Executive-controlled boards, power and influence: a reality check

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Contemporary board research

Companies are understood to play an important part in modern economies. They contribute to and are influenced by the economies and societies within which they exist and operate. Important economic (Bozec, Dia, & Bozec, 2010) and societal benefits (Friedman, 2005) are thought to flow from high company performance. Consequently, knowledge of how high company performance can be achieved may have value to the overall functioning of economies and societies, and to the growth of strong and vibrant communities.

Researchers with an interest in business performance have increasingly moved their attention from the chief executive to the board of directors (henceforth, the board). While the research has proliferated, boards have proven to be difficult to study. The approach to research has been dominated by positivism; the statistical analysis of large sets of data from secondary sources; hypothetico-deductive science; and, a normative input-output perspective. Four decades of endeavour has resulted in a variety of outputs – correlations, descriptions, models, hypotheses and theories – and several myths of corporate governance (Brickley & Zimmerman, 2010) have been perpetrated in the literature. However, no conclusive explanations of how boards influence business performance have been published. Thus, the appropriate role of the board in the strategic management process remains un clear (Lockhart, 2012). Worse still, most directors do not understand their company's strategy (Barton & Wiseman, 2015), even though models have been suggested (Garratt, 1996). That the influence of boards on business performance cannot be confirmed – let alone explained – is a significant knowledge gap in the literature and in practice.

Notwithstanding these challenges, boards that seek to build long-term value (Hess, 2010) and provide a positive return to shareholders appear to be motivated by, and focus their attention on, the achievement of desired outcomes. Further, the literature appears to suggest that the boards of entrepreneurial (typically high-growth) companies are more active (Arthurs, Busenitz, Hoskisson, & Johnson, 2009) and that they can add a strategic dimension (Zahra & Filatotchev, 2004). Also, high-growth companies seem to be more likely to benefit from boards that are more innovative, cognitive, engaging and flexible than those typically present in larger companies (Ruigrok, Peck, & Keller, 2006), because the "prospect of sustainable business growth and value creation" (McCahery & Vermeulen, 2014, p. 148) is of more interest to them. However, conclusive evidence to support this supposition remains elusive. This research seeks to understand what the boards of high-growth companies actually do and how executive-controlled boards – a common characteristic of smaller high-growth companies – exert influence over performance, by observing boards in action.

Research design and data collection

A critical realist-inspired longitudinal case study design was used to study one high-growth company. Access, to observe board meetings and interview the chairman and chief executive was gained through the exercise of a prior professional relationship with the chairman of the participant company. A strict condition of confidentiality was imposed. Consequently, the company, a medium-sized high-growth quasi-public business is identified solely as Delta in this paper.

Data was collected from several primary (board meetings and documents used by boards) and secondary (interviews with the chairman and chief executive) sources for analysis. One annual cycle of Delta board meetings was observed, using non-participant observation, copies of all board report backs and minutes were inspected and the chairman and chief executive participated in semi-structured interviews. The researcher was an informed observer with many years experience as a practicing director and consultant to boards. Consequently, they were familiar with normative board meeting protocols, practices and interactions. Notwithstanding this, an audio recording of the observed meetings and interviews was made to assist with recall and triangulation. The data was assembled on a Lockhart-Taitoko framework (Lockhart & Taitoko, 2005), and an iterative *in vivo* process (Andersen & Kragh, 2010) was used to cycle between abductively developed conjectures and the empirical data, in order to gain a deep understanding.

Data and observations

The Delta board met nine times during the twelve-month observation period. The board compromised of males (only), one of whom was the largest shareholder and also the chief executive but not the chairman. All but one of the directors (the independent chairman) were company executives. Most of the directors arrived at the board meeting directly from other managerial tasks or meetings. The topics of conversation when the directors arrived were almost always some operational or customer-centric matters. An inherent difficultly separating the owner and manager roles (Audretsch, Lehmann, & Plummer, 2009) was apparent during all observed meetings. On no less than 15 occasions during the observation period, the chairman voiced his concern that the conversation had "crossed into management territory". Some of the directors expressed surprise, and one remarked "but this is important and needs to be discussed". The two vignettes that follow provide further insight.

