

# How boards influence business performance: developing an explanation

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## Abstract

**Purpose** – The purpose of this paper is to explore the relationship between boards and board activity and subsequent business performance, in the context of high-growth companies, through the lens of decision making and business performance.

**Design/methodology/approach** – A critical realist approach was used to conduct a longitudinal multiple-case study of two medium-sized, quasi-public high-growth companies. Data collection included first-hand observations of boards in session, semi-structured interviews with key actors and the inspection of board and company documentation. An iterative approach to analysis was used to gain an in-depth understanding of how the boards worked and how they sought to exert influence.

**Findings** – The paper provides empirical insight about board involvement in strategic management. A proactive involvement by boards in the strategy development process and assessment of strategic options, and a collaborative form of board involvement in strategic management together with management is indicated as being important if the board is to exert influence beyond the boardroom. A conceptual model of a collaborative form of board-management interaction is developed.

**Practical implications** – The paper provides guidance for boards, suggesting that a more direct level of involvement in strategic management by the board together with management may be material to improved business performance.

**Originality/value** – The paper responds to calls for more research on the relationship between boards and business performance. It contributes much-needed first-hand evidence from within the boardroom.

**Keywords** Corporate governance, Strategic management, Agency theory, Critical realism, Black box  
**Paper type** Research paper

## 1. Introduction

Boards of directors (henceforth, boards) provide an important link between company owners and company managers (Fama and Jensen, 1983). They are often introduced by owners to represent their interests following the separation of ownership from control (Berle and Means, 1932) that occurs in companies as a result of owners (equity providers) not working or no longer working within the business they own. Nowadays separation between owners and managers occurs for multiple reasons, however, Berle and Means' interest was piqued by the scale of industrialisation encountered in North America, a marked contrast to that being experienced in the UK and Europe at the time. The publicly listed company, therefore, became the normal structure for business. Consequently, boards have become the subject of research (Brown and Caylor, 2006) often aimed at understanding the best configuration through which to achieve the desired outcomes of company owners – in what is a re-emergence of Chandler's (1962) contingency approach.

A considerable body of literature about boards, corporate governance and related topics has been published (Tricker, 2012b). The literature suggests that an important relationship may exist between boards, the practices of corporate governance and subsequent company performance (Huse, 2007; Nicholson and Kiel, 2007).



However, much of it conflates the concept and practices of corporate governance with the structure of a board, implying that corporate governance is either a structure or process to be followed. Or worse, that conflation extends to the point where boards and corporate governance are viewed as being synonymous constructs. Numerous correlations between various structural and composition (input) variables of boards and performance (output) variables have been explored in the research literature – equally many have been falsified – and, on occasion rich descriptions of boards have been provided. The results of five comprehensive meta-analyses (Finegold *et al.*, 2007; Hermalin and Weisbach, 2003; Lawal, 2012; Petrovic, 2008; Pugliese *et al.*, 2009) attest to the mixed results. Knowledge about boards has been informed by data from secondary sources and performance proxies in most cases. Research informed by primary data collected from within the boardroom itself remains extraordinarily rare, which is surprising given the efforts to restore confidence to governance administration in many jurisdictions. While the practitioner community may be forgiven for such latitude it remains surprising that the research community, while espousing rigour on the one hand continues to yield to the temptation of secondary data sources on the other. For six decades, boards were largely ignored by the research community until the repeated failures and highly publicised practitioner reviews finally intruded on business researchers' collective conscience. That most of these latter efforts proceeded in the absence of research conducted using primary data ought to be a significant concern to legislators, practitioners, researchers and those very organisations that purport to represent directors, namely, Institutes of Directors and the like across the Anglosphere. While research into the impact of boards on company performance has proliferated (Moore and Reberieux, 2011), no conclusive explanations of what boards actually do, or how boards influence the achievement of company performance outcomes have been reported (Huse *et al.*, 2011). The nature and characteristics of the supposed relationship are yet to be determined (Bozec and Bozec, 2012), although the active engagement of the board (Hilmer, 1994) – in the form of leadership in the development of strategy (Wheelen and Hunger, 2006); the making of strategic decisions in the context of approved strategy (Crow, 2012); and, the effective monitoring of strategy implementation and subsequent performance outcomes (Johanson, 2008) – appears to be significant.

