Boards, strategy and business performance: observations from inside boardrooms

Abstract

The topic of corporate governance has attracted considerable attention amongst researchers and practitioners, as the search for business performance has moved from the chief executive to the previously ignored boardroom. Reports of incompetence, fraud and excess in the boardroom have heightened the awareness. However, boards have proven to be difficult to study and conclusive results and robust theories remain elusive: that we cannot explain how boards influence business performance is a significant blind spot. Yet, the board is ultimately responsible for business performance, in accordance with the wishes of shareholders. The board's involvement with certain strategic management practices may be important to the achievement of this responsibility. The aim of this paper is to describe the findings of a recent critical realist-inspired longitudinal case study designed to explore board involvement in strategy. Preliminary insights, informed by the analysis of data from first-hand observations inside boardrooms and other sources, are discussed.

Introduction

Over the last four decades, many researchers have investigated topics relating to boards of directors (henceforth, boards) and a phenomenon that has become known as corporate governance. Boards provide an important link between company owners and managers (Fama & Jensen, 1983). They are often introduced by owners to represent their interests following the separation of ownership and control (Berle & Means, 1932) that occurs as a result of owners not working within their business. Consequently, boards have been the subject of much research (Tricker, 2012). Four decades of research has resulted in a variety of outputs: information, correlations, descriptions, models, hypotheses and theories – but no explanations. While several myths of corporate governance (Brickley & Zimmerman, 2010) appear to have been perpetrated in the literature, the understanding of how boards contribute to business performance remains, at best, incomplete (Vandewaerde, Voordeckers, Lambrechts, & Bammens, 2011).

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. The purpose of this paper is to comment on the relationship that supposedly exists between boards and business performance, and to explore whether the board's involvement in certain strategic management practices might be conducive to any influence on business performance.

Contemporary approaches to corporate governance research

The literature suggests that an important relationship may exist between boards, board practice and business performance (Hendry, Kiel, & Nicholson, 2005; Nicholson & Kiel, 2007). Researchers have now investigated many structure, composition and, to a lesser extent, behaviour attributes of directors and boards. Numerous correlations between observable variables that have appeared to be significant in a normative input-output sense have been identified (Boone, Casares Field, Karpoff, & Raheja, 2007).

The objective of much of the research appears to have been the discovery of the optimal board configuration and composition through which to minimise a perceived agency problem between the board and management, given the structural separation between ownership of the company and control of company operations. Attributes that have been studied include, but are not limited to, board structure (Cowling, 2003; Gabrielsson & Huse, 2004); board size (Coles, Daniel, & Naveen, 2008); chief executive duality (Peni, 2014); board composition (Nicholson & Kiel, 2007); gender (Chapple & Humphrey, 2014); diversity (Adams & Ferreira, 2009); non-executive directors (Cadbury, 1992); behaviour (Larcker & Tayan, 2011); practice (Balgobin, 2008); and, power (Peebles, 2010). However, most of the correlations have been falsified elsewhere. Further, three assumptions that seem to undergird much of the positivist-inspired research – being ontological reductionism (Lachapelle, 2000); a single objective reality (Deely, 2009), and, that a constant conjunction between variables constitutes a causal explanation (Cartwright, 1989) – may be inapplicable because boards, and the context within which they exist, companies, are social constructions.

Studies have been based on the statistical analysis of large quantitative data sets collected from secondary sources (primarily interviews, questionnaires and surveys). Hypothetico-deductive science has been utilised in almost all cases. Research informed by data collected from within the black box of the boardroom – the primary source – remains extraordinarily rare. Only one comprehensive longitudinal study appears to have been published (Machold & Farquhar, 2013). This, a descriptive study of board tasks. Consequently, very few conclusive descriptions of what boards actually do have been reported, and no conclusive explanations of how boards can or should influence business performance (Huse, Hoskisson, Zattoni, & Vigano, 2011) have appeared to date.

Five comprehensive reviews of the corporate governance literature (Finegold, Benson, & Hecht, 2007; Hermalin & Weisbach, 2003; Lawal, 2012; Petrovic, 2008; Pugliese et al., 2009) provide further insight. No conclusive explanation to credibly link any particular structure or composition attribute of boards with business performance has been achieved, despite the board appearing to be important to value creation; board effectiveness appearing to be an antecedent of company success; and, some aspects of board structure and composition appearing to be significant in some circumstances (Shukeri, Ong Wei, & Shaari, 2012) or jurisdictions (Lei & Song, 2012).

