THE IMPACT OF THE BOARD ON STRATEGY:
AN EMPIRICAL EXAMINATION

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ABSTRACT

Boards of directors are coming under increasing scrutiny, both in the wake of a
number of serious corporate frauds and failures and through a more general
debate about the nature of corporate governance and its role in achieving national
competitiveness. Though research on boards is growing, there remains a lack
of empirical studies on the perceptions of directors themselves as to their role
and influence in the running of organizations, and in particular the strategic
process.

This article responds to widespread calls for direct study of boards of directors
by using a multi-method approach involving an in-depth examination of 51 direc-
tors of UK public companies, a survey of 121 company secretaries and four case
studies of UK plcs, where multiple board members were interviewed. Through the
use of a grounded methodology, this article examines the impact of boards on strat-
egy and shows that by establishing the business definition, gatekeeping, selecting
directors, and confidence building, the board influences the boundaries of strategic
action. Evidence for the managerial domination of boards was slight, but the results
showed support for a number of theoretical frameworks, suggesting that multiple
perspectives are required to fully understand the nature of board activity.

INTRODUCTION

Greater pressure for corporate accountability in the light of increased shareholder
activism and public scrutiny has prompted an examination of the board’s role in
strategic decision-making (Judge and Zeithaml, 1992). Policy initiatives have urged
boards to become more involved and major institutional shareholder groups have
also issued guidelines which have encouraged boards to challenge the strategic
leadership provided by management. Further, the board's involvement in the
strategic decision-making process has been called the best defence against hostile
take-over bids (Weidenbaum, 1985). Though there is some evidence that boards
are becoming more involved (Economist, 1994), the overwhelming impression, cer-
tainly from the business press, is one of board passivity and reluctance to intro-
duce contestability into the boardroom.

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The view that boards fail to realize their potential in the strategic decision-making process receives theoretical backing from the managerialist tradition. The work of Lorsch and MacIver (1989) and Mace (1971) found that boards were often willing to become involved in the strategic process but were either constrained from doing so, or else were only availed of the opportunity in times of crisis. However, in much of the literature, the nature of involvement remains undifferentiated. The two basic questions, ‘what does “strategy-making” mean’, and ‘what constitutes involvement in strategy’ usually remain unaddressed: it is assumed that ‘strategy’ and ‘involvement’ are perspicuous concepts, but this is far from being the case. The purpose of this article is first to address the basic dearth of strong descriptive data on how boards of directors perceive their role. Second, in answering the call to provide such data, we aim to examine the nature of boards’ perceptions of strategy, and involvement in strategy, and to discuss the enablers and constraints to the board playing a more active role in organizational decision-making. A major conclusion is that the structural power which boards have is underestimated by managerialist conceptions of board activity.

**Theoretical Debates**

Agency theory, as Zahra and Pearce (1989) state: ‘places a premium on a board’s strategic contribution, specifically the board’s involvement in and contribution to the articulation of the firm’s mission, the development of the firm’s strategy and the setting of guidelines for implementation and effective control of the chosen strategy’ (1989, p. 302). Stewardship theory views the strategic role of the board as contributing to the board’s stewardship of the company, while resource dependency theory argues that by increasing the size and diversity of the board, the links between the organization and its environment and the securing of critical resources (including prestige and legitimacy) will be strengthened (Goodstein et al., 1994; Pearce and Zahra, 1991; Pfeffer and Salancik, 1978) and this boundary spanning activity can bring new strategic information.

The managerial hegemony theory describes the board as a de jure, but not the de facto governing body of the organization. The real responsibility of running and controlling the company is assumed by corporate management. According to this theory, the board of directors is, in effect, a legal fiction and is dominated by management, making it ineffective in reducing the potential for agency problems between management and shareholders (Kosnik, 1987; Mace, 1971; Vance, 1983).

This debate finds early expression in the work of Berle and Means (1932) whose thesis of the separation of ownership and control argued that as companies grew and increased their share capital, the proportion of shares held by the largest institutions would decrease (Berle and Means, 1932; Tricker, 1984). As a result, the power of large shareholders to control corporations was diluted. The ensuing weakness of shareholder control means that the discretion afforded to management over the control of the company would increase and since managers are likely to be self-serving, they may pursue objectives of their own choosing (Parkinson, 1993). The outline of the managerialist thesis shows that much depends on the definition of the term ‘control’. There have been a number of conceptual difficulties around this issue (Herman, 1981; Mizruchi, 1983) but there is now a strong body of work in this area (Pettigrew, 1992). Management are expected to exercise day-to-day operating control, which gives them an intimate
knowledge of the business, putting the board at a disadvantage. In addition to this specialized knowledge, managers in profitable companies are able to finance investments from retained earnings, thus allowing them to weaken the dependence on shareholders for capital (Mizruchi, 1983). This allowed them to pursue other aims other than profit maximization. A further cause of managerial dominance stems from the procedure for selecting directors. As Pfeffer (1972, p. 220) writes:

The selection procedure by which board members are chosen guarantees that, in most cases, board members are handpicked by management. In many practical respects, management is, therefore, in control of the board.

This has led Mace (1971) to state that ‘boards are the creatures of the CEO’. There is a strong argument which states that because insiders work for the CEO, report to him or her regularly, and are generally dependent upon him or her for career advancement and rewards, it is unreasonable to expect a subordinate director to challenge a chief executive at a board meeting. Though outside directors do not suffer from this handicap to such an extent, the problem remains. The ineffectiveness of the board to monitor the performance of management stems, it is claimed, from the lack of independence of its outside directors. The selection of outside directors is controlled by management and, given the prestige and financial rewards of a seat on the board, typically means that the outside directors are unlikely to criticize management. They are unlikely to know a great deal about the business and management will frequently restrict information to them (Mace, 1971). This will lead to the board adopting merely a ‘rubber-stamping’ function (Herman, 1981). The size of board is another consideration. Large boards are ‘weak’ boards (Herman, 1981), since large boards make in-depth discussion unlikely and increase the prospect for diversity and fragmentation.

The role of the board, therefore, on the managerial hegemony approach, is limited by the domination of management and, as a result, the board is passive, and has no input into organizational decision-making. Nor does it exercise control over the performance of the chief executive or the company as a whole, which, in the eyes of shareholders, makes the board ineffective.

