysis. While this study took the same approach, what emerged from our findings was the importance that individual board members’ biases and characteristics weigh on the behavioral structures and subsequently the processes within the boardroom. The two board member characteristics that emerged from this study – trustworthiness and collectivism, as evidenced through effort – provide a unique contribution in beginning to better understand the criteria for board member selection.

This study also contributed to our understanding of the connection between decision-making processes and board task performance. Utilizing the procedurally rational processes described by Forbes and Milliken (1999), Study Two found support linking cognitive conflict and effort norms to the board’s task outcomes; lending empirical support to their theoretical argument that greater decision-making effectiveness leads to more effective board task performance.
Key Practical Contributions

Besides the theoretical contributions described above, this study provides several important insights for practitioners. The first is the importance of the board chair’s leadership skills in enabling the establishment of a supportive decision-making environment. Future boards would benefit through a careful analysis of the characteristics displayed by the chairs of effective boards in this study. These include: (1) a strong commitment to the corporation and its purpose; (2) the ability to develop a solid, open relationship with the company’s CEO; (3) the ability to subordinate oneself to the other board members during board discussions and deliberations; (4) the emotional intelligence skills to be able to sense the mood of the board and its members; (5) a commitment to assuring the collection, dissemination and evaluation of relevant information for decision making – in essence a commitment to procedural rationality; and (6) effective facilitation skills that allow for the deployment of just processes.

The contributions of this study would also benefit practitioners through the identification of behavioral characteristics as important criteria in board selection. Going beyond functional and industry skills, this study demonstrates the importance of trustworthiness in board members. More specifically this includes the willingness to place the interests of the corporation ahead of any constituents, as well as the willingness to set aside any biases or self-interests during decision making. Associated with this is a propensity for cooperation demonstrated by a willingness to work for collective action rather than advocate for a single solution.

This study also provides practitioners with a deeper understanding of the roles that both procedural rationality and procedural justice play as behavioral processes in the
boardroom. Going beyond their impact in creating effective decisions, procedurally just processes also serve to connect the board members to each other, increasing both respect and trust amongst members. They also nurture pro-social behaviors that create a greater sense of commitment as well as a willingness to engage in discretionary work activities by directors.

**Future Research Agenda**

Any research project will open up more questions than it will answer. Several interesting areas for future research have emerged during the course of this study. A beginning area ripe for future research would be a more detailed analysis of the specific characteristics that are required for board members. Today, most boards approach member selection as a ‘box ticking’ event, searching for demographic, functional, industry and diversity compliance. As this study has shown, the specific biases, framings, and belief systems that a board member brings to his or her role has an enormous impact on their effectiveness. Limited research has been undertaken to address this matter (for an exception see Dulewicz, 2007 and Leblanc & Gillies, 2005). There could be tremendous benefit to placement agencies as well as nominating committees to have a toolset that describes and tests the specific individual competencies required for effective board member performance.

Another potential area of research is the expansion of this study to a broader set of industries to see if in fact the same behavioral structures and processes emerge as salient. The high technology industry studied in this research presents advantages associated with greater industry dynamism, more rapid decision making, and greater board involvement, however it would be interesting to see how these results would hold up in research.
studies involving more mature industries. Similarly, applying this analysis against larger companies, such as the Fortune 500, due to the perceived differences in the nature of board relationships in very large companies, could yield interesting and enlightening results.

The expansion of the constructs of boardroom respect and trust would be another interesting area of study. Teasing out additional factors that contribute to the assignment of trust and respect to board members, while attempting to validate the factors presented in this study would provide greater insights into what board members really mean when they describe trust and respect in the boardroom. By developing empirical tests and running them on large sample sizes, it would be instructive to understand better the causal relationships associated with the various behavioral structures and processes.

Taking the idea of trust further, the modeling of system trust as a mechanism for serving to enculturate interpersonal trust has significant potential. Particularly interesting would be to gain a better understanding for how boards mobilize the various mechanisms of system trust through the board’s various committees.

Throughout this study the importance of the board chair role emerged as instrumental in creating the type of board environment for successful decision making. While there have been significant popular articles (e.g. Lorsch & Zelleke, 2005; Pick, 2009; Wolf, 2010) addressing particular attributes that are essential for board leadership, they have not been grounded in empirical studies. However there has been limited qualitative research conducted around this matter (for exceptions see Kakabadse, Kakabadse, & Barratt, 2006; and McNulty, et al., 2011). Research directed at addressing this gap appears to be a prime area of study. In a related vein, additional qualitative work
addressing the impact of CEO duality on board decision-making style could provide better insights into the limited finding from this study that indicates CEO duality appears to drive a higher level of political behaviors in the boardroom.