Boards and strategy

Business performance appears to be heavily dependent on the selection and implementation of an appropriate strategy or strategies (Ahenkora & Peasah, 2011) that enable companies to exploit resources, compete effectively, maximise returns and increase company value (Simons, Davila, & Kaplan, 2000). The board's involvement with strategy (Hambrick & Fredrickson, 2005; Useem, 2012) and some strategic management practices (Parnell, 2014) appears to be important (Zattoni & Pugliese, 2012) – the making of strategic decisions in the context of agreed strategy (Bonn & Pettigrew, 2009) and the effective monitoring of strategy implementation (Crow, Lockhart, & Lewis, 2014) in particular. However, acceptance of such involvement in practice appears to be far from universal (Barton & Wiseman, 2015), even though passivity is unlikely to be appropriate if boards are to influence the achievement of desired business performance outcomes (Wheelen & Hunger, 2006).

Researchers have suggested that boards should be actively engaged in the strategy selection and decision-making process with management (Bukhvalov & Bukhvalova, 2011; Ingley & van der Walt, 2005), because boards are ultimately responsible for company performance (Bainbridge, 2002) and value creation (Pugliese et al., 2009). Support for this argument is provided in the literature, with the suggestion that companies with active boards tend to perform better than companies with more passive boards (Zahra & Schulte Jr, 1992), particularly when effective dynamics exist between the board and management (Barroso, Dominguez, Vecino, & Villegas, 2009).

However, no agreement is apparent in the literature (Bordean, Borza, & Maier, 2011; Pugliese et al., 2009; Steptoe-Warren, Howat, & Hume, 2011) as to the appropriate level, scope or nature of the board's involvement in strategy and strategic management practices – or of how the board's involvement should be initiated or fulfilled, or what competencies might be required. Agency theorists have long argued (Andrews, 1980) that strategy is the domain of management: the board's role is to review and ratify strategies that are proposed by management (Andrews, 1980), and contributions should be provided in response invitations from management (Hendry & Kiel, 2004). In contrast, Rindova's (1999) assertion, that "the higher the complexity and uncertainty associated with a strategic decision, the more likely the participation of the directors in it" (p. 960), seems to suggest that the board's involvement is important, particularly when decision complexity is high. Anderson, Melanson and Maly (2007) went further, by describing the board as a "strategic asset" (p. 787) to the firm (a view consistent with resource dependency theory). However, these researchers stopped short of suggesting that the board's involvement always results in better strategic decisions or increased business performance – perhaps an acknowledgment that boards and the contexts within which they operate, the company, are social constructions, and that many endogenous and exogenous factors can influence decision-making and decision outcomes.

Zahra and Pearce's (1989) earlier suggestion, that directors should have an active involvement "in the strategic arena through advice and counsel to chief executive, by initiating own analyses, and by suggesting alternatives" (p. 298) provides further insight. They suggested the board should offer advice and counsel to the chief executive. However, Zahra and Pearce's conception of strategy does not seem to extend to the board and the chief executive building strategy together. In contrast, Johnson, Ellestran and Daily (1996) proposed a more active role for the board: one of initiating and formulating strategy. These two examples demonstrate that the possibility that an active involvement of the board in the development of strategy may be important has been acknowledged, but not necessarily accepted, for over 15 years.

While effective decision-making appears to be important to business success (Olson, Parayitam, & Bao, 2007), the making of strategic decisions can be challenging (Lim, 2012) for boards, because decision-makers typically do not have access to all the information required to make informed choices (Boxer, Perren, & Berry, 2013). This seems to be particularly so in high-growth companies, where information asymmetries; information complexity; macro-environmental forces; and, the decision preferences, cognitive biases and limitations of directors abound – all of which can have an impact on decision quality (Eisenhardt & Zbaracki, 1992; Hall, 2007; Marnet, 2005; Sharpe, 2012).