Models of Strategy

A powerful underlying conception of strategy has been that strategy is the result of formal planning; an analytic process which establishes long-term objectives, a process usually initiated by top management and undertaken by staff strategists (Ansoff, 1965; Chandler, 1962). Descriptive analysis of the complexity of the strategy process within organizations led to this view being challenged (Mintzberg and Waters, 1985; Noda and Bower, 1996) and a consequent on the process of strategy. Mintzberg’s series of studies (Mintzberg, 1973, 1978; Mintzberg and Waters, 1985) have researched the process of strategy formulation based on the definition of strategy as ‘a pattern in a stream of decisions’. Strategy, on this view, is emergent rather than planned, and involves multiple levels within the organization (Burgelman, 1983, 1991; Noda and Bower, 1996). Though scholars in this tradition are critical of the strategic planning model and regard it as seriously limited, nevertheless there is recognition that no strategies will be perfectly emergent, and some planning element will remain. Deliberate and emergent strategies, then, ‘form the poles of a continuum along which we would expect real-world strat-
egies to fall’ (Mintzberg and Waters, 1985, p. 3). Though some companies may lack an articulated corporate level strategy, it would be rare for any organization to have no rough strategic direction. The determination of this corporate-level variable is usually thought to be undertaken by top corporate executives (Noda and Bower, 1996; Mintzberg and Waters, 1985). In addition, top level executives are also responsible for the structural context of the firm, which includes determining the organizational architecture, performance management and information systems (Burgelman, 1983, 1991; Noda and Bower, 1996). These top-down processes, however, are not completely detached from the influences of managerial activities at lower levels of the corporate hierarchy.

In research on boards of directors, discussions of the strategic role of the board have largely ignored the emergent nature of strategy and its implications for board involvement. Demb and Neubauer (1992) briefly mentioned the issue and asserted that the more an organization is characterized by an emergent strategy-development process, the less likely it is that the board will be involved; the more fluid and fragmented the decision-making process, the less chance there is for non-executive directors to intervene or to submit their opinions (Demb and Neubauer, 1992, pp. 73–82). However, given the importance of the emergent strategy view, further testing of the board’s role when faced with such conditions would be valuable.

Power

Power plays a major role in strategic decision-making. As Finkelstein (1992) argues, power is a relative concept, capable of being understood only in particular contexts. Pettigrew and McNulty’s work supports this claim, stating that ‘power displayed on one occasion may not be transferable to other settings. Because power is inherently situational, it is dynamic and potentially unstable’ (1995, p. 852). Because strategic decisions are by their nature uncertain and laden with ambiguities, they leave space for the exercise of power, with different board members pursuing their own preferred choices (Finkelstein, 1992). Power derives from structural factors – based on formal authority position and legislative right, control over rewards and sanctions – and forms of relations, such as abilities, personal prestige or status, quality of contacts (Finkelstein, 1992; Pettigrew and McNulty, 1995). These structural and relational forms of power have been viewed, particularly in light of Giddens’ theory of structuration, as simultaneous and complementary (Brass and Burkhart, 1993; Giddens, 1977; Pettigrew and McNulty, 1995). For boards of directors, the sources of power are assumed to be limited. Typically, much research has focused on the structural and relational dominance of the top management team in general, and the CEO in particular, compared to the position of the non-executive directors. The CEO has high structural power because of his/her position in the organizational hierarchy, while in terms of relational power, the CEO’s expert and prestige power is also usually pre-eminent over other organizational members. The opportunities for board ‘involvement’ in strategic decision-making have therefore been viewed as problematic, due to the non-executive directors’ lack of expertise and inferior access to information.

Levels of Strategy Involvement

The concept of involvement in strategy has proved difficult to define. A common distinction is based on the largely accepted view of specific strategy decisions
as being composed of a formation phase and an evaluation phase (Judge and Zeithaml, 1992). In both formulation and evaluation, there are levels of involvement, which can be represented as continua (McNulty and Pettigrew, 1999; Pettigrew and McNulty, 1995; Zahra and Pearce, 1989). In formulation, the board’s involvement has been claimed to range from working with management to develop strategic direction to merely ratifying management’s proposals. In evaluation, boards can be classified as to whether they probe management’s evaluations of resource allocations or whether they simply accept the evaluation top management provides (Judge and Zeithaml, 1992). Unpacking this concept is, however, rare in the empirical literature (exceptions are cited in the Appendix). We aim to address this issue through the field data.

**METHODOLOGY**

Much work in the board area has been conducted at one remove from the boardroom. Work conducted on such issues as board composition, executive remuneration, CEO duality, the influence of ownership, the presence of board committees and their link, if any, to organizational performance, has usually taken secondary material and archival data and attempted to show correlations between the various variables. Though many of these studies are methodologically astute, they suffer from an obvious problem. As Tricker points out, such research is ‘produced without talking to a single director, or anyone else in the corporate governance power base’ (1994, p. 2). There is, therefore, a very small body of primary research on boards of directors from which to draw any methodological insights. We argue that to understand the nature of boards in operation, we must have the reports of directors themselves. This article is therefore primarily grounded on the *perceptions* of main board directors through the use of semi-structured interviews. However, it was considered important to have supporting strands in the research method.

This research thus used between-method triangulation, the benefit of which is ‘likely to be increased validity’ (Snow and Thomas, 1994, p. 474). The methods chosen were open-ended interviews with main board directors (*n* = 51), and some with stakeholder constituencies (*n* = 7); a questionnaire to company secretaries (*n* = 121); case studies with four UK public companies involving interviews with on average five main board directors; and the gathering of extensive secondary and archival data.

It should be stressed that the sample is taken from UK main boards, which are unitary and comprise a mix of executive and non-executive directors. For the case companies, a breakdown of board composition is given in the Appendix.

*Construction of Sampling Frame*

Because of concern that access to main board directors would be a problem, it was decided that the sampling frame should be as large as possible within three constraints: (1) the directors had to sit on the main board (functional directors who were not on the main board, directors of subsidiary firms, and retired directors were therefore excluded); (2) the companies had to be UK-owned; and (3) the companies had to be public companies. The reasons for these constraints are straightforward. With regard to the first constraint, the primary focus of the research was to examine the perceptions of directors concerning their own roles. This was felt...
to be best achieved by studying directors who took large resource allocation deci-
sions, who have, in some sense, real power within the firm (Fidler, 1981). The
second constraint enabled the study to circumvent issues concerning differing cor-
porate governance systems and structures. There is a real need for cross-cultural
research in this area, but this research had a more modest intent and did not set
out to address those issues. The third constraint ensured that the issue of owner-
ship and control would surface – a central plank of the corporate governance
debate – and that the degree of specialization and diversity within the firm due
to size and presence in various markets would be reflected in the make-up of the
board. In particular, studying the public company would bring forth the debate
over the role of the non-executive director, again, a key focus in both academic
and prescriptive literatures.