Finally, this study, while opening up the inner-workings of the boardroom, has also revealed the complexities associated with understanding corporate governance. As mentioned in Chapter 3, there has been limited examination of board governance conducted through the lens of complexity theory. A multi-level analysis of the governance ecosystem could provide valuable insights into the inter-connectedness of the various subsystems that impact corporate governance.

**Closing Thoughts**

This research began as an exploration of the decision-making processes within publicly traded U. S. corporations in an effort to define the conditions that create more effective board-level decision making. The findings presented from this research provide a first step in revealing the behavioral factors that impact the dynamics of boardroom decision making. The study also reveals the complexities associated with corporate governance. The board of directors sits as only one actor in a much broader governance ecosystem that includes the corporation, shareholders, employees, the company’s supply chain, regulating bodies, stock listing agencies, public accounting firms, governance rating agencies, state and federal governments, industry analysts, anti-corporate interest groups, D&O insurance companies, securities lawyers, activist investors, and the list goes on and on. What this demonstrates is the difficult and myriad landscape through which publicly traded company directors are asked to navigate.
If we are to expect boards of directors to become effective decision makers, assuring that their companies are pointed towards the strategic objectives that best serve the interests of society, we need to do a better job of providing them a heading against which to steer. Today’s landscape of corporate governance players is an eclectic set of actors, most of whom are charged with serving a very narrow constituency with diverging interests from each other. Before we can ask board directors to provide strategic direction for their companies it is incumbent upon society to come to grips with the purpose and role of the corporation in society. If it is to be a vehicle for shareholder maximization, that gives directors one course to chart. If it is to be an agent for societal well-being (however that is to be defined), the course is a different one. Without a clear purpose and direction it is difficult to measure the efficacy of corporate governance let alone hold executives and boards accountable.
APPENDIX A
Research Interview Protocol

The research questions proposed below are designed to explore specific board member behaviors associated with strategic decision-making processes. I will begin the interview by describing my role in this research. I will explain that the research I am conducting is designed “to gain a better perspective on the role of the board of directors in strategic decision-making.”

1. Please describe for me your personal and professional background.
   a. How did you become a member of this board?
   b. Are you on any other public company boards?
   c. What is your functional background?
   d. Have you been a CEO and/or Chairman of another company?

2. Take me back to your last “regularly scheduled” board meeting that you feel was indicative of a “typical” board meeting and describe the details of that particular meeting for me.
   a. When was that meeting?
   b. Who attended? Where was the meeting held? When did it start and end?
   c. How would you describe the relationships amongst board members? How about with the CEO and the executive management team?
   d. Describe for me what you believe the CEO’s attitude was towards the board.
   e. How was the meeting agenda put together?
   f. Did each member contribute equally to the board’s effectiveness? How would you characterize the role that each member played during the meeting?
   g. What level of pressure did you feel board members experienced relative to the necessity to reach unanimous agreement on strategic decisions?
   h. How would you describe the nature of the board discussions and deliberations?
   i. Which board members emerged as the leaders in the boardroom? Why? Is this consistent on all issues or did it vary depending upon the subject matter?
   j. How often does this board meet? What communications or interactions do you have outside of the regularly scheduled board meetings?
   k. How typical was the last meeting relative to your other normally scheduled board meetings? What varies from meeting to meeting?
3. Thank you for that description. I now think I have a pretty good idea of a typical board meeting.

I’d like to gain a better understanding of your role on the board.

**How would you describe your own personal role on the board?**

a. Do you tend to be more hands on in your board role than other members of the board? Do other board members have the same propensity to engage in the details of the company?

b. In your personal board deliberations, what do you think your role is relative to incorporating the interests of the various stakeholders? Does your position differ from that of other board members?

c. Personally, are you more concerned with short term tactical performance or the long term strategic direction of the company? Does your position differ from that of other board members?

4. That gives me a better perspective regarding your role on the board. Thank you.

I would now like to move to a different area. Aside from the routine issues that boards must deal with – the kinds of things you described as part of your typical board meeting – they must sometimes deal with significant strategic issues that impact the long-term performance of the organization.

Of the significant strategic decisions that the board has had to make in the past year or two, can you think of one in which you felt the strategic decision-making process within the board was particularly effective?

