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Board and CEO practice in modern strategy-making: How is strategy developed, who is the boss and in what circumstances?

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ABSTRACT

The interplay of the board of directors (BOD) and the chief executive officer (CEO) in strategy-making has been the subject of some debate in the literature. Some experts argue the BOD should take a strong role in strategy-making while the alternative point of view is that the CEO is the key man or woman. In a qualitative study with 16 interviews of leading Australian industry figures, the CEO is *found to be the key player in modern strategy-making. The findings identify how the BOD, individual directors and the CEO can combine to add value to the organization, in particular how these organization members can team up and interact to achieve a faster, more flexible strategy cycle. The modern organization focus needs to be on giving more emphasis to the empowerment, interaction and creativity of the CEO and top management team. The BOD should focus on questioning, criticizing, refining and enabling the strategy proposed by the professional managers. However, the study indicates these findings are subject to exception and variation in relation to factors including specialist knowledge, track record of performance, personality attributes, personal power, and political and influencing skills. The major focus of attention of the BOD and CEO is the strategic-thinking related activities in strategy-making. Strategic planning still has an important role in formalizing strategy content, usually in a regular cycle.*

Keywords: corporate governance, board of directors, chief executive officer, strategy-making, qualitative interviews

Introduction

The practice of strategy has traditionally had a strong 'top-down' orientation, with company strategy passed down from the BOD, CEO and top managers to line management for implementation (Ireland & Hitt, 1999; Chizema & Kim, 2010). However, the strategy literature now agrees widely that organizations have had to cope with more uncertain environmental contexts in recent years (Hamel, 2000, 2009). Business competition is fierce; there is a need for organizations – which are competing increasingly in international markets – to be faster, more flexible and adaptable to customers and markets in the practice of modern, 21st century strategy-making (Ireland & Hitt, 1999; Burgelman & Grove, 2007). These developments have implications for the relative roles of company directors and the CEO. Dewally and

Peck (2010) note we have much more to learn about strategy-making processes at the company director and CEO level of firms. Pye and Pettigrew (2005: S30) confirm this point noting that 'we still know relatively little about how boards and directors actually behave or conduct their roles effectively' and suggest multi-layered insight into strategic leadership of the organization would be valued. This paper focuses on the role of the BOD, individual directors and the CEO in the modern, 21st century organization.

The interplay of the BOD and the CEO has been the subject of some conjecture in the strategy literature (Kroll, Walters & Wright, 2008) with some experts arguing the board should take a stronger role (Kiel & Nicholson, 2003; Chizema & Kim, 2010) – although this is a matter of some contention (Nicholson & Newton, 2006; Bonn & Pettigrew, 2009). Recent contributions highlight strategy-making and governance as an evolving bargain between the BOD and CEO with subtle and sometimes not-so-subtle use of power and influencing skills (Daily, Dalton & Cannella, 2003; Shen, 2003; Combs et al., 2007; Payne, Benson & Finegold, 2009). Shen (2003) observes that this is a complicated area for academics and practitioners to understand. Others argue that with more recent focus on strategic thinking and a more open, inclusive and democratic organizational form (Mintzberg, 1994; Hill & Stephens, 2003), with the objective of achieving a faster strategy cycle (Hamel, 2000), the onus should be on professional managers working in an inclusive culture (Liedtka, 1998). If professional managers are to achieve this outcome they need to be empowered by the BOD. Pye and Pettigrew (2005) have emphasized that our understanding of how the BOD, individual directors and CEOs can work faster and more effectively on strategy-making is limited. This presents a gap in the existing BOD and CEO research. There is also some discussion of variation in the involvement of the BOD and CEO in the day-to-day cut-and-thrust of business, and an evolution of the practices of these players evident in strategy-making which we need to understand better (Hambrick & Fukutomi, 1991; Combs et al., 2007).

Before proceeding the term 'strategy' should be clarified. There are more than 30 different definitions of strategy in the literature (Kiel & Kawamoto, 1997). A contemporary rational strategist such as Porter (1996: 77) sees strategy as '…defining a company's position, making trade-offs, and forging fit among activities', while Mintzberg (1987: 67) from the creative perspective identifies strategy as '…both plans for the future and patterns from the past'. A modern understanding of strategy requires some integration of the rational positioning and resource allocation emphasized by Porter (1996) and the future planning focus that results from a blend of vision, learning, experience and instinct emphasized by Mintzberg (1994).

We should also understand the meaning of the term strategy-making. Like Mintzberg (1994) and Liedtka (1998) this paper argues modern strategy-making is the combination of strategic thinking and strategic planning activities. *Strategic thinking* is a particular way of solving strategic problems and opportunities at the individual and institutional level, combining generative and rational thought processes (Liedtka, 1998; De Wit & Meyer, 2004). On balance, across organizations and industries strategic thinking is more creative, innovative, divergent, participative and people-oriented than data-driven and rational. Understanding of the past, present and future of the organization is an important aspect of strategic thinking. Strategic intent helps focus strategic thinking by providing a direct intuitive understanding of the future direction of the organization to employees that helps to guide their decision-making in moments of uncertainty (Liedtka, 1998). *Strategic planning* is undertaken as a rational, convergent, programming activity (Mintzberg, 1994) in a regular cycle focusing on the formalization, operationalization, justification and documentation (Heracleous, 1998) of the outcome of the formal and informal 'day-to-day' strategic thinking. Budgets, forecasts, project plans and schedules for action are often considered important strategic planning activities. These documents are often helpful for managing risk and satisfying the requirements of financiers and regulators for data and analysis. Strategic planning provides discipline, focus and guidance on resource allocation. Strategic thinking and strategic planning interact iteratively with planning, usually in regular cycles. Strategic thinking is ongoing year round and facilitates the faster strategy cycle discussed by Hamel (2000). The BOD and CEO play critical roles in both these activities. This view of strategy-making has a certain symmetry with the above definition of strategy in this paper, emphasising balance of vision, learning, creativity and analysis.