**Design of the Interview Schedule**

Because research on boards of directors is an emerging field, there was a desire
not to place a priori classifications on the gathering of data. This study, accord-
ingly, chose to concentrate on the qualitative research interview as the primary
means of collecting data. The interview schedule was semi-structured and intended
to allow directors to reveal their perceptions concerning a range of board activ-
ity. The schedule was drawn from an analysis of existing literature. The interview
schedule was piloted with five directors. Following the revision of some questions
on the basis of ambiguity or framing, a schedule of 20 questions was settled upon.
Questions focused on the extent of board involvement in strategy, the nature of
strategy discussions (e.g. formal and informal, frequency etc.); how the board adds
value, how the board monitors the health of the company, the control measures
it has at its disposal, and how the board links with the external environment. Inter-
views were conducted with 51 directors of public companies in the UK. The direc-
tors came from a wide variety of sectors so that a general picture of board
endeavour could be built up that was not industry-specific. The sample also ranged
across types of director (see table I). These interviews lasted between one and one
and a half hours each. After 51 interviews, it was judged that ‘theoretical satu-
ration’ had occurred (Glaser and Strauss, 1967) and that additional interviews were
not providing new or divergent information.

In addition, interviews were also carried out with a number of stakeholder
groups. A number of key informants were chosen from a variety of institutions,
including the Institutional Shareholders Committee, the Consumers Association,
the Stock Exchange, the Bank of England, an analyst, an environmental group
and a City journalist. There were seven of these in total, lasting usually one and
half hours. A number of leading academics were also interviewed.

<table>
<thead>
<tr>
<th>Director type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief executives</td>
<td>11</td>
</tr>
<tr>
<td>Chairmen</td>
<td>16</td>
</tr>
<tr>
<td>Executives</td>
<td>13</td>
</tr>
<tr>
<td>Non-executives</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
</tr>
</tbody>
</table>

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The Questionnaire

In addition to the interviews, there is also a quantitative element in the research design, in the form of a questionnaire instrument, sent to company secretaries. The company secretary is a legal requirement for every public company in the UK. He or she is an officer of the company and may also be a director of the company, though in UK public companies, this is generally not the case. The company secretary is responsible for administration and duties include: ‘... the convening of board and company meetings on the direction of the board, taking minutes of meetings, writing up the company’s statutory books, and filing returns with the registrar of companies’ (Coopers and Lybrand, 1986).

The appeal of surveying company secretaries on the role of the board is therefore clear: company secretaries are not typically directors and therefore may be thought to respond in a less self-serving fashion. In other words, responses from company secretaries may be rather more objective than those from directors in questionnaires. Four broad areas were covered by the questionnaire: first, board involvement in strategy; second, board composition, which aimed to tap into issues of control such as CEO duality, insider/outsider ratio, and presence of board committees; third, formal board statements, again, seeking to determine the issues which the board must expressly deal with, rather than delegate, and so to establish, in some sense, formal limits to managerialism; and fourth, the decision-making style of the board, a measure of its pro-activity, an important variable in the involvement debate. The questionnaire was piloted with six respondents (three company secretaries and three directors), and again, some revisions were made on the basis of the pilot.

In collaboration with the Institute of Company Secretaries and Administrators (ICSA), 900 questionnaires were distributed to the membership of ICSA in the form of an insert in the Institute’s magazine, together with a covering letter, mailed to all members. A reminder was sent out two weeks after the initial mailing. A total of 121 usable responses were collected, a return rate of 14 per cent, which is low (but consistent with expectations). The questionnaire results are used here to support the main findings, which emerged from the qualitative data and, given the response rate, are meant to be illustrative rather than definitive.

Case Studies

The third strand of the research – to carry out case studies into four large UK businesses – was intended to test this model. These case studies are: Allied-Domecq, British Airports Authority, Burmah Castrol, and Securicor. The cases were chosen primarily because they are large and complex companies which have strong reputations but which have experienced periods of turbulence and change.

Data Analysis

Interviews. The data analysis procedure followed the grounded theory approach expounded by Glaser and Strauss (1967). The process of evolving theory in this research began before the actual data collection, primarily through the review of literature. Ideas gathered from this source served to orient the fieldwork, but these ideas were held ‘lightly’ and were constantly compared and contrasted with the notes from the interviews and other pieces of information collected during the data collection. From the field data, certain first-order themes emerged. After identifying a theme, theoretical sampling was carried out, a technique which comprises
seeking additional data for comparison (Glaser and Strauss, 1967) in order to
determine the extent of agreement or disagreement.

Following an interview, which was recorded, a transcription was produced. This
was supplemented by making a contact summary sheet, which highlighted the
main concepts, themes and issues from the interview (Miles and Huberman, 1994).
The contact summary sheet was usually no more than a page in length, but the
regular production of these sheets helped the researcher not to get bogged down
in a mass of material. Elementary codes were applied to the salient points on the
sheet. Interview transcripts were analysed sentence by sentence and coded against
the provisional category list. The initial categories were adhered to for the first five
or six interviews, and then some were revised in light of fit and descriptive power
(Miles and Huberman, 1994). Some overlapping themes were merged and second-
order theoretical labels were assigned to the emergent themes to capture the cat-
egories at a higher level of abstraction (Van Maanen, 1979).

**Case studies.** The process of analysing the interviews from the case study phase fol-
lowed that of the initial round of interviews. Patterns were matched to the model,
with checks made for new information of potentially new categories. This but-
tressing of the original findings through testing in four different research sites
affords a further element of triangulation into the study, with the new data from
the cases testing the validity and generality of the initial findings. This corrobo-
rative work is advanced by Yin (1984) and Eisenhardt (1989b) as an important
source of validity and reliability. A further source of confidence in the findings
rests on the fact that a draft of the findings was sent to the case companies who
were invited to give any comments. These comments were incorporated into the
final draft and served as a valuable reality check to the interpretations of the
researcher.

**The Board's Involvement in Strategy**

Table II shows the frequency scores to the issue ‘what is the role of the board
in your company?’. Clearly, strategy involvement is an important element of
board endeavour. This is confirmed by data from the questionnaire survey
(table III).

The obvious concern with these data is that they leave the nature of board
involvement indeterminate. For this reason, a finer-grained analysis of the inter-
view responses to the issue of strategy involvement was undertaken. Sentences
which contained reference to the board’s involvement in strategy were analysed
and key verbs or qualifiers were highlighted to ascertain the mode of involvement.
This analysis is given in table IV.