**What was it and why did you think the board handled it effectively?**

a. Take me back to the time that decision was made and help me understand how it evolved?

b. What information was provided to the board to assist in the decision?

c. Describe the deliberation process – how much dialogue and debate occurred? Who did/said what? “Characterize” each board member and their level of involvement.

d. Was there much discussion outside of the regularly scheduled board meeting? Why? Who participated?

e. What role did the CEO and other members of the TMT play in the process? What was their role during the board deliberations?

f. At the time that the final decision was made, would you describe it as a “successful” decision? Why or why not?
g. How did you feel when the process was completed? Why did you feel this strategic decision-making process was particularly effective?

5. Can you recall a strategic decision that the board made in the past year or two when you did NOT feel the strategic decision-making process was particularly effective? Again, please provide me as much detail as possible relative to how that decision evolved.

   a. What information was provided to the board to assist in the decision?
   b. Describe the deliberation process – how much dialogue and debate occurred? Who did/said what? “Characterize” each board member and their level of involvement. Was the board composition different during this decision-making process as compared to the previously described effective strategic decision?
   c. Was there much discussion outside of the scheduled board meeting(s)? Why? Who participated?
   d. What role did the CEO and other members of the TMT play in the process? What was their role during the board deliberations?
   e. What was different between the process you just described and the time when the decision-making process was effective?
   f. How did you feel coming away from this meeting?
APPENDIX B
Survey Items and Construct Reliabilities

Except where noted, all responses were recorded on a five point Likert scale as shown below:

1………………2………………3………………4………………5
STRONGLY ------------------------------------- STRONGLY
DISAGREE AGREE

All items noted with (EFA) next to them, were eliminated as part of the Exploratory Factor Analysis which was conducted after receipt of all survey responses.

CONSTRUCT 1. EFFORT NORMS (Cronbach’s Alpha = .799)

Definition: “Effort norms are a group level construct that refers to the group’s shared beliefs regarding the level of effort each individual is expected to put toward a task.” (Forbes and Milliken, 1999: 493)

Source: Informed by Forbes and Milliken, (1999)

E1 All board members actively contribute to the board’s tasks and responsibilities.
E2 All members of this board are mentally engaged and attentive throughout board meetings.
E3 All board members make an effort to research issues that are relevant to the company.
   (EFA)

CONSTRUCT 2. COGNITIVE CONFLICT (Cronbach’s Alpha = .931)

Definition: “Disagreement about the content of the tasks being performed, including differences in viewpoints, ideas and opinions.” (Jehn, 1995: 258)

Source: Adapted from McNulty and Peck, (2010)

CC1 All board and executive team members have ample opportunity to constructively challenge and debate decisions brought to the board.
CC2 The climate within the board room encourages board members to express their disagreements and concerns when issues are presented to the board.
CC3 Board member deliberations are based upon a healthy discussion of the facts. (EFA)
CC4 The board is able to reach collectively shared decisions following a full and frank debate. (EFA)
CC5 All board members have ample opportunity to influence the decisions made by the board.
CC6 During board meetings, the board chair creates an environment where all board members are comfortable expressing their opinions without fear of retribution or embarrassment.
CONSTRUCT 3. USE OF SKILLS AND EXPERTISE (Cronbach’s Alpha = .843)

Definition: The use of expertise “refers to the board’s ability to tap the knowledge and skills available to it and then apply them to its tasks.” (Forbes and Milliken, 1999: 495)

Source: Adapted from McNulty and Peck, (2010)

UE1 All members of this board apply their skills and capabilities to assure the greatest contribution to the tasks of the board. (EFA)
UE2 The company’s executives actively seek to involve the board members in key strategic processes and decisions. (EFA)
UE3 Committee assignments are made with the intention of ensuring the best fit for each director’s skills and capabilities. (EFA)
UE4 During board discussions, the most knowledgeable members of the board, regarding the subject area under discussion, generally have the most influence.
UE5 All board members have a good understanding of the skills and capabilities of the other board members. (EFA)
UE6 When an issue is discussed, the most knowledgeable board members on that subject generally have the most influence on the decision outcome.

CONSTRUCT 4. BOARD TASK PERFORMANCE (Cronbach’s Alpha = .899)

Definition: The board’s ability to perform specific tasks related to both the control and service roles of the board. (Minichilli, Zattoni and Zona, 2009)

CONTROL

Definition: “The board’s legal duty to monitor management on behalf of the company’s shareholders and to carry out this duty with sufficient loyalty and care.” (Forbes and Milliken, 1999: 492)

Source: Adapted from McNulty and Peck, (2010)