The purpose of this paper is to theoretically and empirically explore insights, trends and new learning into the evolution of BOD, individual director and CEO roles in modern strategy-making. The research has been undertaken in the context of the Australian corporate scene. Australia has the 8th largest stock market in the world and provides a critical southern hemisphere economic and political counter-weight to the big Japanese and Chinese economies in the north of the Asia-Pacific region. Australian culture is very open, egalitarian, direct and democratic, with implications for strategy-making in business. Against this intriguing backdrop the following inter-related research questions are proposed:

1. What is the modern role of the BOD, individual directors and the CEO in strategy-making?
2. How can the BOD, individual directors and the CEO work together most effectively to add value to the organization in strategy-making?
3. Does the dominant influence in strategy-making rest with the BOD, or with the CEO, and in what circumstances?

Literature on the modern, 21st century roles of BOD and CEO

The modern, 21st century role of the board of directors

In modern, 21st century strategy-making greater consideration is given to *director selection* with a view to board and director performance and accountability (Lorsch & MacIver, 1989; Stiles & Taylor, 2001; Dalton & Dalton, 2005). Directors need to have some financial skill, understand their legal obligations, how BODs function, and knowledge of current management and business practice – especially strategy (Kiel & Nicholson, 2003). Stiles and Taylor (2001: 116) argue board candidates should be 'chosen on the basis not only of their track record and experience, but also on their ability to fit into a team environment and to be compatible with other members of the board.' Hill (1995) highlights the need for directors to work together collegially. Boeker and Goodstein (1991) found that boards can change their board composition subject to the business environment confronting them to ensure the right mix of knowledge, skills and experience. Coles, Daniel and Naveen (2008) found complex firms have bigger boards of directors with more outside directors.

On *director activities* in contemporary strategy, Kiel and Nicholson (2003: 102) observe: 'Directors are considered the mind or brain of the organization and…are seen to undertake a variety of roles.' McNulty and Pettigrew (1999: 48) identify Chairman and non-executive director (NED) involvement in strategy as 'taking strategic decisions', 'shaping strategic decisions' and 'shaping the content, context and conduct of strategy.' The Chairperson should play a role of mentor and confidant of the CEO (Bosch, 1995), facilitating and guaranteeing the board's performance of its role and the performance and development of individual directors. Hill (1995), Kroll, Waters and Wright (2008) and Chizema and Kim (2010) all recognize the safeguard and security provided to the organization by the presence of NEDs to balance the influence of the CEO and executive directors on the board. In an organization with a modern, evolved strategy process all directors are required to think strategically about the organization and not simply their own field of expertise. Executive directors – usually senior executives of the company – should take a 'broader picture' when performing their directorial as distinct from managerial role, taking a more objective approach to strategy issues in their capacity as a director (Kiel & Nicholson, 2003). All directors are expected to pass on their expertise and advice to the CEO, fostering a healthy level of interaction for the benefit of the organization (Westphal, 1999). This evolution of the role helps manage uncertainty and risk, especially when legal frameworks are placing the performance of directors under greater scrutiny (McNulty & Pettigrew, 1999). From a resource dependency perspective (Pfeffer, 1972), there is an institutional role for the directors linking the organization with the environment and assisting in gaining access to resources with their experience, networks and insight (McNulty & Pettigrew, 1999). Directors also should, at reasonable intervals, review progress of the business toward the goals agreed with the CEO and top management (Kiel & Nicholson, 2003). Directors have limited involvement in company culture (Bonn & Christodoulou, 1996).

In relation to strategy process and *board activities*, the literature debates whether the contemporary BOD should actually set organization strategy or whether that is the role of the professional managers. Kiel and Nicholson (2003) argue that the board is responsible for strategy, must take ownership of strategy and the board must ensure delivery of the strategy and performance to strategy by management. The alternative perspective is that it is the role of professional managers to formulate and implement strategy (Demb & Neubauer, 1992). In this context, agency theorists see the role of the BOD more as a means to ensure top management perform their role with the interests of shareholders as first priority (Kroll et al., 2008). The purpose of the board is to monitor top management and resist the 'opportunism and self-interested behaviour of managers' (McNulty & Pettigrew, 1999: 50). The board provides valuable check and balance on strategy issues developed by professional managers (Chizema & Kim, 2010). The specific perspective adopted by an organization here will influence strategy process in an organization; however, there is some agreement in the literature that in a corporate crisis (e.g. death of the CEO, poor financial results) the board should be 'very closely involved' in strategy formulation (Pye, 2002: 157). Legal, regulatory and audit responsibilities remain (Cadbury, 1999). The board continues to be responsible for selection of the CEO, CEO succession and/or CEO removal (Charan, 2005) with greater emphasis now on choosing people who can think strategically and empower and train others to do the same (Conger, Finegold & Lawler, 1998).

In relation to contemporary *board and director accountability*, Conger et al. (1998) argue the need for formal board performance appraisal to ensure at least better corporate governance, if not improved corporate profits. Poor corporate performance, including the incidence of corrupt business practice in certain countries (Lorsch & MacIver, 1989), has led to a review of legal frameworks and the role of regulators (McNulty & Pettigrew, 1999). Contemporary directors are under greater performance scrutiny and are personally accountable for the performance of the companies and boards on which they sit (McNulty & Pettigrew, 1999). Kiel, Nicholson and Barclay (2005: 11) argue that formal *performance review* of the board as a whole (which is most common) and each director can lead to improvements at the 'organisational, board and individual director level…including improved leadership, greater clarity of roles and responsibilities, improved teamwork, greater accountability, better decision-making, improved communication and more efficient board operations.' Contemporary practice is for *director compensation* to be linked to performance (Shen, 2005; Stiles & Taylor, 2001). Lorsch and MacIver (1989: 176) highlight the need for a link to long-term financial performance in director compensation to improve board and director performance: 'Linking some of their compensation directly to the company's long-term financial performance might encourage directors to focus on their broader responsibilities and strengthen their resolve to govern in the long-term interests of the corporation and its…stakeholders', ensuring more sustainable organizations from better strategy practice by boards and their directors. BODs in 2010 have become more responsive to shareholder opinions and, at times, formal demands (Ertimur, Ferri & Stubben, 2010).