The closest a respondent came to stating that the board *formulated* strategy
was with the phrase ‘help formulate’. The picture which emerges, therefore, is that
boards in large companies do not appear to be *directly* involved in strategy *for-
mulation*. But this does not entail that the board is an entirely passive mechanism in
the mould of the managerialist theory. From the discussion of the strategy pro-
cess, and the role of the board within it, there emerged a clear picture of board
activity. In broad terms, the board’s role has less to do with strategy formulation
than with setting the strategic context and acting as gatekeeper for strategic pro-
posals. This view stands between managerialist views of the board – which state
that boards have little involvement in determining the strategic content of the

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Table II. The role of the board

<table>
<thead>
<tr>
<th>Interview responses</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involvement in strategy</td>
<td>32</td>
</tr>
<tr>
<td>Responsibility for monitoring the health of the firm</td>
<td>20</td>
</tr>
<tr>
<td>Hire, appraise and fire executives</td>
<td>7</td>
</tr>
<tr>
<td>Converse with shareholders/stakeholders</td>
<td>6</td>
</tr>
<tr>
<td>Ensure corporate renewal</td>
<td>5</td>
</tr>
<tr>
<td>Development of the corporate vision</td>
<td>5</td>
</tr>
<tr>
<td>Responsibility for ethical framework</td>
<td>4</td>
</tr>
<tr>
<td>Ensure corporate survival</td>
<td>3</td>
</tr>
<tr>
<td>Determine risk position</td>
<td>3</td>
</tr>
<tr>
<td>Lead strategic change</td>
<td>2</td>
</tr>
<tr>
<td>Review social responsibilities</td>
<td>2</td>
</tr>
<tr>
<td>Act as ambassadors for the firm</td>
<td>2</td>
</tr>
<tr>
<td>Understand current and forthcoming legislation</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>92</td>
</tr>
</tbody>
</table>

Source: Interviews (n = 51). Multiple responses allowed.

Table III. The board’s involvement in developing the corporate strategy

<table>
<thead>
<tr>
<th></th>
<th>Frequency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusively board</td>
<td>41.2</td>
</tr>
<tr>
<td>Mostly board</td>
<td>30.6</td>
</tr>
<tr>
<td>Evenly divided</td>
<td>12.4</td>
</tr>
<tr>
<td>Mostly management</td>
<td>11.6</td>
</tr>
<tr>
<td>Exclusively management</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Source: Company secretaries questionnaire (n = 121).

Table IV. Mode of strategic involvement

<table>
<thead>
<tr>
<th>Involvement in strategy (breakdown of replies)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Review</td>
<td>10</td>
</tr>
<tr>
<td>Discuss</td>
<td>9</td>
</tr>
<tr>
<td>Approve</td>
<td>3</td>
</tr>
<tr>
<td>Ratify</td>
<td>3</td>
</tr>
<tr>
<td>Decision-taking</td>
<td>2</td>
</tr>
<tr>
<td>Monitor</td>
<td>2</td>
</tr>
<tr>
<td>Define strategic framework</td>
<td>1</td>
</tr>
<tr>
<td>Guide</td>
<td>1</td>
</tr>
<tr>
<td>Help formulate</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Interviews (n = 32).
corporation — and the more optimistic views of board activity presented by the largely prescriptive literature on boards.

**Strategic Context**

*Business definition.* The strategy process does not operate in a vacuum; every firm has a set of factors, which impinge upon it and constrain the strategic choices open to it. These factors include the administrative heritage of the business, the industry sector, the size of the firm, the capabilities of its workforce, the strength of competition, the level of technology and so forth. A firm is also constrained by its commitment to former and existing strategies (Ghemawat, 1991). Within these constraints, firms must focus to gain competitive advantage: the decision as to ‘what business are we in’ is fundamental and it is a question which is asked continually of firms, particularly in circumstances of change. From the interview data (see frequency scores, table II), the setting of the overarching direction of the organization appeared to be a defining characteristic of the board’s role. For example:

The board sets the corporate direction, the corporate strategy. The business strategies are the responsibility of the operating units. Directors are responsible for the overall direction of the company — who else should do it? (Executive director)

The first order strategy, deciding what areas of business to be in, what is the core business, what should be divested or bought, how resources are to be allocated around the organization, is in the domain of the board. Specific strategies to do with subsidiaries or business units have to be delegated. (Chairman)

The responsibility for determining corporate strategy at this very broad level is linked to the board’s role in setting the vision and mission of the organization. As Johnson and Scholes state, a mission ‘is a “visionary” view of the overall strategic posture of an organisation and is likely to be a persistent and resistant influence on strategic decisions’ (1988, p. 8). One executive director said:

The mission is why we are in business. The vision is where we want to be. These are fundamentally the responsibility of the board.

Boards also set the ethical tone with regard to their monitoring and accountability roles. The board is recognized as crucial in the process of developing an ethical framework, implicit or explicit, for the formulation of strategy and policy, monitoring management and ensuring accountability (Andrews, 1980; Parker, 1990; Pettigrew, 1992). A common manifestation of this role is the production of corporate codes of ethics, which are intended to capture succinctly the guiding principles of the organization. The board’s role in determining the mission and values of the company was a recurrent theme in discussions with directors. Boards were also viewed as responsible for enshrining the corporate values by the interviewees. For example:

The values of the company must come from the top. The board must set the tone, and they must live the values, only if they do this will the values come alive. (Executive director)
Questionnaire responses support the findings of the interviews (see table V).

The establishment of a clear framework of corporate direction and values exercises a critical influence on the activities of managers by defining the parameters of strategic decisions. This is akin to Burgelman’s (1983) notion of the concept of strategy, a concept which ‘provides a more or less shared frame of reference for the strategic actors in the organisation, and provides the basis for corporate objective setting in terms of its business portfolio and resource allocation’ (1983, p. 1350). The findings of this part of the research suggest that it is the board’s responsibility to largely determine this concept of strategy. In a formal way, this is undertaken largely at the annual review, where progress on strategic plans and budget will be analysed by the board, and new strategic directions, for example, acquisitions and divestments, alliances activity, will be explored. For example:

An opportunity arose to buy a chain of stores which we felt had potential, but had a poor brand image. We discussed it at the December board meeting, but the board rejected the idea because it was felt the acquisition would dilute our image of being a high-quality provider. (Chief executive)

Discussions about business definition occur informally, too. It was common for managers who were entrepreneurial to sound out executives on particular ideas. If these look promising, an informal discussion will go up the line, with the executives sounding out non-executives about the feasibility of the proposed plan. One executive director said:

We like to give our non-executives a clear idea of what is in the pipeline. We want no surprises when things come to the board meeting. Sometimes, at an early stage, a non-executive will say ‘I don’t think that’s really us’, or ‘that’s the sort of thing [a competitor] would do’.