C1 The board is actively involved in monitoring the financial performance of the company.
C2 During the process of approving the annual operating budget, the board actively scrutinizes and challenges the underlying assumptions presented by the executive team.
C3 The board provides active monitoring of the corporate risk management function.
C4 The board plays the primary role in determining the compensation plan, including incentives, for the top executives besides the CEO. (EFA)
C5 The board actively monitors the adequacy of the company’s internal controls. (EFA)
C6 The board has in place an appropriate process for evaluating the performance of the CEO. (EFA)
C7 The board has an appropriate board-led process for CEO succession. (EFA)
C8 Board member input is actively solicited when seeking new board members. (EFA)
SERVICE
Definition: The board’s role in providing advice and counsel to the CEO and other members of top management. This includes active participation in the development and approval of the corporate strategy as well as support in boundary spanning. Forbes and Milliken (1999)

Source: Adapted from McNulty and Peck, (2010)

S1 This board plays a major role in shaping the purpose and direction of the company.
S2 The board thoroughly scrutinizes strategic alternatives recommended to them by the executive management team.
S3 The involvement of the board frequently results in an improved strategic decision. (EFA)
S4 The board plays a key role in decisions regarding the entry and/or exit from a market.
S5 The board is actively involved in shaping the strategic plan for the company.

CONSTRUCT 5. RESPECT  (Cronbach’s Alpha = .964)

Definition: The level of esteem for another individual based on one’s own value based assessment of the individual’s character. (Cronin, 2004)

Source: Adapted from Tyler and Blader, (2000) and Cronin, (2004)

R1 All of the members of this board hold each other in high esteem.
R2 All individual board members value the contributions made by the other board members.
R3 Every member of this board has a high degree of respect for the other members of this board.
R4 All members of the board are treated with dignity during board room discussions and deliberations. (EFA)
R5 The views of all board members are fully considered when decisions are made. (EFA)
R6 The interpersonal relations amongst all board members are conducive to effective board functioning.
R7 To the best of your knowledge, all members of this board would like to continue to serve together on this board going forward.
R8 All board members genuinely enjoy each other’s company.
R9 Emotional conflicts are resolved within the boardroom and do not have a spillover effect on future board member relationships.
CONSTRUCT 6. COLLABORATION (Cronbach’s Alpha = .899)

Definition: The tendency for the executive team and the board to come together around a shared vision and goals with the intent of greater engagement between the executive team and the board. Sundaramurthy and Lewis (2003)

Source: Adapted from Westphal, (1999)

CO1 The CEO values the contributions made by this board.
CO2 Good communication channels are maintained between all board members and the executive team enabling effective working relationships amongst all parties. (EFA)
CO3 The CEO frequently seeks the advice and counsel of all board members outside of the regularly scheduled board meetings.
CO4 The CEO actively encourages and supports contact between the board members and the executive team members.

CONSTRUCT 7. PRESENCE OF SKILLS AND EXPERTISE (Cronbach’s Alpha = .928)

Definition: Expertise includes two areas of knowledge and skills. First is the level of functional knowledge and skills available amongst the board members. The second includes the level of knowledge associated with understanding both the company and the industry structure in which the company operates. (Forbes and Milliken, 1999)


Functional Expertise
Rate the level of expertise the board has in each of the following functional areas:
1. Accounting
2. Finance
3. Marketing
4. Operations
5. Strategy
6. Governance

1………………..2………………..3………………..4………………..5
LITTLE TO NO EXPERTISE A GREAT DEAL OF EXPERTISE
Corporate Expertise
Assess the degree to which the board has an understanding of the following aspects of the company:
1. Key sources of revenue
2. Competitive environment
3. Main sources of risk to the company
4. Customer requirements
5. Corporate Strategy
6. Product Development
7. Information Technology

1………………2………………3………………4………………5
LITTLE TO NO .......................................................... A GREAT DEAL OF UNDERSTANDING
UNDERSTANDING

CONSTRUCT 8. BOARD POWER (Demographic Measurement)

Definition: The strength that the CEO has relative to that of the board. This addresses the asymmetric advantage that the CEO has inherently as a function of his role, the consequence being the ability to use this advantage to exert his or her will on the board. (Pearce and Zahra, 1991)

Source: Adapted from: Pearce and Zahra, (1991)

P1 Does the CEO also serve as the Chair of the Board? YES or NO
P2 How long has the present CEO been in this position?
   a. Less than two years
   b. Between two years and five years
   c. Between five years and ten years
   d. Over ten years
APPENDIX C
Final Trimmed CFA Model

Default model
Standardized RMR = .0410
APPENDIX D
Significant Paths and Mediation Effects