The modern, 21st century role of the chief executive officer

In modern, 21st century strategy-making the CEO acts as chief designer of the strategy process which is customized to the strategy context (De Wit & Meyer, 2004). The modern role is much more diverse than the traditional role of CEO as commander, where strategy-making occurs only at the apex of the organization chart possibly with the assistance of top managers. In this traditional scenario instructions and action plans are passed down the organization for line managers to implement (De Wit & Meyer, 2004). The CEO has strong input into surfacing key organizational parameters on the 'who–what–how' (Markides, 2000: 359) dimensions of strategy with top managers. 'Top-down' and 'bottom-up' information flow and strategic conversations are encouraged in an effort to allow important strategic insights from line managers to bubble to the surface and inform determination of these parameters (Liedtka, 1998; Markides, 2000). Allowing line managers this input to strategy helps gain their commitment to the organization's future strategic direction. Staff training and development, encouraging communication and creating the important supporting organizational culture are important aspects of practising this approach (Bonn & Christodoulou, 1996). Westphal (1999) discussed the benefits of the CEO proactively cultivating interaction with the board with benefits for organization performance. Kiel and Nicholson (2003: 130) argue that the CEO should 'freely and vigorously' discuss strategy issues with top management and the board, while the CEO acts as the key organizational link.

The power and influence of the CEO have also been demonstrated in the literature to be subject to variation (Combs et al., 2007; Iyenyar & Zampelli, 2009). Cyert (1990) notes that leadership influence relates to being able to control the allocation of attention of colleagues in an organization. Shen (2003) discusses an evolution in the dynamics of CEO–BOD interaction. Hambrick and Fukutomi (1991) discuss seasons in CEO tenure in relation to this influencing behaviour. CEO leadership development is a priority early in the life of the CEO's tenure but, as the CEO proves themself in the job, there is a shift to managerial opportunism. The CEO's power increases over time through 'personal prestige and social status…owning stock…serving as board chairman, influencing director selection…and engaging in ingratiation and persuasion behaviour towards directors' (Shen, 2003: 468). A CEO is most vulnerable early in their tenure when developing task knowledge and the confidence of the board and financial community (Shen & Cannella, 2002). Competitive pressures can also be a threat to the new CEO until a track record of performance at the level expected, or exceeding expectations of the board and the financial community is established (Shen, 2003). A point of interest is that Chairman–CEO duality is less prevalent in UK and Australian organizations compared with the USA (Carter & Lorsch, 2004; Iyenyar & Zampelli, 2009).

Hambrick and Fukotomi (1991) note exceptions and variations in the seasons of CEO tenure, with implications for the CEO and BOD. This depends in part on the CEO's own capacity for renewal and open-mindedness, attributes prominent in the 21st century leader described by Ireland and Hitt (1999). Moderate environmental pressures, shareholder and/or BOD pressure to perform, and an 'assertive and diverse' top-management team may be causes of exception. The literature indicates variations may occur where a CEO responds strongly to an early mandate or undertakes several cycles of experimentation before choosing an 'enduring theme' for his or her tenure (Hambrick & Fumutomi, 1991: 737). CEOs only tend to be removed by the BOD after poor company performance, not before a particular CEO may have weakened the organization (Dewally & Peck, 2010).

Methodology and method

Methodology

Miles and Huberman (1994: 5) have made the salient argument that: 'No study conforms to a standard methodology; each one calls for the researcher to bend the methodology to the peculiarities of the setting.' Research projects such as this qualitative study spanning the strategic management and governance fields are '…hard to situate' (Miles & Huberman, 1994: 5). This research applies the Miles and Huberman (1994) method of qualitative data analysis. Miles and Huberman (1994) have traditionally seen themselves as realists and, in more recent years, have moved closer to transcendental realism (Bhaskar, 1978, 1989). Mir and Watson (2000: 947) confirm: '…qualitative methods may be deployed within a realist methodology'. This study also seeks to draw on some of the tradition of critical realism in strategic management and governance research, with a focus on achieving a progressively better understanding of reality (Kwan & Tsang, 2001). There is also a place for the interpretive perspective in this qualitative study where reality is held in the mind of the people. Humans are able to make and share meaning. In this context, Miles and Huberman (1994: 4) in their explanation of epistemology:

> …affirm the existence and importance of the subjective, the phenomenological, the meaning-making at the center of social life. Our aim is to register and 'transcend' these processes by building theories to account for a real world that is both bounded and perceptually laden, and to test these theories in our various disciplines.

In that way, this study bends methodology as it seeks a description and understanding of individual and organizational processes at the core of events in the practice of strategy and governance. The thoroughness and explicitness of the Miles and Huberman (1994: 5) approach is most suitable.

Sample selection

The interviewees whose insights are reported in this paper agreed to participate in a major multi-method Australian study investigating strategy-making, including an examination of the roles of the various stakeholders (i.e., director, CEO, top manager, internal strategist etc.). Demographic data of the interviewees is detailed below in Table 1. Representatives from 12 Australian Stock Exchange listed companies at a range of organizational levels including Chairman, NED, CEO, top manager and internal consultant are included in the sample for a multi-layered analysis providing a cross-section of views. Each interviewee is a key informant with a critical strategy role in their organization and regular BOD interaction. Four small and medium-size enterprise executives or external consultants (i.e., companies with fewer than 100 employees) are also included among the 16 interviewees to increase the generalisability of results. Several of the interviewees were prominent members of the Australian business community. Each interviewee had participated in a prior quantitative strategy-making survey and had expressed an interest in a qualitative interview in this area. This greatly eased the task of finding interviewees.

Data collection

Ethics approval for the research, including the interview protocol and the semi-structured questions, was obtained from RMIT University. The interviews were undertaken either in the researcher's office at RMIT University or in the professional office of the interviewee. The interviews covered a wide range of strategy-making issues including the role of the BOD, directors and the CEO.

In terms of the sequence of data collection, the most senior people in the sample of 16 were interviewed first with the External Consultants last. All interviewees consented to the interview being taped. The interviews were semi-structured to ensure coverage of important issues, but also to allow informal interaction as the interview evolved. The interviews varied from 0.5–1.75 h. The average length was 50 min. In the opinion of this researcher, the 0.5 h interview offered some of the sharpest, best-informed remarks in the overall interview process. The following questions formed the basis of discussion on BOD and CEO matters:

- What is the role of the BOD?
- What role do the individual directors play?
- What role does the CEO play in strategy process?
- Does the CEO have a collaborative role?
- Does the CEO help develop creative ideas?
- Does the CEO take a lead role in strategic conversations?