The goal of most corporate governance research appears to have been the identification of patterns and regularities, without any apparent interest in providing an explanation (Elster, 2007) of how these patterns or regularities occur – or even why they may be important! Researchers seem to have assumed that boards can be reduced to separable attributes for objective study, and that the “truth” can be determined through the near continuous analysis of empirical data mostly collected from secondary data sources and the application of inductive techniques or formal logics through which contributions to theory may occur.

However, the board is a complex, socially dynamic construction that cannot be studied in isolation from the structure within which it exists, the company (Tricker, 2012b) and shareholder/owner constituency whom it supposedly serves. Further, causality in socially dynamic phenomena is dependent on, and may only operate under, certain contingent conditions (George and Bennett, 2005). Therefore, boards and the board activity of corporate governance are unlikely to be adequately explained through the reduction of the roles or the activities of individual directors or board structural attributes. That researchers have experienced epistemological limitations and methodological challenges (Mir and Watson, 2001) should not be surprising.

Further, that the interpretation of such research outputs should be being cautioned rather than embraced by the research community challenges the very principle of intellectual honesty.

A research agenda exploring relationships between boards, corporate governance, strategic management and subsequent performance has produced a range of outputs to date (Crow and Lockhart, 2014). Much of the preceding research (Edlin, 2007; Martyn, 2006) demonstrated the value of primary data collected from direct observation in the boardroom. However, like that published elsewhere (Brundin and Nordqvist, 2008; Cornforth and Edwards, 1999) these limited forays into the boardroom were suspected of being vulnerable to behaviour from being watched (Martin and Bateson, 2007) of which directors are not thought to be an exception. This particular research sought to explore the relationships between corporate governance, strategic management and subsequent business performance through the use of multiple-case studies using longitudinal (year-long) direct observations of corporate boards. The direct observations were supplemented by unimpeded access to directors, chairs and the CEOs of the companies through interviewing, plus access to multiple years of minutes, company records and their histories.

This paper is organised as follows. A succinct critique of the agency and strategy literature is presented. The importance of direct access to observe what actually occurs in boardrooms – while the board is in session – is discussed, and the research method employed in this particular study is described. The relationship between board activities and performance that emerges from data collected from the direct year-long observation of two corporate boardrooms is explored, and a re-conceptualisation of governance is proposed. Finally, conclusions and opportunities for future research are presented.

## 2. The separation of governance and management

Scholars have been interested in boards; the relationship between ownership, control and managerial activity in companies; and, the relevance of boards to performance outcomes since the early decades of the twentieth-century (Daily *et al.*, 2003). The concept of corporate governance was discussed by Berle and Means (1932) in their seminal treatise, although the term was only explicitly introduced (Eells, 1960) in the literature much later.

Berle and Means discussed the separation of owner and control at length. They suggested that the board – a collective of directors – provided a suitable proxy to represent owners' interests, and through which the activities of management could be monitored and controls exerted on behalf of those owners (Fama, 1980). The separation of ownership and control described by Berle and Means has become the basis for the dominant theory of corporate governance and board interaction – subsequently labelled agency theory (Jensen and Meckling, 1976). Regrettably, Berle and Means' primary contribution to the discussion of business is all too often ignored, namely, that the listed public company resulting in the separation of ownership from the daily control of the company had by then become the normal structure in the USA. Further, that that structure emerged in no small part to the scale of the continent, requiring capital from multiple sources to build infrastructure and compete at a domestic level all too often escapes the reader.