FIGURE D1
Significant Hypothesized Paths

<table>
<thead>
<tr>
<th>Significant Hypothesized Paths</th>
<th>Estimate</th>
<th>P</th>
<th>S. E.</th>
</tr>
</thead>
<tbody>
<tr>
<td>RESPECT ← EXPERTISE</td>
<td>0.739</td>
<td>***</td>
<td>0.067</td>
</tr>
<tr>
<td>COLLABORATION ← EXPERTISE</td>
<td>0.524</td>
<td>***</td>
<td>0.083</td>
</tr>
<tr>
<td>COLLABORATION X RESPECT ← EXPERTISE</td>
<td>-0.629</td>
<td>***</td>
<td>0.127</td>
</tr>
<tr>
<td>EFFORT ← RESPECT</td>
<td>0.576</td>
<td>***</td>
<td>0.080</td>
</tr>
<tr>
<td>CONFLICT ← RESPECT</td>
<td>0.474</td>
<td>***</td>
<td>0.090</td>
</tr>
<tr>
<td>USE OF EXPERTISE ← COLLABORATION</td>
<td>0.304</td>
<td>0.003</td>
<td>0.103</td>
</tr>
<tr>
<td>EFFORT ← COLLABORATION</td>
<td>0.178</td>
<td>0.049</td>
<td>0.091</td>
</tr>
<tr>
<td>CONFLICT ← COLLABORATION</td>
<td>0.261</td>
<td>***</td>
<td>0.074</td>
</tr>
<tr>
<td>PERFORMANCE ← EFFORT</td>
<td>0.201</td>
<td>0.012</td>
<td>0.079</td>
</tr>
<tr>
<td>PERFORMANCE ← CONFLICT</td>
<td>0.380</td>
<td>***</td>
<td>0.087</td>
</tr>
<tr>
<td>USE OF EXPERTISE ← COLLABORATION X RESPECT</td>
<td>-0.232</td>
<td>***</td>
<td>0.068</td>
</tr>
<tr>
<td>CONFLICT ← COLLABORATION X RESPECT</td>
<td>-0.134</td>
<td>0.005</td>
<td>0.047</td>
</tr>
</tbody>
</table>

FIGURE D2
Mediation Effects

Statistical Significance: * p < .05, ** p < .01, *** p < .001
No significant direct effect from Expertise to Use of Expertise, Effort Norms and Cognitive Conflict. Therefore Total Effect equals all Indirect Effects.

**TABLE D1**
Path Estimates for Mediated Model

<table>
<thead>
<tr>
<th>Total and Indirect Effects of Expertise on Use of Expertise.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant Hypothesized Paths</td>
</tr>
<tr>
<td>COLLABORATION X RESPECT ← EXPERTISE</td>
</tr>
<tr>
<td>USE OF EXPERTISE ← COLLABORATION X RESPECT</td>
</tr>
<tr>
<td>Use of Expertise ← COLLABORATION</td>
</tr>
<tr>
<td>COLLABORATION ← EXPERTISE</td>
</tr>
<tr>
<td>USE OF EXPERTISE ← COLLABORATION</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

¹Mediation p values calculated from Sobel Test (Soper, 2010).

<table>
<thead>
<tr>
<th>Total and Indirect Effects of Expertise on Effort Norms.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant Hypothesized Paths</td>
</tr>
<tr>
<td>RESPECT ← EXPERTISE</td>
</tr>
<tr>
<td>EFFORT ← RESPECT</td>
</tr>
<tr>
<td>Use of Expertise ← COLLABORATION</td>
</tr>
<tr>
<td>COLLABORATION ← EXPERTISE</td>
</tr>
<tr>
<td>EFFORT ← COLLABORATION</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

¹Mediation p values calculated from Sobel Test (Soper, 2010).

<table>
<thead>
<tr>
<th>Total and Indirect Effects of Hypothesized Expertise on Cognitive Conflict.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant Hypothesized Paths</td>
</tr>
<tr>
<td>RESPECT ← EXPERTISE</td>
</tr>
<tr>
<td>CONFLICT ← RESPECT</td>
</tr>
<tr>
<td>Use of Expertise ← COLLABORATION</td>
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<tr>
<td>COLLABORATION ← EXPERTISE</td>
</tr>
<tr>
<td>CONFLICT ← COLLABORATION</td>
</tr>
<tr>
<td>Use of Expertise ← COLLABORATION X RESPECT</td>
</tr>
<tr>
<td>CONFLICT ← COLLABORATION X RESPECT</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

¹Mediation p values calculated from Sobel Test (Soper, 2010).
REFERENCES


Bailey, B. 2009. *Board level strategic decision making: Process characteristics and context*. Unpublished Qualitative Research Report, Case Western Reserve University, Weatherhead School of Management, Cleveland, OH.