Despite the tendency towards detail and operational matters, the prevailing atmosphere in Delta board meetings was one of calmness. Debate was rare, and directors tended to withhold comment until after the chief executive had spoken. Two directors offered private comments that an active challenge was, in effect, a criticism of their colleagues, themselves, their work and, importantly, their boss, the chief executive. Whereas a board of directors is conceptualised in law and practice as a group of peers, the actual practice in the Delta boardroom was consistent with the manager–subordinate relationship. A power relationship was readily apparent throughout the observation period. This had the effect of rendering control over the chief executive's actions and performance difficult in most cases. Two directors made private comments that their loyalties were conflicted, to some extent at least. This became directly apparent during the observation period. The behaviours and interactions of one director changed noticeably after he resigned from his fulltime executive role. The director was observed to be more engaged in the discussions; appeared to be more thoughtful; and, they began to ask more probing and, in some cases, demanding questions. Previously, when the non-executive director was an executive director (and reported to the chief executive directly), they were relatively passive in most board meetings, an example perhaps of the Abilene paradox (Harvey, 1974). An informal conversation at the conclusion of one board meeting revealed that the director "felt much more comfortable asking the hard questions now that I'm no longer working fulltime in the business, or reporting to <name omitted>".

During the observation period, Delta began to experience cash flow pressure, leading to financial difficulties. The company had invested in staff and service capability ahead of customer demand. The pressure on the balance sheet was apparent to the board through the financial reporting. Directors asked questions about performance from time to time. However, no probing questions were asked, to understand the situation and determine whether corrective action might be required. The continued achievement of revenue targets or positive statements in the chief executive reports may have provided a degree of confidence. The chief executive stated in his report that the situation "would come right". However, the situation continued to get worse. The board did not instruct the chief executive to provide a remedial action plan, nor did it take any mitigating or corrective actions. Action was finally taken when Delta's banker insisted on an independent review by an external party, the resulted of which brought the actual situation into stark relief.

Conclusion

This research sought to gain practical knowledge of what boards actually do and how they influence business performance, by observing them in action. However, boards are complex, socially dynamic structures, and causality is dependent on certain contingent conditions including human agency. Therefore research that utilises ontological reductionism, hypothetico-deduction or inductive reasoning in search of a singular 'truth' about boards is likely to be futile. Rather, the holistic study of boards and board–management interaction, such as has been attempted in this research, is appropriate. This longitudinal case study, of one high-growth company, exposed several findings including that power relationships in the boardroom are a significant moderator of behaviour in boardrooms, and that executive directors are inherently conflicted between their executive roles and their directorial duties. However, none of the observations are categorical. They are signposts to inform further research, now underway: the goal of which is to identify underlying qualities of directors and social mechanisms that are necessarily activated when boards exert influence over performance.

Notwithstanding the preliminary insights that have emerged from this research, an important question relating to generalisation has not been addressed. The 'need' for corporate governance – to steer, guide and pilot a company towards a stated goal of purpose – appears to be universal across all sizes of company that have a separation between ownership and control, the purpose being to represent the interests of absent shareholders. But what of closely held businesses, where the owners work within the business? Steerage, guidance and piloting are expected to be required regardless of the trajectory of the business or its legal structure.

However, if a board is not setting direction and making adjustments effectively; and is not providing boundaries; and is not ensuring performance objectives are achieved, then it is not fulfilling its duties and responsibilities. Is corporate governance absent? Perhaps. Can a company exist and continue to operate without corporate governance in place and functioning well? Probably. But can it do so effectively or sustainably over an extended period of time? Research to investigate these questions is beyond the scope of this research. However, answers to these questions may assist researchers determine whether a fully developed conceptualisation of corporate governance is required in all cases.

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