The interviewer prepared a summary note on each interview within 24 h and forwarded the tapes to a transcriber to prepare the interview transcripts which were then checked by the interviewer for accuracy and quality. The quality of data was high in the early interviews and, as a consequence, the set interview questions did not change, though broader informal discussions evolved later in the interview process after the set questions had been addressed.

Data analysis

A more objective, standardized, analytical style of analysis was used for this research project as the qualitative interviews were conducted in conjunction with a major concurrent quantitative survey on strategy-making, and there was available an existing body of theory and research on the topic. The impressive rigour of the Miles and Huberman (1994) method of qualitative data analysis has been adopted in this paper to facilitate this analytical style.

Data analysis commenced with identification of key words and themes from the literature survey. These key words and themes provided the basis for the preparation of decision rules for

TABLE 1: QUALITATIVE INTERVIEWEES' DEMOGRAPHIC DATA

Position	Sex	Industry	Staff (no.)	Total sales (million)	Years in company	Duality
Chairman	M	Healthcare	100–1000	>A$20 M	11	No
Executive Chairman	M	Electronics Engineering	<100	<A$1 M	14	Yes
Company Director 1 and Chief Executive Officer 1 (CEO 1)	M	Business Services	<100	<A$1 M	30	Yes
Company Director 2	M	Insurance	>1000	>A$20 M	20	No
Company Director 3 and Chief Executive Officer 2 (CEO 2)	M	Manufacturing	>1000	>A$20 M	30	No
Company Director 4 and Top Manager 1 (Top Manager 1)	F	Manufacturing	>1000	>A$20 M	27	No
Top Manager 2	M	Healthcare	100–1000	A$1–20 M	15	Yes
Top Manager 3	M	Manufacturing	>1000	>A$20 M	13	No
Top Manager 4	M	Retail	>1000	>A$20 M	20	No
Internal Consultant 1	M	Telecommunications	>1000	>A$20 M	5	No
Internal Consultant 2	M	Building Products	>1000	>A$20 M	17	No
Internal Consultant 3	M	Transport	>1000	>A$20 M	21	No
Internal Consultant 4	M	Banking and Finance	>1000	>A$20 M	18	No
Internal Consultant 5	M	Mining	>1000	>A$20 M	16	No
External Consultant 1	M	Business Services	<100	<A$1 M	16	N/A
External Consultant 2	M	Business Services	<100	<A$1 M	28	N/A

inclusion of transcript content in the summary matrices to facilitate data reduction. Decision rules for inclusion of transcript data in the summary matrices are detailed in Table 2 below. The summary matrices for the BOD and CEOs comprised several pages of analysis (ca. 5000 words) and are too lengthy to present in full here. Table 3 provides a sample of a summary matrix. Once the data was reduced to summary matrices, a range of tactics was applied to the analysis in an iterative activity with several cycles. Initially counting and clustering was undertaken, then noting patterns and themes in a memoing activity, then contrasting and weighing the evidence seeking plausibility in the explanation to conclude the memos and facilitate write-up and reference back to the literature where required (Miles & Huberman, 1994). The goal was to build a critical commonsense understanding (Kvale, 1996). There were some significant power dynamics at play within the participating organizations based on the content of the transcripts. After the interviews were completed it took several cycles from the literature to the transcripts, and back again, for the researcher to fully comprehend certain of the sources of exception and variation in BOD, individual director and CEO roles in strategy-making. The themes and patterns which emerged are reported in the results section of this paper.

Table 2: Decision rules for summary matrices

BOD Role decision rules:	1. Expansive responses. 2. Stratified qualitative sample. 3. Text analysis of the interviewee's qualitative response to the specific semi-structured interview question. 4. Key words or words with similar meaning and effect in text analysis: The board and/or company director role and/or accountabilities in traditional and contemporary strategy process including thinking strategically about field of expertise/ organization, select CEO, question strategy, ensure strategic plan documented, ensure strategic plan communicated, collegial, questioning, director selection, legal/regulatory/ audit requirements, strategy workshops, subjectivity of management, objectivity of board, performance review, chairperson as a mentor. 5. The words of the interviewee unless bracketed. 6. Data included in the matrix captures the essence of the remarks of the interviewee in relation to this question. Decision rule applied in the judgement of interviewer/researcher. High level of confidence.
CEO Role decision rules:	1. Expansive responses. 2. Stratified qualitative sample. 3. Text analysis of the interviewee's qualitative response to the specific semi-structured interview question. 4. Key words or words with similar meaning and effect in text analysis: The role and/or accountabilities of the CEO in traditional and contemporary strategy process including top strategic leader, strategy formulation, designer of strategy process, 'top down' and 'bottom up' information flow, facilitates strategic conversations and cultivates interaction with the board. 5. The words of the interviewee unless bracketed. 6. Data included in the matrix captures the essence of the remarks of the interviewee in relation to this question. Decision rule applied in the judgement of interviewer/researcher. High level of confidence.

Results

The modern, 21st century role of the BOD

Company directors and CEOs

Table 1 indicates the Chairman, the Executive Chairman, CEO 1, Company Director 2 and CEO 2 provide the interview content analyzed at company director and CEO level (i.e., 5 interviews). The first theme to emerge at this level of analysis was that management should prepare the strategy and discuss it with the board. Specifically, the CEO is charged with the responsibility for this activity with the team of top managers. This theme was supported by 4 of the 5 directors

TABLE 3: SAMPLE SUMMARY MATRIX ANALYSIS

Case	Board role in strategy-making
Chairman	'First, I think if the company is travelling well and management is strong and effective, management ought to be able to prepare a plan which is acceptable to the board… but it does require that there be debate with the board and that it be subject to testing to see whether or not it does have, as to the board's view, as to where it ought to be going and requiring that input is important. A company is not in a healthy shape if management's going to get its own way and only comes with a document to be ticked without real consideration. And that inevitably creates potential tension between board and management, and that has emerged a few times' (7) 'As it happens our current CEO is not strong technologically so there is, there is at times a tension between his approach which is marketing and sales and finance driven and the technological side and even I as Chairman have had to at times seek to ensure that that interface is a productive one' (8) (Codes: CEPTOPSTRAT, BOARDQU, COLLEGIAL, CHAIRMENTOR)
Company Director 1 and Chief Executive Officer 1 (i.e. CEO 1)	'The controversy is around to what extent you can reasonably expect a group of directors with diverse background to be generators of strategy. And the answer I think depends on the board. But more philosophically I think the management is charged with the responsibility of managing the company and that does not mean just managing it today, it means managing it with the future in mind as well. And I see the obligation for strategy as coming from the managing director and to be critiqued, questioned and pushed by the board as intelligent overseers…they are overseers of the business. They are not meant to be, and I don't think they should be, the managers of the business. So I think the board has a very important role to be very strong devil's advocates and 'critiques' of the strategy. I think the generation of the strategy rests by and large with the management. And if you don't like it you change the management. You don't expect the board to change the strategy' (11) (Codes: CEOTOPSTRAT, BOARDSTRAT, BOARDQU, BOARDCHANGE)