Maintaining the Strategic Framework

The board plays a number of roles to ensure that the company’s focus is maintained and that management does not stray too far from the strategy framework (the degree to which activity outside the strategic framework is tolerated is discussed later). We shall describe three: the board’s role as a gatekeeper, a confidence builder, and its role as selector of the chief executive and other directors in general.
Gatekeeping

To determine the parameters of strategic activity within the organization, it is important that there be a mechanism by which proposals for strategic or operational goals are screened and those which lie outside the current concept of strategy are eliminated. At the highest level, it is the role of the board to act as this screening mechanism. This mechanism acts, therefore, to ensure that the concept of strategy outlined by the board is matched by strategic behaviour at operational levels (Burgelman, 1983).

Because time at board meetings is relatively brief, and because the board cannot be expected to listen to every strategic option that has been generated on a single or several issues (the decision-making process would be dramatically slowed), there is usually some screening of strategic options before they are presented to the board. The forum where this is most likely to happen is the executive committee (or chief executive’s committee, or management committee). The executive committee is usually a formal committee, with delegated powers assigned to it, giving it the power to decide certain issues without the necessity of taking them to the board for approval. At this forum, there will be the normal choices of outright rejection, revision or immediate acceptance and referral to the board (acquisitions are usually put in the domain of the board, see Appendix). Acceptance by the executive committee will mean that the chief executive and the other executive directors are satisfied with the strategy and are content to approve it at the full board meeting.

In this way then, only the strongest strategic proposals survive and when they reach the board, the executives can display a united front for their adoption. This raised a number of questions from the interview data. The first concerns a point which was discussed briefly earlier, that many strategic proposals come from the chief executive himself/herself. There were doubts expressed as to the level of criticism to which these ideas are subjected:

A powerful chief executive is used to getting his way and other executives may be fearful of citing objections to his plans. This is the real benefit of the non-executive directors, who, if they are tough enough, will ask the difficult questions. But it is hard to expect the executives to get tough with the chief executive, because he appoints them, rewards them and potentially fires them. (Chairman)

The second criticism of the use of the executive committee as a strategic options filter, is that the non-executives do not see the process of strategic discussion and decision which contributed to the choice of the final option(s). When the chosen option appears at the board meeting, the non-executives are presented with virtually a \textit{fait accompli}, a proposal which has the unanimous backing of the executives and which is in a highly polished state. One non-executive director said:

For most large decisions, the non-executives really only rubber stamp the decisions made earlier by the executives. We can ask about timing or cost, but it is difficult to second guess what alternatives were available and the merits of them.

This criticism, however, was voiced by only three directors. Most said that the strategies which appeared at the board meeting for discussion and the genesis of those strategies were familiar to all directors.
There is a rule, which our board adheres to: there should be no surprises at the board meeting. The directors should be familiar with what comes before them and they should not be asked to decide upon a large issue without having knowledge of it well beforehand. (Chairman)

This prior knowledge comes in a variety of forms. One is formal. A device used by a number of boards is to invite proposers of strategies to make a presentation at the full board meeting, and not just at the executive committee. If the non-executives are considered to be powerful, this may be a good precautionary move to allow advice and comment at an early stage and reduce potential embarrassment should the non-executives reject an executive committee-recommended project out of court. A second method is the informal approach mentioned earlier, keeping non-executive directors informed of ideas currently in the pipeline and sounding them out as to their suitability.

The third stems from the provision of timely information to the non-executives, usually through the minutes of the executive committee meeting. Given that non-executive directors have limited access to information (the cost of gaining full access and processing all information would be very costly), and have limited time to discuss all proposals and debate all decisions, the board acts essentially in a gatekeeper role. This role is governed by normative rules and each board has certain criteria, usually based on quality, feasibility and strategic fit, with which non-executive directors can ground their judgements on specific proposals. To the extent that non-executive directors perform this task well, it focuses the activities of managers on producing high quality proposals which are based on sound reasoning and presented in a rational and clear manner. As Parkinson claims, the obligation to report to a higher authority can lead to efficiency gains (1993, p. 197).

But there are a number of problems with the gatekeeper role. First, it tends to encourage conformity. New or radical ideas are likely to be discouraged. Second, the gatekeeping role is replicated throughout the organizational hierarchy. If it reaches executive committee stage, the proposal may have been through several iterations. Once the proposal has the blessing of the chief executive and his/her team, it is very difficult for the board to turn it down. Only two directors (of 51) in the first sample could remember the board turning down a proposal approved by the management team (rather than asking for amendments). Nevertheless, the board’s potential for refusing to sanction management’s proposals, affords it strong latent power (see Herman, 1981) and management’s reluctance to face tough questioning or appear foolish under fire in the boardroom ensures that strategic proposals are of a high standard in companies where the non-executive directors are active and carry weight and respect.

Confidence Building

Though proposals rarely get turned down, it is usually the case that the non-executive directors will question details of the plans and, in some cases ask for further information to be provided, or recommend changes. Though this is hardly the proactive role envisaged by many prescriptive writers on boards, nevertheless, it is very important both as a discipline to strategic decision-making and also as a signal concerning the standard of proposal which will be tolerated. Because boards which operate in this way are not merely rubber-stampers, their approval of strategic plans is not automatic. In making judgements on proposals or resource
Table VI. Empirical studies on the strategic role of the board