However, the seemingly straightforward agency theory reduces the corporate governance interaction to just two separate parties, although this description has been recently suggested as being naïve (Swamy, 2011). Agency theory states

that the agent's (controller's/manager's) actions depart through information asymmetries, self-interest and other motivations (Simon, 1997) from those required to maximise the principal's (owner's) shareholder returns. The establishment of appropriate structures and explicit control mechanisms to continually align the behaviour and activity of management with the expectations of owners can supposedly mitigate the agency problem (Grossman and Hart, 1983) inherent in the normal business structure of the listed or quasi-public company. Many structural, composition, and to a lesser extent behavioural attributes of boards and directors have been investigated (Boone *et al.*, 2007), mostly in an attempt to identify the best configuration through which to minimise agency costs (Agrawal and Knoeber, 1996) inherent between owners and managers and, therefore, optimise company performance in accordance with owners' wishes. However, the results of these studies have been demonstrated to be far from consistent, as many of the results have been falsified as quickly as they have been claimed to exist. Despite the preponderance of normative solutions little is empirically known of the relationship between boards, via corporate governance, strategic management and business performance. Structural studies have revealed little.

Many agency theorists assert that independence in decision making and performance are associated. If this were so, a clear separation between corporate governance activity and management activity would be conducive to performance. However, this assertion does not appear to be well-supported in the literature (Daily *et al.*, 2003), despite it being widely accepted as good practice amongst practitioners and directors' institutes. None of the empirical results reported to date have demonstrated any consistent improvement in company performance (Dalton *et al.*, 2003) or value creation (Kraus and Britzelmaier, 2011) as a result of these various agency mechanisms being implemented.

The structures and controls proposed by agency theorists were observed to be insufficient in averting the corporate collapses of the early 2000s (Soltani, 2014), the global financial crisis of 2008-2009 (Conyon *et al.*, 2011); and, some of the more recent failures of corporate governance in New Zealand[1]. The various defensive screens erected by boards in response to such failures – including claims of information asymmetry, poor implementation of strategy and management fraud – expose shortcomings in both theory and practice. Statutory reforms and codes of practice, introduced in response to corporate failures and the behaviours of recalcitrant directors and boards, appear to have done little to improve the quality of corporate governance or company performance either (Leblanc, 2010; Pozen, 2010). Indeed, the agency-based corporate governance system suggests the sharp focus on monitoring and control (Lockhart, 2014a) may have played a significant role (Weitzner and Peridis, 2011) in some failures.

Despite it being identified as a limitation over a decade ago (Daily *et al.*, 2003), many researchers have continued to dogmatically pursue agency theory as the theoretical basis for corporate governance research. These efforts – which have used conventional statistical analysis of quantitative data and hypothetico-deductive science in most cases – have largely failed to reach any robust conclusions to explain the governance-performance relationship that reportedly exists, if it exists at all. This should not be surprising because the prediction of future performance of social phenomena (Quine, 1991) based on correlations between observable variables is known to be very difficult to achieve.

The paucity of any conclusive explanation of the governance-performance relationship confirms that the understanding of how boards influence the

achievement of company performance outcomes is incomplete (Crow *et al.*, 2014). Researchers may need to move beyond the assumption that the processes of governance and management are actually independent; that governance can be reduced to a set of discrete structural and composition attributes that can be studied in isolation; and, that the use of quantitative data, multivariate analyses and hypothetico-deduction (Friedrichs and Kratochwil, 2009) is appropriate, if credible explanations are to be discovered. The implication of the commonly utilised approach to research, that a constant conjunction between variables constitutes a causal explanation, may be misguided because all companies and their boards; the relationships between their boards and their managers; and the division of labour (Lockhart, 2012) agreed to, negotiated or wrestled with between boards and managers are to some extent unique. Boards are social constructions, so explanations must account for social interactions among the directors, and with owners, and with managers. Therefore, a more holistic approach that explores the subject (board), the activity (corporate governance) and context (company) is expected to be pivotal to the production of more credible explanations of the relationship between corporate governance and business performance.

### 3. Strategic decision making and performance

Company performance appears to be heavily dependent on the selection and implementation of an appropriate strategy or strategies that enable the company to exploit resources and compete effectively to maximise returns and company value (Audretsch *et al.*, 2009). While an association between corporate governance and performance has been suggested in the literature, no categorical causal link to increased performance or value creation has been established. However, the board appears to be important to value creation; board effectiveness appears to be an antecedent of company success; and some variables appear to be significant in some circumstances and the board in session appears to be the very source of corporate governance. When Anderson *et al.* (2007) described the board as being a “strategic asset” (p. 787), for example, they qualified their conclusion by suggesting the further research was needed to establish the efficacy of such a description.