Sample Codes:

1. CEOTOPSTRAT: The board and company director's roles are limited and strategy comes from the CEO (especially) and top managers.
2. BOARDSTRAT: The board is responsible for strategy, must take ownership of strategy and the board must ensure delivery of the strategy and performance to strategy by management.
3. BOARDQU: The board and each director has a role in questioning, criticizing and refining strategy proposed by management.
4. BOARDCHANGE: If the board does not like strategy put forward by management then the board is empowered to change the management. The board can influence culture through this choice of top management.
5. COLLEGIAL: Directors should be able to fit into a team environment and work collegially with other directors.
6. CHAIRMENTOR: The Chairman can play a role as mentor and confidant of the CEO.

interviewed, with the entrepreneurial Executive Chairman the exception. There was evidence in 4 of the 5 interviews that CEOs often develop an enduring theme in their tenure. The Executive Chairman – the founder of his business – identified himself as the key decision-maker as he searched for ways to resource his creative endeavours. The second theme to emerge was that the board should probe, question and criticize strategy proposed by management – again supported by 4 of the 5 interviewees at this level.

Third, from an alternative perspective and in support of the Executive Chairman, CEO 1 made the point that the board can propose strategy; however, there was acknowledgement from CEO 1 that there is a debate in the business community as to whether or not this is appropriate. Fourth, the board can and should change management if they are not satisfied with the strategy developed by management. These themes are evidenced in the following excerpt:

> '…I think the management is charged with the responsibility of managing the company and that does not mean just managing it today, it means managing it with the future in

> mind as well. And I see the obligation for strategy as coming from the managing director…to be critiqued, questioned and pushed by the board as intelligent overseers…they are overseers of the business. They are not meant to be…the managers of the business. So I think the board has a very important role to be very strong devil's advocates and 'critiques' of the strategy. I think the generation of the strategy rests, by and large, with the management. And if you don't like it you change the management. You don't expect the board to change the strategy' (CEO 1/Business Services/11).

The subjectivity of management at times when practising strategy-making was identified by Company Director 2, who argued that the board can play a role as a counterbalance, using their experience and insight to influence and sometimes temper the entrepreneurial culture that can prevail among the executive. A further theme to emerge at this level from CEO 2 (Manufacturing/6) on board participation in strategic thinking, was the need for directors to be collegial in the sense that they are able to work compatibly with other board members: 'I think the board are…there…not to sit in judgement but to quiz and challenge the CEO about what it is management thinks the strategy is. I don't think it's up to the board to develop the strategy, I think they've got to work with the CEO…' A team orientation is required from members of the board. The Chairman noted that at times he had to intervene to ensure the interface between the board and the executive was productive in his organization, playing a mentoring role for the CEO and facilitating the performance of directors. Finally, Company Director 2 noted in his remarks that there is an institutional role for the directors linking the organization with the environment and assisting in gaining access to resources with their experience, networks and insight.

Board and CEO duality occurred with low frequency (i.e., two cases) across the 16 organizations – only in small firms where the founder was the major commercial and organizational influence. Each interviewee at this level attended to important legal, regulatory and audit matters.

Top managers

Table 1 indicates that Top Manager 1, Top Manager 2, Top Manager 3 and Top Manager 4 provide the interview content analyzed at this level (i.e. 4 interviews). The major corporate role of Company Director 4 and Top Manager 1 was as a top manager in a large stock exchange listed company and it is from this perspective her remarks are analyzed here as Top Manager 1.

Themes developed by the company directors and CEOs in relation to the role of the CEO and top managers in developing strategy, as well as the board's role in questioning and criticizing strategy, were confirmed unanimously at top manager level. A number of other important themes were discussed and developed by top managers. First, the legal, regulatory and audit tasks of the board were confirmed. Second, the legal, regulatory and audit tasks of the board require that the board and/or board members have cross-functional skills (i.e., finance, human resource management, information technology etc.). Third, the board is responsible for selection of the CEO, CEO succession and CEO removal if needed. Fourth, with this in mind, greater emphasis should be given to director selection with a view to board and individual director performance and accountability. Fifth, all directors are now required to think strategically about the organization and not just their field of expertise, providing commercial insight and feedback to the professional management. Sixth, the board should encourage management to reflect on organization strategy and performance. Finally, the board should assess its own performance against appropriate objectives. Top Manager 1 indicated there is need for board collegiality and also the capacity for the board to influence executive culture with the encouragement of reflective practice. Top Manager 1, drawing on past experience, also recalled some difficult moments where some deficiencies in company directors' understanding of their legal obligations caused some difficulty in making sound decisions.

In terms of power and influence over strategy-making, the Executive Chairman of the organization that employed Top Manager 2 was clearly the dominant player, though there were efforts evident to ensure greater NED and executive buy-in to strategy development. The power driver here was the role of the Executive Chairman as founder, as innovation leader, as the major influence on product development, and also in his role as a major shareholder.

Internal consultants

Table 1 indicates that Internal Consultant 1, Internal Consultant 2, Internal Consultant 3, Internal Consultant 4 and Internal Consultant 5 provide the interview content analyzed at this level (i.e., five interviews). Internal Consultant 3 confirmed the traditional formal duties of the board in respect of legal, regulatory and audit tasks. In developing their remarks, Internal Consultant 2 and Internal Consultant 3 each confirmed the need for board collegiality. Three of five internal consultants confirmed all directors are required to think strategically about the business and not just their field of expertise. The institutional role for the directors linking the organization with the environment and assisting in gaining access to resources with their experience, networks and insight was confirmed by 4 of 5 internal consultants. Internal Consultant 4 confirmed the insight from earlier analysis that directors should share their specialist experience, skill and insight with the CEO and top management team, and periodically review the progress of the organization to goals agreed with the board. Internal consultants consistently confirmed (5 of 5 responses) that the board takes an active ongoing role in strategic conversations.

