Towards a re-conceptualisation of governance, via strategic decision-making and performance

Abstract

Agency theory (Jensen & Meckling, 1976) has provided the theoretical basis for most governance research and recommendations for practice over the past four decades. It is predicated on a clear separation of the roles of governance and management, and the assignation of responsibility and accountability to the board of directors to represent (and protect) the interests of the shareholders. In the last two decades, as the responsibility for business performance has moved from the CEO to the board, many aspects of governance have been investigated including structure, composition, behaviour and practice. The research agenda has been dominated by large data sets, quantitative analyses and hypothetico-deductive science. Correlations between observable variables of interest have been identified, and rich descriptions have been produced. However, no robust explanations, of how boards influence company performance, have emerged (Bozec & Bozec, 2012).

An inspection of corporate failure data and data from the observation of boards in action suggests that the separation of governance and management provides no guarantee of business success. Indeed, it has been the source of much confusion (Bradshaw & Hayday, 2007). The various defensive screens that have been erected by boards in response to the failures – including claims of paucity of information; poor implementation of strategy; and, management fraud – expose shortcomings in both theory and practice. Therefore, the question of whether a clear separation between governance and management, as espoused by agency theory, is the best model through which to achieve the organisation's aims, needs to be revisited.

The aim of this paper is to explore governance through the lenses of accountability and performance; make causal inferences (King, Keohane, & Verba, 1994); and, take tentative steps towards a new conceptualisation of governance. The value that boards contribute to company performance appears to lie in their active and ongoing involvement in the strategic management process. The consideration of strategic options; making of strategic decisions; adequate monitoring of strategy implementation; and ownership of the governance process all seem to be significant (Bonn & Pettigrew, 2009; Crow & Lockhart, 2013; Lee, 2011; Peebles, 2010). Further, company performance appears to be enhanced when the division of labour between board and management (Lockhart, 2012) is clearly defined and efficiently implemented, and both groups are actively engaged in the process of governance. Extant theories of governance, which describe a clear separation between governance and management, and emphasise monitoring and control, appear to be inadequate.

Keywords: governance, accountability, strategic management, agency theory, performance

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