Despite two or more decades of scholarly enquiry and debate, no agreement is apparent in the literature as to the appropriate level, scope or nature of the board’s involvement in strategy and the strategic management process, or how the board’s involvement should be initiated or fulfilled (Hendry and Kiel, 2004). Notwithstanding this, several researchers have suggested that boards should be actively engaged in the strategy selection and decision-making process with management (Andrews, 1980; Bukhvalov and Bukhvalova, 2011) – especially during periods of crisis or change (Weitzner and Peridis, 2011) – because boards are ultimately responsible for company performance (Bainbridge, 2002) and value creation (Pugliese *et al.*, 2009), and they appear to do this by way of corporate governance. Also, companies with active boards have long been claimed to perform better than those with more passive boards (Wheelen and Hunger, 2006), particularly when effective dynamics exist between the board and management (Barroso *et al.*, 2009). However, no explanations of how and why improved performance occurs as a result of active boards have been provided to date. Strategic decision making, namely, the board’s contribution to strategic management by way of corporate governance may be at the nexus of this relationship.

The making of strategic decisions can be challenging (Lim, 2012) because decision makers typically do not have access to all the information required to make

informed choices. Information asymmetries, information complexity, macro-environmental forces and the decision preferences, cognitive biases and limitations of directors abound – all of which appear to have an impact on decision quality (Eisenhardt and Zbaracki, 1992; Hall, 2007; Sharpe, 2012). Also, in many cases the chief executive controls the board's agenda (Peebles, 2010) or has significant influence over the agenda and, therefore, controls and/or influences what gets discussed in the boardroom.

Notwithstanding these challenges, calls for boards to increase their involvement in strategy and strategic decision making, and to become more forward-looking (Parsons and Feigen, 2014) have become more common (Tricker, 2012a), although these calls are far from being universal (Zattoni and Pugliese, 2012). The board's role in strategy formulation and implementation, therefore, remains "an empirically understudied phenomenon" (Bordean *et al.*, 2011, p. 987). While alternative models have been proposed (Babic *et al.*, 2011), more qualitative and theory-building research is required to discover and explain how any contribution by the board to the strategy development process may influence subsequent performance.

The literature provides some guidance to direct future research. It may be possible to enhance company performance when the division of labour (Lockhart, 2012) between the board and management is clearly defined and understood, efficiently implemented and both groups are actively engaged together in seeking positive performance outcomes. Therefore, corporate governance may be perhaps better understood as a mechanism to be activated by the board, and through which activities occur and enhanced outcomes are achieved. The development of strategy, making of strategic-decisions and monitoring of strategy implementation may be important elements of this mechanism.

#### 4. The apparent importance of access

Access appears to be crucial to the advancement of corporate governance research, especially to the creation of credible knowledge about boards, what they actually do and their contribution to business performance. The direct observation of boards, the only credible source of primary data, within a real-life context should enable researchers to learn more than what is possible with experiments and cross-sectional methods, which typically extract the subject of interest from its natural context (George and Bennett, 2005). Insights from first-hand observations often transcend those available from interviews, surveys or statistical analyses (Bales and Flanders, 1954). Boards are no exception. The identification of underlying mechanisms (Sayer, 2000) that can be activated by boards – and are expected to be significant to explanation – is unlikely to be possible if the research is limited to the analysis of secondary data; deductive or inductive modes of inference (Danermark *et al.*, 2002); or, worse, if such representations of data (Stablein, 2006) are mistaken to be the data itself as appears to be commonly the case in governance research especially with qualitative studies based on director and/or CEO interviews.