A new theme emerged at this level with consistent use of strategy 'off-sites' (Internal Consultant 1/Telecommunications/12), 'strategy lock-ups' (Internal Consultant 3/Transport/6), 'strategic session(s)' (Internal Consultant 5/Mining/3), 'strategy workshop(s)' (Internal Consultant 4/Banking and Finance/10) and reference to a 'once a year strategy conference' (Internal Consultant 2/Building Products/7). Here the BOD dedicates one to three days to engage with the CEO, top executives and business unit heads on strategy, listening to executive presentations and engaging in strategic conversations.

External consultants

Table 1 indicates that External Consultant 1 and External Consultant 2 provide the interview content analyzed at this level (i.e., two interviews). A 'healthy process of challenge' between the board and the senior management team was supported by External Consultant 1 (Business Services/8). External Consultant 1 also supported need for a collegial board. External Consultant 2 talked about important themes developed in other earlier interviews on the tension between the CEO, top management and the BOD and the subjectivity at times of management in relation to strategy-making with this incisive response:

> '…If you were to talk to the AICD (Australian Institute of Company Directors) the role of the board among other things is to…(oversee)…and take responsibility for the corporation strategy…strategies that are presented to the board are often a bi-product of the combined subjectivities that have contributed to it…There needs to be a situation in which the strategies that are put to the board for the management of the corporation's resources can get approval against a guideline such as shareholder objectives…'
>
> (External Consultant 2/Business Services/22).

This performance management issue present for any BOD is at the centre of the principal-agent problem and impacts the preparation of the CEO's job description and employment terms, and then the assessment of performance against those formalized criteria. CEOs can let personal motives, in particular, influence the risk profile of the strategy they develop and their disposition to the NEDs and executive directors. The legal, regulatory and audit role of the BOD was confirmed again at this level of analysis by both consultants. The range of activities and roles of directors was also mentioned in some detail during the interview with External Consultant 2.

The modern, 21st century role of the CEO

Company directors and CEOs

Five of the five interviewees at this level confirmed the role of the CEO as being central (Chairman/Healthcare/8) or pivotal to the practice of strategy in their organization (CEO 2/Manufacturing/6). A number of themes surfaced at this level of analysis. First, the CEO plays a lead role in strategy-making. Second, the CEO may choose to source information and strategy ideas from a wide range of stakeholders inside and outside the organization. These themes are evidenced in the following excerpt from CEO 1 (Business Services/11-12):

> '…I think the practical reality in life is that in large measure the CEO dominates just by the nature of the role, and if you combine that with the nature of the individual…he doesn't get there without being strong minded and intelligent and capable, then he is…the ultimate source of the drive that implements the strategy…he has really got to be 100 percent comfortable with it…I see him as being the key individual…in the process…you can source your information from wherever you like and the smart CEO does…that.'

Two personalities or types of CEO emerged from the interviews at this level. CEO 1 and CEO 2 both remarked on the situation where the CEO is a strong, influential personality and active thinker. The second type of CEO to emerge from the interviews was the facilitator of a 'top-down' and 'bottom-up' strategy process. The focus in the second case is on delegation and empowerment to employees, balanced with input of ideas and challenges. The CEO can also facilitate access to additional support and resources from the corporate headquarters, if necessary, to the business units to assist with strategy-making. CEO 2 also emphasized the importance of effective interaction between the CEO and top managers, and the CEO and the board in this excerpt:

> 'It is the pivotal role…because…I sit down with the chief executive of each business and, depending on the discussion with his management team…we'll develop strategy and a path forward, and I do that with every business…then I sort of collate that for the way I'm going to present to the board my view of the future…I think the CEO's role is pivotal in the strategy development…I think the people who run the businesses are the ones that really are charged with developing the strategy (for the business unit)…they're the ones that understand their businesses'
>
> (Manufacturing/6).

The pattern of remarks on power and influence over strategy-making in the interviews at this level yielded some useful insights. CEO 1, CEO 2 and Company Director 2 were employed by organizations where the CEO had the dominant influence. Each CEO in these organizations had a strong track record of performance, was highly regarded by key stakeholders, and had the trust and confidence of other executive and NEDs. CEO 2 and the CEO working with Company Director 2 both evidenced a strong personality, high levels of personal confidence and charisma. The Chairman noted that the top managers in his organization yielded strong influence with their technical knowledge. At times this specialist knowledge was the source of tension between top managers and the CEO who demonstrated more generalist knowledge and skill. This was the driver for the Chairman's intervention to ensure a productive work environment in his organization.

Top managers

Responses confirming the CEO (or the Executive Chairman employing Top Manager 2) as 'the man or the lady' (Top Manager 2/Healthcare/7) or 'strong' (Top Manager 1/Manufacturing/17) were received unanimously from each of the four interviewees at this level. Top Manager 2 confirmed the CEO as the '…conduit between the business and the board…' (Healthcare/7) with the CEO playing a vital role in binding the team of top managers and setting the performance parameters. This style of input from a CEO gives the top management team a common sense of purpose: '…he is the guy who…sets the parameters…and (delegates) but doesn't move outside them…he walks and talks and greets and meets, looks and criticizes and critiques…' (Top Manager 4/Retail/12-13). Top Manager 1 supported these insights and also noted the value of a charismatic CEO in marshalling internal and external resources. The human resource management, staff development and succession planning role of the CEO also emerged from analysis at this level.

Internal consultants

Themes which surfaced at company director and CEO level were confirmed with respect to the key strategy-making role, interaction with internal and external stakeholders, leadership and collaboration, and the two types of CEO. Internal Consultant 4 identified the CEO of a major banking and finance group as being 'first among equals…by dint of his personality and style…(there is an) agreed team construct of how we operate…' and he is called on to give direction at critical moments such as when a strategic conversation is deadlocked or when he feels the strategic conversation needs to be re-directed. In the cases of Internal Consultants 2, 3, 4 and 5, the CEO was clearly the dominant influence over strategy-making. There was a contest emerging in the organization employing Internal Consultant 1 for power and influence over strategy-making, though the CEO remained in the ascendancy based on the pattern of remarks in the interview transcript. In this particular case, there was some unrest evident at BOD and senior executive levels in relation to strategy content and the share price. There was also some disquiet in the financial community in relation to the performance of this listed entity at the time of interview.