Ferkins and Shilbury (2012) proposed that a strategically capable (and presumably effective) board is one that is characterised by several "directional signposts" (p. 76). These so-called signposts include capable people, facilitative relationships, facilitative board processes and an established frame of reference. This view – which necessarily assumes that the board is a social entity – may have particular relevance to high-growth companies (Pearce & Zahra, 1992; Wirtz, 2011), which are thought to benefit from boards that are engaged. Although Ferkins and Shilbury's research investigated not-for-profit sports bodies, their map is helpful because it adds meaning to the somewhat ambiguous term "board strategic function". It also reinforces the importance of cognition, a factor suggested by Charreaux (2008) and Wirtz (2011).

This discussion highlights the not insubstantial variations in the literature. Recommendations appear along the full length of a continuum, from the active and dominant involvement of the board in strategic management practices, to passivity and disengagement (Wheelen & Hunger, 2006). However, agreement seems to be emerging amongst scholars and practitioners (Parsons & Feigen, 2014) that boards should, at a minimum, evaluate and ratify strategic options. While various models have been proposed (Babic, Nikolic, & Eric, 2011), the board's role in strategy formulation and implementation remains "an empirically understudied phenomenon" (Bordean et al., 2011, p. 987). Consequently, more theory-building research is still required, to discover and *explain* how the board's involvement in the practices of strategic management might be beneficial to business performance. Notwithstanding these conclusions, there appears to be a fine line between the board having an active involvement in strategic management and the board impinging on management's delegated responsibility to implement strategy. High levels of involvement and interaction between the board and management can lead to interference and loss of objectivity in oversight (Anderson et al., 2007), or to a perception of these things at least.

That the development of strategy is now recommended to be a major task of the board provides further guidance. Boards hold the ultimate responsibility for optimising business performance, in accordance with the shareholder's wishes, and strategy is the "art of command" (Heuser, 2010, p. 5). Therefore, it seems appropriate that boards should be actively involved in the practices of strategic management, and in the development of strategy and the making of strategic decisions in particular. Increased business performance may be possible when the division of labour between the board and management is clearly defined and understood (Lockhart, 2012); efficiently implemented; and, both groups are actively engaged *together* in the pursuit of positive business performance outcomes. However, this needs to be tested. Outputs and outcomes are likely to remain, necessarily, dependent on endogenous and exogenous factors that can exert influence at any given time.

An alternative approach to research

The reductionist and development-by-accumulation (Kuhn, 1970) approaches that have been favoured by most board researchers have not resulted in conclusive results (Adams, Hermalin, & Weisbach, 2010), let alone any credible explanation of how boards can influence the achievement of business performance or the wishes of the owners. This should not be surprising, because all companies, all boards and all board–management interactions are, in some way, unique (Fleetwood & Ackroyd, 2004). Therefore, the continued pursuit of a single immutable truth about boards (Dian, 2014); a one-size-fits-all theory of board–management interaction (Boone et al., 2007; Davies & Schlitzer, 2008); an optimal board structure (Adams et al., 2010); or, a universal market-based (Pitelis & Clarke, 2004) or policy-based (Carver, 2010) corporate governance system is likely to be futile, particularly given the complex, socially dynamic nature of the boards and the open system within which boards – and companies – operate.

Thus, the crude input–output model of board attributes and business performance, which ignores the qualities and motivations of directors; and, the processes, activities and interactions that occur inside the boardroom (Lockhart, 2010); and, the strategic decisions made by the board seems to lack credibility. Pettigrew's (1992) suggestion, that researchers have made "inferential leaps" (p. 171) when investigating possible links between board structure and composition variables and subsequent business performance, seems to imply that researchers may have been guessing what the links might be. This possibility, of researchers taking leaps and conjectures, calls into question – tacitly at least – the appropriateness of the research philosophies, methodologies and methods used to date, as researchers have sought to understand board–management interaction.

A subset of the literature – especially but not exclusively Zahra and Pearce (1989); Johnson, Ellestrand and Daily (1996); Stiles and Taylor (2001); and, Machold and Farquhar (2013) – has investigated the tasks of boards in an attempt "to create a holistic picture of what boards do" (Machold & Farquhar, 2013, p. 162). These tasks include strategy development; resourcing and service provision; and, monitoring and control, amongst others. Notwithstanding these attempts to describe what boards do, including a small number that were informed by incursions inside the boardroom (Crow, 2012; Edlin, 2007; Machold & Farquhar, 2013; Martyn, 2006; Staite, 2015) to observe boards in action and to collect primary data, plausible theoretical explanations of how boards could, should or actually do exert influence over business performance remain elusive.