<table>
<thead>
<tr>
<th>Authors</th>
<th>Description of study</th>
<th>Major findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mace (1971)</td>
<td>Interviews with 50 directors of medium and large US corporations in terms of board roles and responsibilities.</td>
<td>Boards do not impact on strategic decision-making, except in times of crisis. Typically, boards are under managerial domination and are ‘the creatures of the CEO’.</td>
</tr>
<tr>
<td>Norburn and Grinyer (1974)</td>
<td>91 executives from 21 companies interviewed.</td>
<td>Managing director identified as responsible for setting of primary company objectives. Strong lack of agreement within boards as to corporate direction.</td>
</tr>
<tr>
<td>Pahl and Winkler (1974)</td>
<td>Research in 19 companies, involving open interview with directors (number not specified); diary analysis from 71 directors, discussion groups and shadowing of main board directors for a day.</td>
<td>Standard expectation is that boards collectively do not decide or discuss anything, with most proposals ‘going through on the nod’. Board a legitimating institution rather than a decision-making one.</td>
</tr>
<tr>
<td>Tricker (1984)</td>
<td>Corporate Policy Group studies on the work of directors and the activities of boards.</td>
<td>Boards are involved in the formulation of strategy, setting policies, and the acquisition and allocation of resources. But emphasis within companies is with internal issues, rather than with focusing externally on matters affecting shareholders.</td>
</tr>
<tr>
<td>Henke (1986)</td>
<td>Survey of 234 large US corporations on manner of board involvement in strategy.</td>
<td>Boards influence the decision of many strategic issues but majority of boards do not know they are involved in strategic decision-making. Boards, therefore, do not influence their firm’s direction in a coherent manner.</td>
</tr>
<tr>
<td>Lorsch and MacIver (1989)</td>
<td>Interviews with 80 directors, four case studies and a mail questionnaire in USA.</td>
<td>Boards act mainly as advisors to the CEO on strategy, counselling the CEO and evaluating options. The use of strategic committees is considered important.</td>
</tr>
<tr>
<td>Demb and Neubauer (1992)</td>
<td>Interviews with 71 directors of companies of a variety of nationalities (predominantly UK and European), plus survey of 127 directors.</td>
<td>Survey found that 75% of respondents considered setting strategy as the main job of the board. Interviews established idea of continuum of board involvement in strategy.</td>
</tr>
<tr>
<td>Judge and Zeithaml (1992)</td>
<td>Interviews with 114 board members from four US industry sectors, collecting both qualitative and quantitative data. Archival records.</td>
<td>Board size and levels of diversification and insider representation were negatively related to board involvement, and organizational age was positively related to it. Board involvement positively related to financial performance, after controlling for industry and size effects.</td>
</tr>
</tbody>
</table>
Table VI. Continued

<table>
<thead>
<tr>
<th>Authors</th>
<th>Description of study</th>
<th>Major findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hill (1995)</td>
<td>Interviews with 42 directors from 11 large UK companies.</td>
<td>Strategic direction is what directors see as their main purpose. Evidence of inner cabinets. Non executives saw a wide role for themselves – bringing breadth of vision, environmental scanning and acting as a sounding board for the CEO.</td>
</tr>
<tr>
<td>Pettigrew and McNulty (1995)</td>
<td>Study of part-time board members in the top 200 UK industrial and commercial firms (by turnover) and the top 50 UK financial institutions. Pilot study presents data from 20 in-depth interviews.</td>
<td>Characterize some board cultures as minimalist, others as maximalist, depending on the part-time members’ will and skill, and also the presence of contextual factors, such as crisis conditions or changing board dynamics.</td>
</tr>
<tr>
<td>O’Neal and Thomas (1995)</td>
<td>18 interviews in six for-profit firms in the USA.</td>
<td>Directors want to be ‘more involved than they currently are’. Keys to board involvement are the degree to which the chairman wants the board involved, and the information provided to board members.</td>
</tr>
<tr>
<td>Ferlie et al. (1994)</td>
<td>Longitudinal and comparative case studies of 11 NHS sites, using interviews, archival analysis, attendance at board meetings.</td>
<td>Three levels of board involvement – rubber stamp, probing and questioning of strategic options and active involvement in deciding between options, including shaping the vision. Factors influencing progression through levels include experience, expertise and confidence of the non-executive director, and whether the executives want them to make the transition.</td>
</tr>
<tr>
<td>Pearce and Zahra (1991)</td>
<td>Survey of 139 Fortune 500 companies.</td>
<td>Participative boards are associated with superior financial performance, based on earnings per share.</td>
</tr>
<tr>
<td>Conference Board (1995)</td>
<td>Survey of 82 US and European companies.</td>
<td>49% of the respondents described their board’s current role as ‘actively engaged in the choice of strategic options’.</td>
</tr>
<tr>
<td>Conference Board (1993)</td>
<td>Survey of 495 US corporate secretaries.</td>
<td>A median figure of 25% of board meeting time was devoted to ‘strategy matters’.</td>
</tr>
<tr>
<td>Goodstein et al. (1994)</td>
<td>334 hospital boards surveyed over 6-year period.</td>
<td>Large and diverse boards hinder strategic change.</td>
</tr>
<tr>
<td>Rosenstein (1987)</td>
<td>Four case studies of US firms.</td>
<td>Board is ‘not a proper locus for making or originating strategy’. Major role is to monitor and dismiss the CEO.</td>
</tr>
</tbody>
</table>
allocations, the board will be influenced not only by the strength and logic of the
particular case, but also by (1) the credibility of the proponent of the plan and (2)
the track record of proposals of similar type. At interview, a number of non-exec-
utives said that the personality of the person who raised the proposal was an
important variable in determining the worthiness of the plan:

If x or y suggest a course of action, I know that it will be thoroughly thought
out and very soundly reasoned. They are the type of people who have a very
good grasp of detail and do not overlook anything. They have also been with
the business for years and they know what works. (Non-executive director)

The non-executives would get to know lower level managers through a number of
mechanisms. First, of course, would be the board meeting, where invitations to
managers to propose initiatives offer a good chance for assessment. The second is
through discussions on succession, which will throw up the names of successful
managers. Third, the grapevine will also bring attention to the identity of promis-
ing managers within the organization. And fourth, non-executives are often
encouraged to go on site visits to gain a better feel of the business and see the
extent of its operations. On these visits, prominent managers will meet and discuss
issues with them, again affording the non-executives some chance to weigh their
potential and calibre.

Concerning the track record of previous similar proposals, this naturally figured
large in the non-executive directors’ evaluative schemes, since this kind of infor-
mation is readily available, at least in large firms, which are closely monitored
by external agencies, such as the press. One non-executive told of the case of a
diversification strategy, which came before the board of an organization which,
five years earlier, had moved away from its core business, with almost disastrous
effects.

It took us (the non-executive directors) a lot of convincing that we should go
down this road again. We were sure the market wouldn’t like us doing this. I
remember the chief executive had to go away and refine the proposal and sell
it to us again, taking into account all our doubts.

The degree to which the board feels confident in the proposals which come before
it will influence the degree to which it is likely to take risks (Noda and Bower, 1996).
The onus, therefore, of lower-level managers who are attempting to initiative
bottom-up strategy is to convince the board of their performance. Again, this may
increase efficiency and serve as useful discipline for managerial activity (though of
course some managers may choose to distort their own performance or hide the
possible adverse effects of an intended strategy).