The importance of gaining access, to make first-hand observations, was highlighted in the literature decades ago (Gummeson, 1991). Gummeson (2000) subsequently re-asserted that "traditional research methods used in business research do not provide satisfactory access" (p. 14, Gummeson's emphasis), and again that the gaining of access is crucial to enable the researcher to get as close to reality as possible (Gummeson, 2007). Sadly, his repeated calls are frequently ignored by business researchers, and almost always avoided – on a sheer scale basis – by corporate governance researchers in particular. The importance of access to "opening up the

black box” (Johanson, 2008, p. 345), to obviate assumptions of congruence (Lawrence, 1997) and advance research beyond correlations (Crow and Lockhart, 2014), is made plain in the literature.

Notwithstanding the apparent importance of access to the collection of reliable primary data, many organisations and groups have been unwilling to grant access – boards particularly so (Leblanc and Gillies, 2005). “Strong norms of privacy” (Pettigrew, 1992, p. 164) appear to be the primary barrier to participation. As a result, the gaining of access to boards to make first-hand observations of corporate board meetings has been very difficult to achieve in most – but not all (Edlin, 2007; Machold and Farquhar, 2013; Martyn, 2006) – cases. Consequently, much of the corporate governance literature has been limited to the utilisation of data collected from outside the boardroom and desktop research (Neill and Dulewicz, 2010). The results have been correspondingly limited.

While single incursions into the boardroom appear to be beneficial to the collection of primary data, they are beset with a significant difficulty: reliability. Knowledge of whether the observed interactions are an authentic representation of the normative interactions or not, cannot be determined with a single observation. As with interviews and surveys, where respondents can – and sometimes do – provide answers of expediency, directors can modify their behaviours and interactions (Zerbe and Paulhus, 1987), to suit a plethora of obvious or hidden motivations. It may be possible to mitigate the risk of not knowing whether the observed behaviours and interactions are authentic by observing several meetings over time. Directors are expected to revert to authentic behaviour over time, as they become familiar and more comfortable with an observer in the boardroom. Therefore, a longitudinal study is more likely to be beneficial to the acquisition of reliable data, and from which reliable knowledge can be inferred.

Notwithstanding these difficulties, access appears to be crucial to the collection of reliable – and sufficiently complete – data, from which a deep understanding of how boards work can be gained, conceptual abstractions developed, underlying powers and mechanisms identified, and credible postulations proposed. However, such relationships are expected to be rare among a research community plagued by the academic-practitioner divide (McNatt *et al.*, 2013).

## 5. Approach to research

Analysis techniques that move beyond the limitations of cross-sectional methods and hypothetico-deductive science are likely to be required if a deep understanding (Dobson *et al.*, 2007) is to be gained. The literature indicates that methodologies founded upon critical realism (Bhaskar, 1975) enable complex organisational phenomena to be investigated (Wynn and Williams, 2012) and underlying mechanisms to be exposed (Tsoukas *et al.*, 2000). An iterative approach to analysis that combines qualitative and quantitative data gathered from multiple sources; utilises abductive and retroductive modes of inference; and, is based on critical realism, appears to provide a viable pathway (Crow and Lockhart, 2014) along which to pursue the production of more holistic, credible (Krupnik, 2012) and methodologically pluralistic theories (Kurki, 2009) of how boards can influence company performance outcomes.

This research used an iterative approach (Dubois and Gadde, 2002) and both quantitative and qualitative data collected from several organisations (King *et al.*, 1994) to gain a deep understanding and take tentative steps towards exposing the underlying mechanisms that can cause outcomes. A multiple-case study and longitudinal approach

centred on actual boardroom observations over a year of the board in session in two large-sized quasi-public companies, supplemented by data gathered from additional secondary and tertiary sources, was employed. The sector(s) within which the two companies operate is considered to be immaterial to the research. Suffice to say that they are both “service” organisations with business-to-business operating models. Both companies are regarded as high-growth companies (per the OECD definition of 25 per cent compound annual growth achieved over at least three years), and predominantly operate in the Australasian market. Both companies have well-established mixed-boards (Garratt, 1996) of directors with independent chairs. From a structural sense both boards can be observed to be complying with the increased expectation of independence, although one more so than the other. In each case company ownership was sufficiently diffuse that only a relative minority of shareholder/owner/managers sat on the respective boards.