External consultants

External Consultant 1 observed the different attributes of the evolutionary versus the revolutionary leader: '…The CEO should be chief coach and architect and designer, and have a leadership function in terms of breakthrough leadership, in terms of strategic change' (Business Services/8). External Consultant 2 discussed the organization performance elements of the CEO's role and confirmed the value of a charismatic CEO, especially in dealing with internal and external stakeholders: 'The CEO needs to have a very clear understanding of what the deliverables are for the corporation and he needs to be able to marshal the internal resources, or…contract external resources…Now the degree to which (the) individual will be a more or less active player in that will depend on the corporation, his history and the quality of the individual…A charismatic CEO can do a lot of good for the corporation' (External Consultant 2/Business Services/22).

Findings and discussion

Overview

The Introduction set out the following interrelated research questions:

1. What is the modern role of the BOD, individual directors and the CEO in strategy-making?
2. How can the BOD, individual directors and the CEO work together most effectively to add value to the organization in strategy-making?
3. Does the dominant influence in strategy-making rest with the BOD, or with the CEO, and in what circumstances?

This research has sought to understand contemporary arguments in the strategic management and governance literature in relation to these research questions, and then critically analyze the interpretations of the interviewees to improve understanding of these important matters for organizations. A contribution of this paper is the rare insight into strategy and governance in the Australian business setting. There are different opinions expressed in the received literature and in the interview transcripts by the interviewees on the best way for the BOD and the CEO to work together, and the best way for the BOD and CEO to work together is subject to exception and variation. The best way forward for an organization depends on circumstances, in particular the skills, experiences, knowledge, capabilities and performance attributes of the firm, the BOD, the CEO and the top management team. The Findings and Discussion will now elaborate on the response to the research questions, the contribution, future research and limitations.

The modern role of the board of directors

In relation to the first and second research questions we have seen in the theory and the results the view that, in practice, the board and as a consequence company directors' roles are limited and that strategy comes from the CEO (especially) and top managers. This finding confirms well-known insight from Lorsch and MacIver (1989), however, despite this, the issue of CEO versus the BOD having the prevailing influence over strategy-making remains a matter of some debate in the received literature (Shen 2005; Chizema & Kim 2010).

Kiel and Nicholson (2003) in their study of corporate governance in Australia agree that this position where strategy comes from the CEO (especially) and top managers can evolve but that it should be avoided. A second alternative view, supported by Kiel and Nicholson (2003) also emerged in the interview results – albeit with less frequency – that the board is responsible for strategy, must take ownership of strategy and the board must ensure delivery of the strategy and performance to strategy by management. An additional theme, developed in the response from External Consultant 2, is that management may not always be objective in formulating strategy; management can be subjective when personal and business risk is considered. Kiel and Nicholson's (2003) position on a stronger role for the BOD in strategy-making, is designed to mitigate this type of self-interested behaviour by management. The interview evidence does indicate the BOD and, individually, each director can also have a role to play in questioning, criticizing and refining the strategy proposed by management (Chizema & Kim 2010). The role of the BOD and each individual director is an area of discussion and controversy in the literature (Zajac & Westphal 1996; Kiel & Nicholson 2003; Roberts, McNulty & Stiles 2005). The results in this study indicate that if the board does not like the strategy put forward by management, the board is empowered to change the management. This evidence confirms views expressed by Lorsch and MacIver (1989) and Kiel and Nicholson (2003). Interview evidence in this study shows that the board can influence culture through this choice of top management, which is a view in contrast with Bonn and Christodoulou (1996) who argued directors can only have limited involvement in company culture.

The interviews in this study found that the legal, regulatory and audit skills needed traditionally by the board (Hogg 1994; Cadbury 1999; Dewally & Peck 2010) were supported in practice. Interview responses also identified the need for the board to have cross-functional skills, especially financial skills, and this point confirmed recommendations by Kiel and Nicholson (2003). There was anecdotal evidence that, in practice, this is not always the case (e.g., Top Manager 1/Manufacturing). There was evidence, in practice, the board is clearly active not just in terms of its traditional governance activities but in ongoing engagement and discussion with the CEO and top management team on the strategic direction of the organization. This verifies insight from Westphal (1999), Pye (2002) and Shen (2005).

There was evidence in the findings of this study that the board can and should encourage management to reflect on organization strategy and performance, and that reflection was not widely practised. Top Manager 1 made a strong point in her interview when she argued that the board should assess their own performance against appropriate objectives, which resonates well with a recommendation by Conger, Finegold and Lawler (1998) on the need for effective board performance appraisal, and individual director performance management. It would appear that BODs can and should use reflection more, and spend more time and resources on assessing BOD and individual director performance.

We have seen confirmatory evidence in this study of the view expressed in the received literature that the Chairman has a role to play as mentor and confidant of the CEO (Bosch 1995). Second, greater consideration needs to be given to director selection with a view to board and director performance and accountability for the duration of the director's appointment. These points, evident in the interview analysis, confirm insights from Stiles and Taylor (2001) and Lorsch and MacIver (1989), respectively. This study also shows in certain of the interview excerpts that all directors are now required to think strategically and not just about their field of expertise. Directors should be able to fit into a team environment and work collegially with other directors (Hill 1995; Westphal 1999; Roberts, McNulty & Stiles 2005). Directors may also have specialist knowledge of a particular industry or product and these strategic conversations between NEDs, executive directors and top managers facilitate the sharing of this type of knowledge and experience. There is an institutional role here for directors in helping the business link with its environment and obtain access to resources using their knowledge, experience, insight and networks. This point confirms insight from McNulty and Pettigrew (1999) in the literature. Executive directors need to understand the difference between their executive role – and the subjectivity that can be associated with that – and the need for more objectivity in relation to their board responsibilities (Kiel & Nicholson, 2003).