There was also evidence concerning the internal selection process of compet-
ing strategic proposals (Burgelman, 1983, 1991), that the particular corporate
context of each organization would determine to a considerable extent the choice
of plan or decision. In one company, which could be described as a financial-
control firm (Goold and Campbell, 1987), there was a strong desire to ‘stick to the
knitting’ and proposals which adhered to the narrow strategic direction of the busi-
ness, particularly if they could show short-term benefits, would tend to be suc-
cessful. Alternatively, in a fast-moving consumer goods business, innovation was
being actively sought and the constraints on strategic ideas were relaxed, allowing for the possibility of generating growth from new (and unexpected) sources.

Through the setting of the strategic parameters, therefore, the board is able to determine the degree of renewal an organization may undertake. Tolerance of activity outside the existing context of strategy may produce new resource combinations, which may generate competitive advantage for the firm. Insistence on narrow conformity to the strategic parameters, conversely, will tend to dampen entrepreneurial activity and reduce the potential for new (as opposed to incremental) combinations of productive resources (Burgelman, 1983).

Selecting Directors

The strategic parameters of an organization, its shared frame of reference, are to a large extent influenced by the character and style of the chief executive. The board’s role in selecting the chief executive gives it power of a very high order, and again reinforces its potential for setting the strategic context of the organization. The selection of a chief executive is a relatively rare occurrence. The data, which did emerge, expressed the view that, if the turnover of the chief executive was in the normal run of things (usually retirement), then it was typically the person recommended by the outgoing chief executive who would succeed to the position. This candidate was usually known to other board members as the heir apparent.

The process of selecting a new chief executive, though often a foregone conclusion, still follows certain ‘rules’. The chief executive would consult with his/her chairman (or, in the case of CEO duality, the most senior member of the ‘inner cabinet’, usually the finance director). They would speak about the appropriateness of a number of internal candidates. Even if one candidate were to be chosen with certainty, nevertheless a list would be prepared by the two senior board members. This list may include an outsider, a person from another company who is deemed to have exceptional ability and whose profile appears to match the requirements of the company’s aims and could fit in with other board members.

Interviews would be held with the short-list of candidates, normally conducted by the chief executive and the chairman. The candidate’s vision for the future, leadership qualities, track record and the potential impression they would make to major investors would be scrutinized. So, too, would the signal the appointment would make to the rest of the company. In broad terms, would the appointment signal continuity or change in management style? Informal soundings will also be made, internally but also, on occasion, with important investors. It is largely through these informal conversations that the board members have the opportunity to give their opinion. The vote in the board meeting as to the appointment is usually a fait accompli, with the unwritten rule being to express no dissent.

For managers to be selected to executive director positions, the chief executive again tends to dominate the process. Though most large firms have succession systems in place for the top cadre of managers, it is the chief executive who decides who makes it to the board. For non-executive directors, too, the process is not radically different. However, it is often the chairman who will decide that the appointment of a non-executive is necessary:

It is my job to make sure we have a balanced team. If I feel we are under strength in an area, or could use some expertise in a particular discipline, I may
decide that we need someone to join us. It could be a consultant, or it could be a non-executive. (Chairman)

The chairman, or chief executive, will seek approval from the board that a non-executive is required. Once this approval is secured the chairman and chief executive will draw up a job specification for the role and this will be given usually to headhunters, who will conduct a search and report back with a list of names. The chairman will sift the names and arrive at a short-list. Interviews will be undertaken, again with the chairman and chief executive, and the candidates will normally meet all the executive and other non-executive directors informally over dinner. After informal soundings with other directors, the chairman and chief executive will make the decision.

**Strategic Content**
The process of strategy in large firms is characteristically determined by a top-down and bottom-up approach, with the board providing much of the strategic context within which strategic behaviour may be monitored. The data from this study support the view that strategic activity occurs at multiple levels within the firm, a view that provides for a broader view of strategy that the traditional rational planning model assumes. Given that the board has some input into establishing the strategic boundaries of the organization, what input could the board have in determining strategic content?

*The genesis of strategic proposals.* The formal strategy formulation process – the determination of corporate objective setting in terms of business portfolio and resource allocation (Bower, 1970; Burgelman, 1983, 1991) – derives its content chiefly through the deliberations of the executive committee. Strategies proposed by the business units or divisions will usually pass before the executive committee; it is at this stage that deficiencies in content and presentation of the proposed strategy will be highlighted and conformance or divergence from the overall strategic aim of the company will be assessed.

*Crisis conditions.* Though we found little evidence to suggest that the board is involved to a great extent in formulating the content of strategy, in times of crisis, the board does become much more proactive in its activities. In two companies, the threat of take-over saw an increase in board activity. The number of formal board meetings did not increase, but there was a great deal more informal activity, with many telephone conversations, ad hoc lunches and dinners between executives and non-executives, and a strong concerted action to build the best defence:

The board has to act as a board and not as a management committee. This is particularly so in crisis situations. For example, in bid circumstances, the board should present a united front and each member, including the non-executives, should have a specific task to perform. (Chief executive)

This approach has affinities with the type of control labelled ‘control by exception’ (Molz, 1985). This view holds that ‘the board would make most decisions on a review and approve basis, but under cataclysmic conditions, the board would
take independent action. The most frequent occurrence of such an action is when the board decides to terminate the chief executive officer involuntarily’ (Molz, 1985, p. 90).

In terms of an increase in board activity, the event certainly does increase the number of conversations between directors, again usually outside the regular board meeting, particularly prior to the decision to fire the chief executive. These meetings will be co-ordinated by the chairman (or in the case of CEO duality, the leading non-executive director) as executive directors themselves will find it difficult to stand overtly against the incumbent chief executive, since they may not wish to appear disloyal or commit ‘regicide’ or indeed want to be perceived to be staking a claim for the job themselves. The enforced turnover of a chief executive is normally due to serious underperformance of the company, or malfeasance, or a catastrophic failure of a project. One executive said:

For five years we had done exceptionally well under x. We could do no wrong. Then he wanted to expand, to build on our good fortune. We bought a large US firm, paid way over the top, though we didn’t know that at the time. It just never performed for us, but the CEO couldn’t see it. He was wedded to his plan. On top of it all, one of the US execs was arrested for fraud. The firm became a serious drain on our resources. Most of us wanted to cut and run, but x wouldn’t hear of it. A group of us met the chairman and canvassed the other non-execs and said, ‘look, x can’t turn things around’. We were helped by some conversations I had had with a few big investors. We put the case to x and he took it very calmly. It was like he was relieved. It was a great shame, because he had a terrific mind.