Pugliese *et al* (2009) also implied that a different approach to research was necessary. Consistent with Gummeson's call years earlier, Pugliese *et al* encouraged researchers to "open the black box of board research" (p. 302) – presumably because they thought that the observation of what boards actually do was an important antecedent to the identification of any relationship that may exist between boards and business performance, and to the discovery of an explanation of any such relationship.

Leblanc and Schwartz (2007) were more direct. They proposed that the 'black box' of the boardroom be prised open, so that what actually occurs in the boardroom; the behaviours of directors; and, interactions between directors could be observed directly. Reinforcing Leblanc's (2004) earlier call that "the only possible way to know whether boards operate well is to observe them in action – to see and understand the processes by which they reach decisions" (p. 440), Leblanc and Schwartz suggested that this approach was necessary because assumptions of congruence in the black box and the accuracy and reliability of secondary data collected outside the boardroom could not be relied upon (Lawrence, 1997). Wirtz (2011) added that in-depth longitudinal field studies would help capture the dynamic interactions, and that comparative studies were "particularly relevant" (p. 446) when studying entrepreneurial firms. Machold and Farquhar (2013) recently demonstrated the value of such a recommendation.

Rather than dogmatically pursue troublesome pathways, the attention of researchers now needs to move beyond the study of isolated attributes of boards and directors, toward the holistic consideration (Bhaskar, 1975) of the board itself, what boards do and how boards interact with owners and management, if further insights are to be gained (Finegold et al., 2007). Theory-building research of the middle range (Merton, 1957) – between social laws and rich descriptions – and normative justifications inferred from firsthand observation data may provide a viable pathway towards a credible theory of how boards influence business performance. Middle range theories, which integrate theory and empirical data, are expected to be useful because they are more likely to reveal contextually appropriate and, therefore, managerially relevant knowledge than any claims of universally applicable 'best practice'.

A structured, realist approach (Bhaskar, 1975; Sayer, 1992), informed by data collected from board meeting observations and other sources, over an extended period, offers hope. This suggestion, of observing boards firsthand, denotes a significant shift away from the investigation of the low-hanging structure, composition and behavioural variables explored by many researchers to date, and a criticism of the cross-sectional methods favoured by many board researchers. Progress may be possible if researchers embrace the complexity that appears to be inherent in boards and board–management interaction, and build on – rather than dismiss – relevant *a priori* knowledge (Burrell & Morgan, 1979), because the board is not a discrete structure that can be studied in isolation from the context within which it exists, the company (Tricker, 2012). While this approach has the potential to introduce new biases (Krueger & Ham, 1996), they can be managed (Langlois & Prestholdt, 1977) through triangulation and respondent validation.

Notwithstanding this proposal, the success of the approach is dependent on the gaining of access (Gummesson, 2007) to boardrooms (Crow & Lockhart, 2014), to gather firsthand observation data for informed analysis. If access to observe board meetings, to collect primary data to investigate what *actually occurs* in the boardroom, can be achieved, then it may be possible to gain sufficient knowledge about boards, including what they do and how they work.

Data collection and collation

The purpose of this research was to build on the body of knowledge by exploring the question of what boards actually do, and to comment on how board contributions impact business performance. Consequently, this research required the selection, recruitment, consent and participation of a substantive company with established board practices, so that data could be collected from primary and secondary sources for analysis. Convenience and purposive techniques were used to assemble an initial list of companies to be approached to participate in the research. Selection criteria including a continuous trading record, existence of formal board documentation, and access to observe board meetings and inspect confidential records was applied. A medium-sized, quasi-public, high-growth company was selected as the research participant. As strict confidentiality was a condition of participation, the company is identified solely as Gamma. A longitudinal case-based design – inspired by critical realism – was used to collect board practice and business performance data over an extended period, and iterative analysis techniques (Andersen & Kragh, 2011) was used to expedite the deep understanding thought to be necessary to answer the research question.