Several different collection techniques (Johnson and Onwuegbuzie, 2004) were used to collect primary, secondary and tertiary data from and about the two companies that agreed to participate in this research. Data were collected from first-hand observations of the board within the boardroom over a 12-month period; repeated semi-structured interviews with the chairman and chief executive of each company were conducted; three years of confidential board data were analysed, ten years of annual reports for each company reviewed, and data from other published and informal sources collated. The chief executives and board chairs also offered personal reflections during the interviews – on otherwise private matters, relationships and challenges. Their reflections provided further insights beyond those that could be discerned from the responses to the semi-structured interview questions. At no stage was the relationship between the researcher (as an observer) and the boards, either individual directors or collective boards, challenged or compromised. Both boards, once committed to participation in the research only ever courteously acknowledged the presence of the researcher in the boardroom, and then only before the board was in session.

The greatest challenge to emerge from the research, having gained access to the boardroom was compliance with confidentiality set out by both companies, agreed to at the start of the research by the researcher and the host institution. That confidentiality, essential to gain access, limits the exploration of context entirely acceptable in practice but potentially problematic in research. Much is understood and acknowledged but far greater can never be disclosed for fear of bringing the entire process into disrepute.

Relevant data were also collated onto a synthetic timeline framework to provide a diagrammatic representation of the data collected for research, to expedite familiarity with the overall context within which the research is conducted gain an understanding of how the observed boards actually work; identify board involvement in strategic management especially strategy development, strategic and other decisions, decision sequences[2] and monitoring activities; and to identify performance inflections and other factors that might be significant to the analysis.

Strategic and other decisions, decision sequences, performance inflections, associations between seemingly disparate data, and other factors that appeared to be significant were identified over a ten-year-period, with greater intensity over the preceding three years by way of access to board minutes and company papers, and even greater scrutiny during the year-long period of direct observation. This latter and so-called “Camera One” view[3] provided an overall context for detailed analysis of decision making that could then be triangulated against the semi-structured interviews conducted with the CEOs and board chairs, contrasted with earlier minutes over



preceding years, and mapped against performance and performance inflections in both companies. At the time of writing, no similarly comprehensive longitudinal set of primary data, from multiple private-sector companies, appears to have been collected for corporate governance research exploring the relationship between corporate governance, strategic management and business performance.

The framework developed by Taitoko (2002), and subsequently used by Lockhart and Taitoko (2005) (henceforth, the LT framework[4]) in their detailed longitudinal board and governance failure study, was used for this research. Once loaded with data from primary and secondary sources, the LT framework is expected to provide a holistic overview of board and management activity, director interaction, strategic decisions and decision sequences. Also, associations between seemingly disparate attribute, relationship, action and decision data (especially data that indicates a possible relationship between board activity and consequential outcomes including performance inflections) should also become apparent for more detailed analysis.

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

## 6. Findings and discussion

A proactive involvement by boards in the strategy development process and assessment of strategic options is apparent from the analysis of data collected in the boardroom. The two boards appear to improve the quality of environmental scanning, minimise the chance of selecting poor strategies, and improve decision making. Knowledge about the business appears to be important, even though the CEOs interviewed during this research believed that their boards did not necessarily understand the drivers of their respective company's success. The interviewees also reported that the making of strategic decisions can be challenging because decision makers typically do not have access to all the information required to make suitably informed choices. Management was observed to control the board's agenda in many cases, which was observed to limit the flow of relevant information between themselves and their boards. Poor decisions – or decisions not made because items were not raised by management or the board asked the wrong questions – were also observed. Whether or not this can be construed as being an agency problem is moot, for advantages to managers (at the expense of the company owners) were not identified when such asymmetry was observed to occur. It simply occurred.