Boundary spanning. Another area which could be construed as involving non-executives as partners in the strategic arena is through boundary spanning activity, primarily concerning non-executive directors using their access to information external to the company to feed in strategic discussion and, as a result, reduce environmental uncertainty. One director said:

One of our non-executives was for many years a senior civil servant. His knowledge about the workings of Whitehall has been of considerable benefit to us, particularly as we operate in a very sensitive market and we need to be able to influence the right people.

DISCUSSION AND CONCLUSIONS

The board’s involvement in strategy is often taken as the defining characteristic of its role. The prescriptive literature urges a clear link between the degree of the board’s involvement in strategy and organizational effectiveness (see for example, Cadbury, 1992). The managerial theory, however, has stressed the passive nature of board activity. In terms of the other major theories, the board’s strategic input is regarded as an important and potentially effective mechanism in ensuring good corporate governance. In this research, we have tried to explore the realities underlying these normative strictures. In terms of strategy formulation, it is at the corporate level where the board is expected to make a contribution, helping the
executive team to craft corporate objectives. But as was made clear from the inter-
view data, the strategy-making process in large companies does not proceed in a
purely top-down fashion, with the corporate centre taking the lead. This study
supports the findings of Bower (1970), Burgleman (1983, 1991) and Mintzberg
(1983) which demonstrate that strategy is typically developed at business unit level.
The board is largely responsible for setting the strategic parameters within which
strategic activity can take place.

Given that there is a predominately bottom-up movement in most strategy-
making, the role for the board appears to be limited to activities of co-ordination
and checking for consistency and coherence among proposed strategies. In some
cases it appears that the role of the board is no more than the sign off on the
strategies of business units or divisions, but from our interview findings, this
minimal activity appears to be rare. In terms of power, we saw that the structural
elements of power for boards of directors are considerable. The review and analy-
sis of strategic proposals is a very important factor, both in maintaining the quality
of corporate objective setting (the gatekeeping function) and in instilling confi-
dence among those executives who demonstrate the required quality of thinking
and presentation (the confidence building function), findings which support
Mizruchi’s (1983) conceptual analysis.

The board’s role in determining and maintaining the definition of the business,
in conjunction with its gatekeeping role and confidence building activity, are
important in shaping the domain of discretion for managers. Though these roles
may be interpreted as constraints on management activity, they are also crucial
strategic mechanisms for the company, for at least three reasons. First, the board
is the ultimate arbiter of what constitutes the focus of the company (‘what busi-
ness are we in? ‘what areas should we go into?’) Second, through selective screen-
ing and confidence building, the capacity for innovation and entrepreneurship can
be regulated. Third, through constant examination of the business definition and
corporate strategy, the commitment to certain strategies or business sectors may
be questioned and so boards may be instrumental in breaking organizational habits
and forcing change.

The picture which has emerged, highlights the multi-functional nature of board
activity, the internal differentiation between executive and non-executive directors,
between the chief executive and other executive directors and between the chief
executive and chairman and the rest of the board. These internal dynamics shape
individual boards and have a large influence on their effectiveness and harmony.
It serves to show that the board’s structural position has to be allied to action
for influence to be expressed. Much depends on the information given to non-
executives, its quality and timeliness, and much too depends on the time non-
executives can give to the scrutiny of the business when, in the main, they are usually
running large companies themselves (Goold, 1996). However this may be the rules,
and norms of behaviour that board members adopt or negotiate over time have the
capacity to create social order. This finding, which supports Giddens’ structuration
theory and the theory of negotiated order (Strauss, 1978), indicates that a board’s
influence is an ongoing process and has to be continually worked at.

Throughout the data, directors’ emphasis on carrying out a good job and for
being seen to be professional was a constant theme, chiming with the findings of
Hill (1994). Their desire to be seen as good stewards gives further prima facie reason
to be sceptical of managerialism. In historical terms, the greater scrutiny of boards
of directors due to the rise of the corporate governance debate since the late 1980s in the UK and the increase in ownership concentration in recent years have added to the constrains on managerialism. Echoing Scott’s (1985, 1997) view, the constellation of interests proves to be a valuable theoretical counter to the claims of managerialism, while internally, the evidence of this research shows that the assumptions on which much policy recommendations were made may have unfairly characterized the motives of a much-maligned breed: the directors. In particular, the notion that companies need non-executives to police the executive cadre, rather than provide counsel and advice, may not be conducive to effectiveness. Similarly, the issue of CEO duality may not matter for the reason advanced by agency theory – namely that one person holding two roles may represent an unwelcome concentration of power. Rather, the reason that chairman and CEO are two separate and differing roles is a more important justification.

One further theoretical dimension which deserves mention concerns the value of the board to the firm in terms of the human capital it comprises: the capabilities of its members and their commitment which are key components of the value creation process (cf. Snell and Dean, 1992). The importance of human capital has long been recognized as critical in securing competitive advantage, and the resource-based view of the firm (Barney, 1991; Penrose, 1959) argues that bundles of capabilities and working practices and routines can directly influence organizational performance (Huselid, 1995; Pfeffer, 1994). This study has shown that boards can become involved in the running of the organization and affect the shape and direction of the company. The human capital present on the board can therefore represent a major source of competitive advantage, not only through the individual capabilities and skills of individual directors, but also through the unique interrelationships and set of routines which form the dynamics of the board.

APPENDIX

Table A.I. Board composition of the case companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Board members</th>
<th>Exec</th>
<th>Non-execs</th>
<th>CEO/ chair split</th>
<th>Committees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allied-Domecq</td>
<td>12</td>
<td>7</td>
<td>5 (inc. Ned chair)</td>
<td>Yes</td>
<td>A, R</td>
</tr>
<tr>
<td>Burmah Castrol</td>
<td>10</td>
<td>5</td>
<td>5 (inc. Ned chair)</td>
<td>Yes</td>
<td>A, R, N</td>
</tr>
<tr>
<td>Securicor</td>
<td>10</td>
<td>5</td>
<td>5 (inc. Ned chair)</td>
<td>Yes</td>
<td>A, R</td>
</tr>
</tbody>
</table>

Notes: A = Audit, R = Remuneration, N = Nomination.
Sources: 1996 report and accounts.

REFERENCES


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