Several different collection techniques (R. B. Johnson & Onwuegbuzie, 2004) were used to collect data from primary and secondary sources. Primary data collected included firsthand observations of Gamma board meetings over a twelve-month period (the 'observation period'). A complete observer topology (Junker, 1960) was utilised. Board papers and minutes augmented the observation data. Secondary data was collected from interviews with the chairman and chief executive (using a semi-structured format); three years of confidential board data (the 'research period', meaning the observation period plus two previous years) including board papers, minutes and other material; and, from several other public and informal sources including half-year reports, press releases, the Companies Office register and website content.

The collection and collation of quantitative and qualitative data from several disparate sources enabled a holistic view of board activity and business performance to be assembled. It also expedited data validation through respondent validation (Bloor, 1978) and triangulation (Huettman, 1993; Stake, 1995) provided a robust foundation for analysis. All potentially significant data from observations, interviews, board packs and public sources were collected, collated and recorded onto an pictorial timeline framework, together with financial performance and relevant board membership data.

The pictorial timeline framework proposed and used successfully by Lockhart and Taitoko (2005) was used to provide a holistic overview of the data; identify patterns of activity, strategic decisions and subsequent performance inflections; search for evidence of the purported relationship between boards and business performance; examine the board's involvement in strategic management practices; and, conduct within case comparisons. The actual Lockhart-Taitoko timeline of the Gamma data is not disclosed; a condition of the confidentiality agreement signed. Respondent validation and triangulation were used to ensure the validity and credibility of the data (Vallaster & Koll, 2002). The goal of the collation and analysis was to identify strategic and other decisions, decision sequences, performance inflections, associations between seemingly disparate data and other factors that appeared to be significant.

Analysis and discussion

The initial analysis seems to confirm the proposition in the literature: that a relationship between the Gamma board and business performance is apparent in certain situations. An association between the board's involvement in several strategic management practices and monitoring and control tasks, and subsequent changes in business performance, was observed in the data collected for this research. The analysis of the data suggests that strategic decision-making was enhanced, the chance of selecting poor strategies reduced, and the effectiveness of performance monitoring improved when all of the directors were actively engaged in the execution of board tasks. These tasks included the consideration of strategic options, the development of strategy *together with* management, and the effective monitoring of strategy implementation and verification of business performance. However, positive outcomes were not assured just because the board was actively performed these tasks. Further, board engagement did not appear to be necessary to business performance, because growth occurred in lieu of board engagement at times during the research period. Notwithstanding this, engagement in several strategic management practices appeared to be an important contributing factor when the board sought to influence business performance.

The analysis is generally consistent with the insights and conclusions that emerged from the literature review. While a relationship between the Gamma board and business performance was evident, the analysis highlighted the idiosyncratic nature of boards, board–management interaction, decision-making and relationship with business performance. Some of the strategic decisions made by the board during the research period were followed by increased business performance, whereas other decisions made had no apparent effect on business performance. Notwithstanding this inconsistency, several patterns observed during the initial analysis may be an indicator that certain social mechanisms are necessarily activated when tasks are performance and influence is exerted.

When directors were engaged in normative board practices and the board was united in its resolve (to a singular purpose and to achieve an agreed strategy), decision–making control lay firmly with the board. The board made significant decisions; monitored and verified performance; and, exerted control to ensure management remained focussed on agreed priorities and the company complied with various statutory requirements. In contrast, when the board was disengaged and aloof, the influence exerted by the board was slight. Consistent with Peebles' (2010) conclusion, the balance of power appeared to lie with, or at least move towards, the chief executive in such cases. Consequently, the chief executive was able to run the business as they saw fit.

Notwithstanding the position of the board's involvement along the active–passive engagement continuum proposed by Wheelen and Hunger (2006), there appears to be a fine but definite line between the board having an active involvement in strategic management practices and the board being perceived (by the chief executive, at least) to impinge on tasks that the chief executive might consider to be within their delegated responsibility. Ownership and control of the strategy development task was the subject of some contention between the Gamma board and the chief executive. The chief executive wanted to control the strategy development task. This was corroborated during the interviews: the chief executive claimed to control the strategy development task – whether they actually did so or not, and whether the board was actively involved or not. While no universally categorical associations were detected, an association between leadership of specific tasks and whether the board was actively engaged or passive at the time was evident.