The data suggest that there is a fine but definite line between the board having an active involvement in strategic matters (seen as being desirable by both boards), and the board being seen to impinge on management's delegated responsibility to implement strategy and operate the business. Interestingly, both the CEOs interviewed claimed to control the process of strategy development, whether the board was actively involved or not. They also suggested that increased involvement and interaction

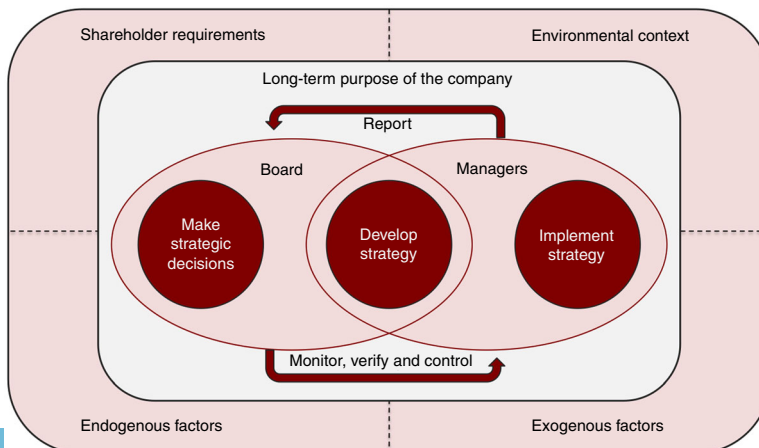
between the board and management was expected to lead to interference and loss of objectivity in oversight (Anderson *et al.*, 2007). Therefore, the division of labour suggested as being an organising device for strategic decision-making activities was observed as being in play, but not necessarily in the explicit manner promoted by Lockhart (2014b).

A realist ontology – that a real world exists independent of our knowledge of it – provides an opportunity to reconceptualise governance and construct a theory in the middle range (Merton, 1957). The boards were observed to have the power to develop strategy and make strategic decisions, whether they actually did so or not. The analysis indicates that when strategy is developed, decided upon and implemented effectively in the context of the sustainable purpose of the organisation; performance is reported, monitored and verified; and the board and management are actively engaged together in the practices of governance, beneficial performance outcomes follow (Figure 1).

This restatement of board and management contributions appears to expose underlying mechanisms that may help explain the impact boards actually have on company performance. The underlying social mechanisms appear to be engagement, empathy, purpose, competence and control. Effective contributions seem to be dependent on the harmonious activation of these mechanisms. Conversely, when any one or more not activated the board’s influence on performance appears to be slight, at best. High performance may still occur, but not from any influence exerted by the board. This restatement of governance is well-grounded in the strategic management literature and organisational theory. It was informed by a deep understanding of the data and organisational context, and was exposed via a critical realist approach to research.

## 7. Conclusion

The value that boards can contribute to company performance appears to lie in their active and ongoing involvement in the company’s strategic thinking and strategic management processes – through the consideration of strategic options, the development of strategy, the making of strategic decisions in the context of approved strategy, and the monitoring of strategy implementation and subsequent performance. Company performance appears



**Figure 1.** The empirical model of board-management interaction depicting the roles and responsibilities of boards and managers

to be enhanced when the division of labour between the board and managers is clearly defined and efficiently implemented, and underlying mechanisms are activated.

This conceptualisation of corporate governance should enable shareholders, boards and managers to begin to understand the mechanisms and activities that enable increases in business performance. Once boards understand and intentionally activate the underlying mechanisms, increased performance is not only possible, but also potentially sustainable. A more comprehensive analysis of the three-year longitudinal multiple-case study data of two high-growth companies is underway – the results of which will enable the proposals described in this paper to be further refined.

### Notes

1. Examples include the collapse of Dominion Finance and several other finance companies; Christchurch City Council losing the power to issue building consents; Solid Energy becoming insolvent; and, the Fonterra botulism scare.
2. Some of the decisions made in the boardroom were “lead-up” decisions – precursors to a later strategic decision. Strings of such decisions are described as decision sequences in this research.
3. “Camera One”: the colloquial name given by camera operators and production staff to the video camera used to record an overview of a sports match. Usually positioned high in the spectator stands, Camera One provides panoramic views for context, not detailed close-ups of specific players or specific details of the game.
4. So named here. Lockhart and Taitoko (2005) did not name the framework in their original work.

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