There have been some new insights made in relation to the role of the BOD. It is worthwhile highlighting that there was overwhelming evidence in the transcripts that the people-oriented, interactive, participative aspects of strategic thinking in strategy-making consumed a greater portion of director focus of attention and time than the rational planning activity. There were also some interesting remarks made that director encouragement for professional management to use reflection to inform future strategy ('thinking in time') should take place more frequently. Reflection helps the executive understand the past, present and future of the organization – its history, culture and ethos. The insight gained from reflective practice can be very helpful in identifying and chasing opportunities for wealth creation. This insight complements Liedtka's (1998) more general remarks on the practice of strategic thinking and informs how organizations can achieve a faster strategy cycle (Hamel 2000). The creative, intuitive, participative, stakeholder oriented emphasis to the company director's role is critical in managing environmental uncertainty and speeding up the development of solutions to strategic problems and opportunities.

In relation to the third research question, themes and patterns in the interview evidence demonstrate that the power and influence of the board is enhanced in a range of circumstances. The interviews in this paper revealed that board power and influence is high when the Chairman is the dominant personality and/or there is a dominant coalition including the Chairman and a collection of executive and/or NEDs. According to the literature, death or serious injury of the CEO can greatly increase the power and influence of the BOD (Pye 2002). Particular deficiencies in the CEO's interpersonal skills, capabilities or performance can also greatly enhance BOD power and influence (Dewally & Peck 2010). The interview evidence shows BOD power and influence is enhanced where the CEO lacks charisma, or where the CEO is unable to mitigate lack of technical, market or product knowledge in comparison with the BOD or top managers, using position power, influence and experience. BOD power and influence is also enhanced when adverse market conditions are present and the CEO is unable to reasonably mitigate this external factor through his or her strategy-making. BOD power and influence is also enhanced where there is unrest among executive directors and top managers on CEO performance and/or where there is generally poor CEO performance, especially poor share price performance.

The modern role of the chief executive officer

In relation to the first and second research questions, a number of key themes in relation to the role of the CEO emerged. In the interview evidence the strong strategy-making role for the CEO agreeing and setting strategy parameters with the BOD and top managers was articulated, as well as the two types of CEO – first, the influential thinker and active personality and second, the CEO as a facilitator who designs the strategy process and engages people. These insights connect well with the description of the role of the CEO by Markides (2000). The interviews also identified the CEO's leadership and collaboration role inside and outside the organization, and the need for CEO interaction with internal and external stakeholders (Liedtka 1998).

Interview analysis identified the theme that different styles of leadership are required for evolutionary and revolutionary change programs in organizations. The need for different styles of leadership for evolutionary and revolutionary change programs in an organization questions learning from Tushman and O'Reilly (1997, 2004) on ambidextrous organizations, and provides an opportunity for future research in exploring this issue more deeply. Top Manager 1 and also External Consultant 2 noted the value of a charismatic CEO in marshalling internal and external resources, a point made well in the received literature by Christensen and Raynor (2003). The CEO was found in the interviews to provide a vital link between management and the BOD (Westphal, 1999).

Another useful insight was that the creative, participative, people-oriented activity in strategic thinking also consumed much more focus of attention and time from CEOs. Planning had its role in formalizing, documenting, managing risk and satisfying stakeholder demands for information. It was evident in the interviews and then the transcripts that most CEO attention and time over the course of a year was consumed by the strategic thinking activities in strategy-making and this insight later helped to inform development of the strategic plan.

There is a collection of some important findings, some new, in relation to the third research question in the analysis. The interview evidence does indicate that the power and influence of the CEO is subject to exception and variation. The power and influence of the CEO is enhanced where he/she has a strong track record of performance, especially strong long-term positive movements in share price. A CEO who is highly regarded by key stakeholders, in particular the Chairman, the NEDs, the executive directors, and the investment community (i.e., stockholders, fund managers, share market analysts etc.) for his/her overall business contribution, knowledge and skill, also enhances CEO power and influence. The CEO is in a very strong position where he/she has had time to influence the composition of the BOD and cultivate the trust and confidence of the other executive and NEDs. This is a matter argued by Shen (2003) and supported in this research. To achieve this trust and confidence, it is favourable if the CEO understands the value of interpersonal skills, and it was evident in the results that not every CEO does. It is also favourable if the CEO understands the value of charisma to enhance power and influence, and it was also evident in the results that not every CEO does.

Future research

The insight presented in this paper is from the first cycle of qualitative data collection in a major multi-method study. Transcripts from this single round of interviews have been examined and compared with insight in the received literature over several iterations of analysis. Future research will seek to build on the findings of this initial study, developing a further round of qualitative interviews. The second cycle of the research will also include conduct of focus groups and development of case studies to further probe and analyze BOD and CEO practice in modern strategy-making, especially the sources of exception and variation identified in this paper in relation to their respective roles. Sampling will now focus on practising company directors and CEOs now that key new insights have been developed from the first cycle of data collection in this empirical work. Given the reported finding on evolutionary and revolutionary change management leadership in this paper, an investigation of the occurrence of ambidextrous organizations in Australian industry may also be timely.

Limitations

The key limitation is that only Australian companies were studied. Australian culture is open, challenging and democratic. It is possible that insights from countries with different social and political norms, different business cultures, and different legal systems may yield different results. The second limitation is that only one researcher conducted the analysis, however, the results were reviewed and criticized by three senior academics. A third limitation of the study is the use of a small sample of companies involving 16 interviews.

Conclusion

This research has sought to gain the interpretations of the interviewees in relation to the role of the BOD, individual directors and the CEO working together. A constructive, robust insight has been developed. In putting into action this learning, the author wishes to emphasize that the running of an organization is a complex challenge, and, that a lack of timely attention to detail or the correct behaviour and/or strategic thinking required for the circumstances confronting an organization, can undermine successful implementation of many of the insights in this paper. There was clear evidence of exception and variation in relation to the role of the BOD, individual directors and the CEO in the multi-layered analysis. The exception and variation related very much to the personality, experience, role, intuition, instincts and track record of the parties involved. The life of a company director or CEO is not always as structured in its predictability as Hambrick and Fukutomi (1991) or Shen (2003) have argued in their influential theoretical papers. Often it is, but sometimes there are moments of exception and variation which determines who is the boss and in what circumstances. Organizational life can be somewhat haphazard and prone to misadventure in the circumstances identified in this study in the Australian private sector and it is here this paper makes part of its contribution. Personality, performance and circumstance play their part in determining the role company directors and CEOs can play, the time they have as a member of the organization, and their capacity to influence organization performance for the better.

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