Knowledge about the business and the market within which Gamma operated, or intended to operate, also appeared to have been important, especially when strategic options were being explored and when strategic decisions were being made. However, the chief executive said that they believed that their board did not necessarily always understand the drivers of the company's success. This was demonstrably apparent when one director openly deferred to other directors, and when the board acquiesced to the preferences of the chief executive. The interviewees also reported that the making of strategic decisions can be quite challenging because decision-makers typically do not have access to all the information required to make suitably informed choices. Both of these perceptions were corroborated in the observation data.

Regardless of whether the board was actually involved in strategy development and whether the board understood the drivers of company success, the chief executive stated that board contributions to strategy development were helpful, but only to some extent. They said that they appreciated and encouraged the proposal of ideas, and the ability to test ideas and strategic options with the board. However, the hands-on selection of preferred options and any associated analysis by the board was not seen as being beneficial: it crossed a perceived board–management demarcation line, in the chief executive's mind at least. The chief executive also implied that an increased involvement by the board in the task of strategy development could lead to interference in implementation, because the board was more emotionally involved and seemingly more committed to ensuring that the strategy it had helped develop was implemented well. A loss of objectivity in oversight (Anderson et al., 2007) was a voiced concern. The chief executive perceived that a close involvement in strategy development introduced a bias that limited the board's ability to assess strategy implementation and business performance objectively.

The chairman disagreed with this assessment when they were interviewed: they indicated that proximity was helpful to decision quality and buy-in. They also suggested that the benefits of proximity during strategy development far outweighed the risk of poor strategic decisions or ineffective monitoring – both of which could occur if objectivity is lost – even though the board made little if any contribution to strategy during part of the research period.

The view expressed by the chairman during the interviews is consistent with the observation data. Decision quality appeared to be enhanced, and business performance outcomes improved, when the board and chief executive were actively engaged in strategic management practices together, and the board and management developed strategy together. When the scope of the board's involvement in strategic management practices was clearly defined and agreed, ambiguity was minimised. However, performance appeared to suffer when the role demarcation was ambiguous (as it was early in the research period), or when directors were disengaged or the board was not involved in strategy development (as occurred on occasions both during the research period and prior). When management developed strategy without any input from the board, the board's role was reduced, by definition, to the approval of strategy and to the monitoring of management and business performance only, or less.

If a board's primary contribution in the boardroom is to review reports and papers prepared by management; then the likelihood is that they will challenge and criticise them and, potentially, request re-work. This mindset can lead to an adversarial style of questioning and engagement. Examples were observed throughout the research period. Also, the board may also not understand the strategy when it is presented for approval by management if the board has had no prior involvement or interaction in its development. A lack of comprehension by the board was observed during the research period, with close to terminal consequences because the board did not understand the impact, risks or consequences of the strategy it was being asked to approve. A cursory conversation occurred in the boardroom, and no probing questions were asked before a decision was made. Had the board engaged more fully, by asking probing questions and deferring the approval decision until it understood the strategy well, then the weaknesses of the proposed strategy may have been exposed and corrections made, or the strategy proposal may have been rejected outsight.

Conversely, the active engagement of the board in certain strategic management tasks did not appear to necessarily or consistently lead to improved business performance. On several occasions during the research period, changes in business performance were observed to occur, seemingly without any apparent corresponding prior contribution or intervention from the board. Similarly, the board's lack of involvement did not necessarily lead to lower performance either, and some strategic decisions and interventions by the board had no apparent effect on business performance at all.

Notwithstanding the appropriateness or quality of the decisions made by the board, the impact of decisions on business performance appeared to be dependent, to a large extent, on whether decisions were implemented effectively. While ineffective implementation is not necessarily a reflection on the appropriateness of the decision *per se*, low decision quality appears to have been a factor in some of the decisions that were observed during the research period. Management's ability or desire to implement decisions also appeared to be a contributory factor in some cases. The consequences of any inaction by management were exacerbated if the board did not monitor the implementation of decisions effectively.

These conclusions support the suggestion discussed in the literature that changes in business performance are more likely to depend on endogenous and exogenous influences – probably several – in addition to any task performed, or strategic decision made, by the board, and on consequential actions that may or may not be taken by management. That the empirically observable actions of the board (development of strategy or making of strategic decisions, for example) did not necessarily nor consistently result in improved business performance suggests that any influence that the board may have is more likely to be as a result of other – unobservable – powers or social mechanisms, but only when they are active or activated.

Vigilance appears to be an important element within the monitoring and verification role of the board. The minutes and action register was checked by the board at all but one observed board meeting. The use of minutes and an action register, to record decisions and actions to be taken as a result of decisions being made, had the effect of holding the chief executive and any other action owners directly accountable for completing assigned actions, and the board for monitoring that actions were completed as expected. However, the monitoring task was not always conducted effectively during the observation period. Sometimes, incomplete actions were simply noted by the board. When this occurred, actions were checked and discussed briefly, but no enquiries were made to understand why the incomplete action had not been completed as expected or required.

The failure of boards to monitor the implementation of decisions and strategy effectively appeared to compromise the effectiveness of the strategic management process as an overall framework to drive business performance. If the board did not monitor strategy or decision implementation effectively – or at all, as appeared to be the case on several occasions in the research period – the board's ability to fulfil its delegated responsibility to ensure decisions made a difference to performance was compromised. Notwithstanding the effectiveness of the board's monitoring efforts, and any action or inaction that ensues, endogenous and exogenous circumstances appeared to exert an influence on decision quality and/or the impact of decisions. Consequently, a high quality decision that is implemented well, by management, may still have a minimal impact on business performance.

A synthesis of the insights discussed above provides an indication that when strategy is developed, decided upon and implemented effectively, within the context of the sustainable purpose of the company; and, when performance is reported, monitored and verified; and, when the board and management are actively engaged together in these strategic management practices with a common purpose and are working to an agreed set of goals; then beneficial performance outcomes can follow. However, a level of independence (characterised by distance certainly, and aloofness perhaps) between the board and the chief executive appears to be important, perhaps crucial, to expedite effective critical thinking and objectivity in decision-making. This suggests that role definition and clarity with respect to task allocation is crucial, and that it is perhaps more important than exclusive 'ownership' of specific tasks.

Concluding remarks

This research adopted a counter-factual approach to the study of boards, board–management interaction and business performance. Previously separated elements were consolidated; marking a return to the conceptualisation of boards and owner–board–management interaction conceived by Berle and Means (1932) in their thesis. That others that followed moved the locus of research away from the absentee owner (the basis for the board in the first place) and the strategic role of the board (Garratt, 1996) is not fault of Berle and Means. Perhaps this research might go some was to redressing the digression that occurred at some point between 1932 and 1976, when Jensen and Meckling published their paper.

This research sought to move beyond the impasse that has troubled many board researchers, who have sought to understand or explain the contributions of boards. It utilised a different approach to research that has rarely been used to investigate boards, board–management interaction and the phenomenon of corporate governance before. Building on the postulate described in the literature, it sought to understand how boards could influence business performance. The board's involvement in several strategic management practices including 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 verification of subsequent business performance all appear to be significant. The value that boards can contribute to business performance appears to be dependent on what directors contribute (competencies and behaviours) and what they do. The board's active and ongoing involvement in the company's strategic thinking and strategic management practices appears to be crucial. However, desired business performance may still occur in the absence of board contributions.

Notwithstanding the insights proffered within, this report does not signal, and should not be interpreted as signalling, the arrival at any particular destination. Rather, it provides a waypoint, on a journey of discovery to enhance the understanding of what boards actually do, what they should do, how they can influence business performance; and, the circumstances in which influence can be exerted, in the pursuit of knowledge of how high company performance can contribute to economic growth and, ultimately, improvements in societal well being.

The associations, insights and conclusions described in this paper start to move the discussion beyond the contemporary conceptualisation of corporate governance as being a structure, process or policy framework, within which the board may act. Therefore, further research, to gain the deeper understanding necessary to reconceptualise corporate governance, as some sort of mechanism, and to develop a theoretical explanation of how boards can exert influence over business performance, may be appropriate. A research project with this aim, informed by a longitudinal *multiple*-case study, is now underway.

This research is intended to provide guidance to the research and practice communities. Theoretical explanations of how board's contribution to certain strategic management practices can influence business performance should enable shareholders, boards and managers to begin to understand the types of directors needed in the boardroom, the mechanisms that need to be activated and activities that need to occur to expedite increases in business performance. Once these things are understood and intentionally acted on, increased business performance is not only possible, but also potentially sustainable.

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